# TEXTILES AND TEXTILE PRODUCTS OF COTTON FROM PAKISTAN

Determinations of the Commission in Investigations Nos. 701-TA-62 and 63 (Final) Under the Tariff Act of 1930 and the Trade Agreements Act of 1979, Together With the Information Obtained in the Investigations

USITC PUBLICATION 1086

JULY 1980

United States International Trade Commission / Washington, D.C. 20436

# UNITED STATES INTERNATIONAL TRADE COMMISSION

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Note.--Information which would disclose confidential operations of individual concerns may not be published and therefore has been deleted from this report. Deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Investigations Nos. 701-TA-62 and 63 (Final)

Textiles and Textile Products of Cotton from Pakistan

## Determinations

On the basis of the record 1/ developed in Investigation No. 701-TA-62 (Final), the Commission determines, pursuant to section 705(b)(1) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)(1)), that an industry in the United States is not materially injured, is not threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of imports of the textiles and textile products of cotton from Pakistan with respect to which the administering authority has made a final affirmative final determination that subsidies are being provided. 2/

On the basis of the record developed in investigation No. 701-TA-63 (Final), the Commission determines, pursuant to section 104(b)(2) of the Trade Agreements Act of 1979, (19 U.S.C. 1671(note)), that an industry in the United States would not be materially injured, or would not be threatened with material injury, or the establishment of an industry would not be materially retarded, by reason of imports of the textiles and textile products of cotton from Pakistan covered by the countervailing duty order issued by the

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1/ The record is defined in sec. 207.2(j) of the Commission's Rules of Practice and Procedure (19 CFR 207.2(j)).

2/ In casting their votes, Commissioners Bedell and Moore specified that their determinations covered

> "the imports of the textiles and textile products of cotton from Pakistan listed in and covered by the Tariff Schedules of the United States (TSUS) items set forth in attachment A of the notice published in the Federal Register on April 16, 1980 (44 F.R. 40884), with respect to which the administering authority has made a final affirmative determination that subsidies are being provided."

Department of the Treasury on July 13, 1979, if that order were to be revoked. 3/

Background

On March 17, 1980, the U.S. Department of Commerce issued an affirmative determination, pursuant to section 703(b) of the Tariff Act of 1930, that subsidies are being provided on the manufacture, production, or exportation of men's and boys' apparel and certain textile products from Pakistan. Accordingly, on April 8, 1980, the United States International Trade Commission instituted investigation No. 701-TA-62 (Final) to determine, whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of the merchandise with respect to which the administering authority had determined that subsidies are being provided.

Notice of the institution of this investigation was published in the Federal Register on April 16, 1980 (45 F.R. 25977).

On March 31, 1980, the Commission received a letter on behalf of the Export Promotion Bureau, Government of Pakistan, requesting a review in connection with an outstanding countervailing duty order issued by the United States Department of the Treasury on July 13, 1979 (44 F.R. 40884).

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3/ In casting their votes, Commissioners Bedell and Moore specified that "(t)he specific products included in (their) negative determination are those which are listed in and provided for in the Tariff Schedules of the United States (TSUS) items set forth in attachment A of the notice published in the Federal Register on April 16, 1980, instituting investigation No. 701-TA-62 (Final), except for cotton towels provided for in TSUS items 366.18, 366.21, 366.24, and 366.27 which are not covered by the countervailing duty order and, therefore, are not included within the scope of this investigation."

Accordingly, effective May 2, 1980, the Commission instituted investigation no. 701-TA-63 (Final) to determine, whether an industry in the United States would be materially injured, or would be threatened with material injury, or the establishment of an industry in the United States would be materially retarded, by reason of imports of the merchandise covered by the countervailing duty order if the order were to be revoked. Notice of this investigation was published in the Federal Register on May 14, 1980 (45 F.R. 31834).

Since the products covered by these two investigations are nearly identical, the investigations were conducted concurrently.

Pursuant to the notice published in the Federal Register on June 5, 1980 (45 F.R. 37917) a public hearing was held in connection with both investigations on June 27, 1980.

VIEWS OF CHAIRMAN BILL ALBERGER AND
VICE CHAIRMAN MICHAEL J. CALHOUN

The Commission reaches its injury determinations by analyzing the impact of the subsidized imports on a domestic industry. Under section 771(4)(A) of the Tariff Act of 1930, the term "industry" is defined as,

> (T)he domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product.

The term "like" product is defined in section 771(10) as,

> (A) product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title.

At the outset, the Commission must define the relevant industry by identifying the like product for which domestic production will be examined. Although the provisions of the statute do not specify the meaning of the word "like" the legislative history of the Act indicates that,

> (T)he requirement that a product be 'like' the imported article should not be interpreted in such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and the article are not 'like' each other, nor should the definition of 'like product' be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under investigation. 1/

1/ See the Report of the Committee on Finance, U.S. Senate, accompanying the Trade Agreements Act of 1979, Report No. 96-249, 96th Cong., 1st session at pp. 90-91.

Within the relevant domestic industry, the Commission must determine whether there are any specific product lines upon which the effect of imports should be assessed. Section 771(4)(D) of the Act provides guidance in distinguishing product lines as follows:

> The effect of subsidized or dumped imports shall be assessed in relation to the United States production of a like product if available data permit the separate identification of production in terms of such criteria as the production process or the producer's profits. If the domestic production of the like product has no separate identity in terms of such criteria, then the effect of the subsidized or dumped imports shall be assessed by the examination of the production of the narrowest group or range of products, which includes a like product, for which the necessary information can be provided.

The products which are the subject matter of these investigations cover a wide spectrum and consist of a large number of different textile and apparel articles made wholly from cotton or from cotton blends composed chiefly of cotton. Counsel on behalf of the Export Promotion Bureau, Government of Pakistan, argued that the Commission's consideration of only wholly or chief-weight cotton products, excluding products of cotton blends and manmade fibers, constituted an overly narrow interpretation of the meaning of "like product," and thus would result in an artificial view of the state of the industry. In support of this premise, counsel pointed out, among other things, the similarities in the production of articles made of cotton, blends, and manmade fibers, and the commercially interchangeable use, consumption, and conversion of these textiles.

Notwithstanding these considerations, we note that Pakistan only exports cotton textiles and textile products and the merchandise which is covered by the affirmative subsidy determinations and subject to the countervailing duty orders is that which is made wholly or chiefly from cotton. Moreover, there are certain consumer preferences and industrial uses or conversions for which only wholly cotton products are acceptable. Thus, it is our view that the like products produced by the domestic industry are the textiles and textile products made wholly or in chief weight of cotton, including those made of two-fiber blends containing at least 50 percent by weight of cotton.

Since the scope of these investigations encompassed many different types of cotton products at various stages of manufacture, classified under more than two hundred items of the Tariff Schedules of the United States (TSUS), the Commission concentrated its examination on the products which were imported from Pakistan in the greatest volume and which represented at least 1 percent of the domestic consumption of such articles during 1976-78. These products are (1) sheeting, duck and printcloth fabrics wholly of cotton, (2) cotton towels, and (3) men's and boys' cotton T-shirts. These products accounted for a combined share of 81 percent of the subject Pakistani imports during 1976-78, with the fabrics accounting for 52 percent, towels for 17 percent, and T-shirts for 12 percent. The remainder of the merchandise classifiable under the TSUS items within the scope of the investigations consists of numerous types of cotton textiles and textile products which either were not imported into the United States from Pakistan during the period or were imported from Pakistan in small quantities amounting to less than 1 percent of U.S. consumption. For these reasons, the Commission did not collect data in questionnaire form on the effect that 19 percent had on the domestic industry.

In response to the Commission's questionnaires, some information was obtained with respect to certain types or kinds of merchandise within the three product categories under consideration.

Sheeting, duck and printcloth fabrics.--The domestic producers of such fabrics, in response to the Commission's questionnaires, were unable to provide separate financial information relating to their production of sheeting, duck, or printcloth fabrics. Many companies produce more than one of the subject fabrics and it was found that the basic process for production of these fabrics was the same. One loom could be used to construct all three types with appropriate adjustments to the threading speed, width, or other features and attachments to the loom.

Although some separate profit-and-loss data was received when a firm produced only one type of fabric, the percentage of production represented thereby was not, in our view, sufficient to be deemed representative of the profitability of the entire U.S. production of each. Moreover, an accurate estimate of the profit on the remaining fabrics was not available. Therefore, we have concluded that the appropriate analysis under the statutory formula is the consideration of the production of sheeting, duck, and printcloth fabrics wholly of cotton together rather than as separate product lines within the domestic industry.

Towels.--The information obtained on cotton towels covered pile as well as nonpile towels. Pile towels are terry or velour towels, which are commonly used as bath and hand towels. Terry towels are also used as bar mops. Nonpile or plainwoven towels include huck, crash, and shop towels, which are primarily for institutional or industrial use.

The basic construction of both types is essentially the same, with the only difference being the formation of the loops which are characteristic of the surface of pile towels. Two producers indicated that the same loom could be used to produce both nonpile and pile towels, with the addition of an attachment to produce the loops on pile towels.

The staff was able to obtain some separate profit-and-loss data for production of each type of towel, but the percentage of domestic production represented by such financial data were, in our view, far too low to fairly reflect the separate profitability of domestic pile towel or nonpile towel production in this country. For these reasons, we have considered cotton pile and nonpile towels together rather than as separate product lines.

Men's and boys' cotton T-shirts.--With respect to the domestic production of men's and boys' cotton T-shirts, some information was obtained in relation to underwear T-shirts and outerwear T-shirts. But the difference between them is essentially a marketing rather than a product difference. In most instances the only difference is in the sleeves; underwear T-shirts have hemmed sleeves, whereas outerwear T-shirts have capped or hemmed sleeves. Many companies produce both types and the production process is the same. 1/ The Commission was not able to obtain separate profit-and-loss data with respect to each type of T-shirt, since producers do not usually maintain their financial data according to specific products or product lines. We have considered the domestic production of men's and boys' cotton underwear and outerwear T-shirts together rather than as separate product lines.

1/ The application of the ornamentation, e.g., print-on patterns and designs comprises a separate and dissimilar product and is not within the scope of our analysis.

Material injury

The domestic industry producing textiles has experienced increases in the value of its shipments, with such shipments remaining at a steadily high level during the 1977-79 period, increasing profitability, and steady employment levels which constitute about 11 percent of the total U.S. industrial work force. Additionally, the industry sharply increased its total shipments abroad to record levels between 1977 and 1979. During this same period, imports from all sources increased substantially in 1978 and then declined in 1979 to a level slightly above that in 1977. This combination of increased shipments, including exports and a small average increase in total imports has enabled the industry to reduce the textile and apparel trade deficit for the first time since 1974. Based on the information available, we conclude that the textile industry in the United States as a whole is not materially injured by these imports. Profit levels increased, selling prices continually increased, and exports increased, all during a time of increasing imports of textiles and textile products of cotton, including sheeting, duck and printcloth, pile and nonpile towels, and men's and boys' T-shirts. Although imports of textiles and textile products from Pakistan have increased over recent years, they hold only a small portion of the U.S. market and there is no indication that Pakistan intends to increase its shipments to levels that will seriously encroach on the large proportion of the market held by the U.S. producers. Therefore, it is clear that there is no material injury, threat of material injury, nor is the establishment of an industry materially retarded 1/ by reason of such imports, nor would such material injury or threat thereof occur if the existing countervailing duty orders were revoked.

In an effort to present our views as clearly and concisely as possible on material injury with respect to the three major categories of textiles and textile products considered in these investigations, we will set forth our reasons and findings of fact on each category separately followed by our conclusions of law on these investigations.

SHEETING, DUCK, AND PRINTCLOTH FABRICS

As stated previously, the combination of sheeting, duck, and printcloth fabrics wholly of cotton are considered to constitute the narrowest range of products for which necessary information can be provided to analyze these three otherwise separate product lines. Imports of such fabrics from all sources increased from 1977 to 1978 and then declined from 1978 to 1979. During this same time, imports of these products from Pakistan increased sharply. In spite of the large increases from Pakistan, that country accounted for less than one-fifth of the total imports during the 1977-79 period.

While imports from Pakistan were increasing, the annual domestic production of sheeting, duck, and printcloth fabric declined from 1977 to 1978, and then increased in 1979. Domestic production accounted for 64 percent of apparent U.S. consumption in 1979.

1/ Since there is an established domestic industry producing textiles and textile products of cotton, the question of material retardation of the establishment of an industry is not at issue and will not be discussed further in this opinion.

The pricing data received by the Commission indicate that imports of sheeting, duck and printcloth fabrics wholly of cotton from Pakistan were consistently priced below the domestically produced products. The fabric imports from Pakistan are, for the most part, of a lower quality than the fabrics produced in the United States. This quality difference accounts for much of the difference in price. Domestic sheeting and duck prices decreased overall during the three year period while the prices reported for printcloth increased. The margins of underselling decreased, particularly in 1979, the same year in which the domestic producers of such products reported their largest ratio of net operating profit to net sales. Neither respondents to Commission questionnaires nor participants in our hearing reported any lost sales to imports from Pakistan. Therefore, although there is some indication of price depression, this has apparently had no measurable effect on the profits of U.S. producers.

Therefore, we find that the portion of the domestic industry producing sheeting, duck, and printcloth fabrics wholly of cotton is not materially injured or threatened with material injury by reason of subsidized imports of such fabrics from Pakistan, nor would there be such injury if the current countervailing duty orders were revoked. This conclusion is based on the consideration of all of the economic factors required by section 771(7) of the Tariff Act of 1930 (19 U.S.C. 1677(7)). We find the following facts:

Findings of fact

A. Volume of imports

1. Total U.S. imports of sheeting, duck, and printcloth fabrics wholly of cotton from all sources increased from 296 million square yards in 1977 to 463 million square yards in 1978, before declining to 353 million square yards in 1979. (Report at A- 22, Table 6)

2. Imports of the subject fabrics from Pakistan continually increased over the 1977-79 period, however, they accounted for only about one-fourth of the total of such imports in 1979. (Report at A-22)

3. Sheeting, duck and printcloth fabrics wholly of cotton from Pakistan are generally of lower quality than domestically produced fabrics. They are usually manufactured on older and less sophisticated machinery with relatively lower skilled labor required. (Report at A-14)

B. Effects of imports on U.S. prices

4. Imports of woven cotton fabrics from Pakistan were consistently priced lower than domestic products. Although the margins of underselling are large, other factors such as better quality and timely delivery are usually the reasons given for purchasing the domestic product. (Report at A-43-46)

5. Prices of sheeting and duck fabric have declined from 1977 to 1979 while prices for printcloth have increased. (Report at A-43-46)

C. Impact on affected industry

6. The domestic production of sheeting, duck, and printcloth fabrics wholly of cotton decreased from 685 million square yards in 1977 to 668 million square yards in 1978, and then increased to 672 million square yards in 1979. (Report at A-22, Table 6)

7. The share of apparent U.S. consumption of sheeting, duck, and printcloth fabrics of cotton accounted for by domestic production declined from 68 percent in 1977 to 58 percent in 1978, but then rose to 64 percent in 1979. (Report at A-22, Table 6)

8. U.S. cotton fabric producers' profits increased substantially from 1977 to 1979, as aggregate net sales rose by 22 percent from $131 million in 1977 to $159 million in 1979. (Report at A-38-39, Table 18)

8. The data submitted to the Commission regarding the return on investment, the ratio of net operating profit to the book value of fixed assets or total assets and the ratio of net operating profit to net sales show fluctuating trends, declining in 1978 and then increasing in 1979 compared to 1977. (Report at A-40, Table 19)

10. Inventories of sheeting, duck, and printcloth fabrics wholly of cotton decreased annually from 41 million square yards in 1977 to 25.6 million square yards in 1979. (Report at A-26, Table 11)

11. The value of domestic shipments of sheeting, duck, and printcloth fabrics wholly of cotton increased from $167 million in 1977 to $187 million in 1979, a 12 percent increase. The unit value of such domestic shipments followed the same trend, increasing from 46.6 cents a square yard in 1977 to 53.3 cents a square yard in 1979. (Report at A-25 -26)

12. Exports of such fabrics, after decreasing from 48.8 million square yards in 1977 to 31.4 million square yards in 1978, increased to 40.9 million square yards in 1979. (Report at A-22, Table 6)

13. The number of production workers employed in the manufacture of such sheeting, duck, and printcloth fabric, while having declined from 1977 to 1978, increased from 3,793 in 1978 to 3,870 in 1979. The total number of hours worked per annum increased from 6.6 million in 1977 to 7.0 million in 1979, a 6 percent increase. The average hourly productivity per worker also increased from 29.7 square yards per hour in 1977 to 30.1 square yards per hour in 1979. Domestic wages paid increased annually from $26.1 million in 1977 to $33.3 million in 1979. (Report at A-37-38)

14. Capacity utilization information received by the Commission showed a steadily high rate of utilization. (Report at A-24-25)

15. Apparent U.S. consumption of such cotton fabrics increased substantially from 933 million square yards in 1977 to about 1,099 million square yards in 1978, and then declined to 985 million square yards in 1979. (Report at A-22, Table 6)

16. The domestic producers submitting data to the Commission reported no lost sales due to imports from Pakistan. (Report at A-46)

17. Cash flow from operations, as reported by 8 producers increased by 169 percent from $5.8 million in 1977 to $15.6 million in 1979 after dropping to $5.1 million in 1978. Information regarding capital expenditures was provided by producers accounting for only 10 percent of total U.S. production. From this data, however, capital expenditures peaked in 1978 and then declined in 1979. (Report at A-39-41)

18. There was no information furnished to the Commission on U.S. producer's ability to raise capital.

Conclusions of law

A. The appropriate domestic industry against which the impact of subsidized imports of sheeting, duck, and printcloth fabrics wholly of cotton from Pakistan should be assessed is the domestic producers of any of those three products.

B. The domestic industry is not materially injured or threatened with material injury by reason of subsidized imports of sheeting, duck, and printcloth fabrics wholly of cotton from Pakistan.

C. The domestic industry would not be materially injured or threatened with material injury by reason of subsidized imports of sheeting, duck, and printcloth fabrics wholly of cotton if the countervailing duty order issued by the Department of the Treasury on July 13, 1979, were revoked.

PILE AND NONPILE TOWELS

As set forth above, we have considered the impact of imports of towels from Pakistan as measured against the combination of U.S. production of pile and nonpile towels. If data were available, they would be separate product lines, but in the absence of such necessary information, the combination is the narrowest group of products against which to measure the impact of these imports of cotton towels from Pakistan.

The domestic production of towels increased slightly from 1977 to 1978 and then decreased in 1979 to a level well below that reached in 1977. This decline in production is primarily accounted for by a sharp decrease in the production of nonpile cotton towels caused by the increased substitution of paper towels and blow dryers for nonpile towels in public facilities. Further, during the 1977-79 period, total U.S. consumption of cotton towels fell by approximately 9 percent.

While the domestic manufacture of nonpile towels decreased, consumer demand created a need for increased production of pile towels. These towels were viewed as a decorative item as well as an item of necessity by the consumer and thus pile towels were produced in increasingly large quantities between 1977 and 1979 and in a variety of styles and colors.

Imports of towels from Pakistan increased 79 percent between 1977 and 1979. However, they amounted to less than 4 percent of annual U.S. consumption and accounted for less than one-fourth of total imports of cotton towels during the period.

Throughout the 1977-79 period, U.S. producers have been able to retain a large share of the U.S. market for cotton towels, representing over 85 percent of apparent consumption in all three years.

Subsidized imports of cotton towels from Pakistan have consistently undersold U.S. producers' prices by large margins in every period of the three years 1977-79. These imported towels are, however, lower quality products and would not command the higher prices charged for most domestically produced towels. There is no evidence of price depression or price suppression by reason of such cotton towel imports from Pakistan.

There were two confirmed allegations of lost sales as a result of imports from Pakistan. The prevailing factors contributing to the shift from domestic to imported towels were the nonavailability of domestically made towels for institutional use and the lower price of the imports. Over the period there has been increasingly less production of the very low-end pile towels. Therefore, U.S. purchasers have been forced to turn to other suppliers for those towels which are purchased in mass quantities mainly for institutional use.

Based on the above discussion and consideration of the factors contained in section 771(7) of the Act as enumerated below, we find that the portion of a domestic industry producing pile and nonpile towels of cotton is not materially injured and not threatened with material injury by reason of the imports of such products from Pakistan.

Findings of fact

A. Volume of imports

1. Imports of cotton pile and nonpile towels increased about 31 percent from 1977 to 1979. Imports from Pakistan increased 79 percent in quantity during the same period. Pakistan accounted for an average of 2.4 percent of domestic consumption of cotton towels during this period. (Report at A-52, Table 25)

2. The majority of cotton towels imported from Pakistan were those of pile construction, accounting for 4.4 percent of apparent consumption in 1979. Imports of nonpile towels also increased during the 1977-79 period, amounting to only 2.8 percent of consumption in 1979. (Report at A-52, Table 25)

B. Effect of imports on U.S. prices

3. Cotton towels from Pakistan consistently undersold domestically produced towels during the period under investigation. Pakistani towels are, however, of lower quality than those produced in the United States. In addition, Pakistani towels are primarily used by institutional establishments in the United States. (Report at A-58, 59, 72 and 73, Tables 40-41)

C. Impact on affected industry

4. Domestic cotton towel production decreased from 1.4 billion towels in 1977 to 1.2 billion towels in 1979, or by 13 percent. Nonpile towels accounted for the largest share of towel production and consumption. However, in 1979 the production and consumption of such nonpile towels decreased sharply due to the increased substitution and use of paper towels and blow dryers. Domestic production of pile towels increased from 1977 to 1979. (Report at A-52, Table 25)

5. U.S. producers retained over 85 percent of apparent consumption of all cotton towels, ranging from 89.9 percent in 1977 to 85.5 percent in 1979. (Report at A-52, Table 25)

6. Profitability of domestic producers of cotton towels increased continuously from 1977 to 1979. Aggregate net sales rose by 30 percent, from $291 million in 1977 to $378 million in 1979. The ratio of net operating profit to net sales followed a similar trend, increasing from 9.0 percent in 1977 to 11.9 percent in 1979. (Report at A-67-68, Table 33)

7. Two firms reported lost sales to imports from Pakistan. Nonavailability of a domestic product and lower price were cited as factors contributing to the switch to Pakistani towels. (Report at A-73)

8. Yearend inventories of both cotton pile and nonpile towels increased from 1977 to 1979. During this period, the ratio of inventories to shipments remained relatively unchanged. (Report at A-57)

9. The number of production workers employed in the making of cotton towels remained steady from 1977 to 1978 and then increased in 1979. Data regarding the number of hours worked per annum, wages and the average hourly productivity per worker is confidential and cannot be revealed in this opinion. (Report at A-65-67)

10. Cash flow from operations increased annually from $31 million in 1977 to $52 million in 1979, or by 65 percent. Capital expenditures also increased with the exception of 1978.

(Report at A-70)

11. Capacity utilization increased from 116.3 percent in 1977 to 120.7 percent in 1979. These capacity utilization figures are high due to the Commission's definition of capacity as the maximum sustainable production at one 8-hour shift a day, 5 days a week, 50 weeks a year.

(Report at A- 52)

12. Domestic consumption of pile towels increased steadily during the period, due in large part to the consumers' perception of such towels as a decorative item as well as a utilitarian necessity. Nonpile towel consumption declined due to increased use of paper towels and blow dryers.

(Report at A-51-52, Table 25)

13. Testimony presented at the Commission's hearing indicates that Pakistani towels are generally of lower quality than those produced domestically and are primarily used by the institutional trade. (Transcript at pp. 248, 266, and 269)

14. The return on investment data for all cotton towel operations showed increasing trends during the 1977-79 period. However, the ratio of net operating profit to the book value of fixed assets increased from 42.3 percent in 1977 to 56.9 percent in 1979. (Report at A-69, Table 36)

15. There was no information submitted to the Commission on the producers' ability to raise capital.

Conclusions of law

A. The appropriate domestic industry against which the impact of subsidized cotton towels from Pakistan should be assessed is the domestic producers of cotton towels.

B. The domestic industry is not materially injured and is not threatened with material injury by reason of subsidized imports of cotton towels from Pakistan.

MEN'S AND BOYS' T-SHIRTS

The Commission has received extensive data regarding the production of T-shirts in the United States. The impact of subsidized imports of cotton T-shirts from Pakistan was assessed against the U.S. production of men's and boys' T-shirts made of cotton or blends containing at least 50 percent by weight of cotton.

Total imports of men's and boys' cotton T-shirts reached a peak in 1978 and then declined in 1979. Pakistan, however, continued to increase its imports and market share, reaching 2.4 percent of domestic consumption in 1979.

U.S. producers continued to supply more than 95 percent of all T-shirts sold during the 1977-79 period. U.S. T-shirt production also rose in 1978 as producers experienced increases in sales as well as increases in their inventories, thus maintaining a high level of sales although creating a situation of oversupply in the marketplace.

While U.S knitwear producers do not generally maintain complete profit-and-loss data specifically on T-shirts, attempts were made to allocate financial information. Unfortunately, the allocaction methods were not consistent from firm to firm. From the data available, aggregate net operating profit appears to have risen more than 20 percent from 1977 to 1978 and then have fallen substantially in 1979. The major part of the decline in 1979 was accounted for by one firm reporting significantly higher allocated costs in 1979 than in 1978.

The available pricing data indicate that, although the Pakistani T-shirts were priced considerably lower than domestic T-shirts, U.S. producers were, nevertheless, able to continually raise their selling prices during the 1977-79 period. Moreover, there were no verified reports of lost sales as a result of imports from Pakistan. The record indicates that the quality of the Pakistani

T-shirts is much lower than that of domestic T-shirts, and that a large number of these T-shirts are purchased by promoters for resale at rock concerts, carnivals, and so forth. During the 1970's, T-shirts have changed from a big volume utility underwear to an important part of men's and boys' outerwear wardrobe. This success contributed, in part, to the decline in producers' shipments in 1979 as new and existing producers quickly entered the outerwear market, thus creating the oversupply that occurred in that year.

Although many of the economic and financial indicators for T-shirt production peaked in 1978 and then fell in 1979, there is no information which relates this downturn to increased imports from Pakistan. The U.S. producers clearly held the overwhelming majority of the U.S. market during the 3-year peri under investigation and prices have continued to increase. Given the circumstances discussed above and taking into consideration the factors required by section 771(7) of the Act, we have determined that there is no material injury or threat of material injury by reason of imports of men's and boys' cotton T-shirts from Pakistan, nor would such injury or threat exist if the countervailing duty orders were revoked. Our findings follow:

Findings of fact

A. Volume of imports

1. U.S. imports of men's and boys' cotton T-shirts from all sources increased from 1.23 million dozen in 1977 to 1.55 million dozen in 1978 and then declined to 1.51 million dozen in 1979. Imports of T-shirts from Pakistar increased steadily from 752,000 dozen in 1977 to 905,000 dozen in 1979, an increase of 20 percent. Such imports from Pakistan supplied from 2.0 percent t 2.4 percent of apparent domestic consumption during the years 1977-79. (Report at A-87-89, Table 50)

B. Effect of imports on U.S. prices

2. Pakistani T-shirts considerably undersold the domestic producers during the 1977-79 period, with margins ranging from 20 to 59 percent. Nevertheless, prices of domestic T-shirts increased continually during the period, rising more rapidly than those of the Pakistani T-shirts. (Report at A-89 and A-92, Tables 51 and 52)

C. Impact on affected industry

3. U.S. producers' shipments of T-shirts increased from 37.1 million dozen in 1977 to 38.2 million dozen in 1978. Shipments then fell in 1979, to 36.8 million dozen, before rebounding sharply in the first half of 1980. (Report at A-87-89, Table 50)

4. U.S. producers' share of apparent domestic consumption of T-shirts (based on quantity) averaged more than 96 percent in the years 1977-79. (Report at A- 87-89, Table 50)

5. U.S. knitwear producers do not generally maintain complete profit-and-loss data specifically on T-shirts. As a result, the profitability figures provided by them for these investigations include major expense items that are derived from allocations. The allocation methods were not consistent from firm to firm and, in the case of one U.S. producer, caused an unexpectedly sharp drop in profitability between 1978 and 1979. Aggregate net operating profit rose more than 20 percent from $13.6 million in 1977 to $16.4 million in 1978, before falling in 1979 to $9.8 million. The major part of the decline in 1979 was accounted for by a firm which reported significantly higher allocated costs in 1979 than in 1978, resulting in an apparent large profit in 1978 and a large loss in 1979. Net sales during the period increased

from $206 million in 1977 to $246 million in 1979. (Report at A-84-85, Table 47)

6. Only one firm alleged lost sales by reason of imports of T-shirts from Pakistan, but a check with its customers indicated considerable concern over the domestic producers' ability to fill orders. Moreover, because of the availability problem, the customers had switched to other domestic producers as a source of supply. (Report at A-92)

7. Yearend inventories of T-shirts increased sharply from 1977 to 1978, before falling in 1979, both in absolute terms and relative to producers' shipments. The increased inventories in 1978 resulted from an oversupply in the marketplace during the year. In 1979, however, production declined and sales were made from inventory. (Report at A-81)

8. The number of production workers employed in the manufacture of T-shirts during 1977-79 fluctuated within a relatively narrow range, from a low of 10,343 persons in 1979 to a high of 10,691 persons in 1978. Similarly, the number of hours worked by the production workers during the same period was at a low in 1979 and at a high in 1978. The increase in hourly wages of the production workers between 1977 and 1979 more than offset a 3 percent rise in productivity, indicating that unit labor costs rose at about 8 percent during the period. Hourly wages increased from $3.81 per hour in 1977 to $4.22 per hour in 1979. (Report at A-83-84, Table 46)

9. Cash flow from operations increased 8 percent between 1977 and 1979. Capital expenditures also rose continuously during the period, increasing from $8.6 million to $18.1 million. (Report at A-86-87, Table 49)

10. The rate of capacity utilization declined from 96.4 percent in 1977 to 93.3 percent in 1979, owing to an expansion of capacity, coupled with a drop in production levels. (Report at A-78)

11. Twelve of 16 producers responding to the Commission's questionnaire reported that their ability to raise capital has not been adversely affected by reason of imports of T-shirts from Pakistan. The remaining four producers did report an adverse impact on their ability to raise capital by reason of imports, however, none of these four producers reported any lost sales by reason of imports from Pakistan. Moreover, one of the four producers reported plans for capacity expansion. (Report at A-86)

12. The domestically produced T-shirts are considerably higher in quality than those imported from Pakistan. (Report at A-89-92)

13. All the T-shirts imported from Pakistan during 1977-79 were made from cotton. Those made domestically during the period were, for all practical purposes, manufactured from either cotton or blends containing at least 50 percent by weight of cotton. (Report at A-4 and A-77, Table 42)

14. Apparent U.S. consumption of cotton T-shirts increased from 1977 to 1978 and then declined in 1979 to a level below that of 1977. (Report at A-87-89, Table 50)

15. The information provided by U.S. producers shows a declining return on investment over the three-year period under investigation. (Report at A-85-86, Table 48)

Conclusions of law

A. The appropriate domestic industry against which the impact of subsidized imports of T-shirts from Pakistan should be assessed is the producers of men's and boys' T-shirts made of cotton or blends containing at least 50 percent by weight of cotton.

B. The domestic industry is not materially injured and is not threatened with material injury by reason of subsidized imports of men's and boys' cotton T-shirts from Pakistan.

C. The domestic industry would not be materially injured or threatened with material injury by reason of subsidized imports of men's and boys' cotton T-shirts if the countervailing duty order issued by the Department of the Treasury on July 13, 1979, were revoked.

Additional conclusions of law

A. The appropriate domestic industry against which the impact of all other subsidized imports of textile products from Pakistan should be measured consists of those producers of textiles and textile products wholly or chiefly of cotton.

B. This domestic industry is not materially injured or threatened with material injury by reason of subsidized imports of textiles and textile products from Pakistan.

C. No domestic industry would be materially injured or threatened with material injury by reason of the imports of textiles and textile products of cotton from Pakistan covered by the countervailing duty order issued by the Department of the Treasury on July 13, 1979, if that order were revoked.

STATEMENT OF REASONS OF COMMISSIONERS GEORGE M. MOORE
AND CATHERINE BEDELL

On the basis of the record developed in investigation No. 701-TA-62 (Final), we determine, pursuant to section 705(b)(1) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)(1)), that an industry in the United States is not materially injured, is not threatened with material injury, and the establishment of an industry in the United States is not materially retarded, 1/ by reason of the imports of the textiles and textile products of cotton from Pakistan and covered by the Tariff Schedules of the United States (TSUS) items set forth in attachment A of the notice published in the Federal Register on April 16, 1980 (44 F.R. 40884), with respect to which the administering authority has made a final affirmative determination that subsidies are being provided.

On the basis of the record developed in investigation No. 701-TA-63 (Final), we determine, pursuant to section 104(b)(2) of the Trade Agreements Act of 1979 (19 U.S.C. 1671 (note)), that an industry in the United States would not be materially injured, or would not be threatened with material injury, or the establishment of an industry in the United States would not be materially retarded, 1/ by reason of the imports of the textiles and textile products of cotton from Pakistan covered by the countervailing duty order issued under section 303 of the Tariff Act of 1930 (19 U.S.C. 1303) on July 13, 1979 (44 F.R. 40884), if that order was revoked. The specific products included in our determination are those which are covered by the TSUS items set forth in attachment A of the notice published in the Federal Register on

1/ Inasmuch as there is an established cotton textile and textile product industry in the United States, the question of whether the establishment of a domestic industry in the United States would be materially retarded is not an issue, and, for that reason, will not be discussed further.

April 16, 1980, instituting investigation No. 701-TA-62 (Final), except for cotton towels, provided for in TSUS items 366.18, 366.21, 366.24, and 366.27 which are not covered by the countervailing duty order and, therefore, are not included in the scope of this investigation.

## The Domestic Industry

For purposes of these investigations, the term "industry" refers to the producers in the United States which produce a "like product", i.e., that which is like, or in the absence of like, most similar in uses and characteristics to the imported articles which are the subject of these investigations. 1/

The Commission reaches its injury determinations by examining the effect of the subsidized imports in relation to the domestic production of a like product, "if available data permit the separate identification of production in terms of such criteria as the production process or the producer's profits." 2/ But when such data are not available, the Commission must assess the impact of the subject imports against domestic production "of the narrowest group or range of products, which includes a like product, for which the necessary information can be provided." 3/

The scope of these investigations encompasses many different types of cotton products which are at various stages of manufacture and which are provided for under more than 200 separate TSUS items. Consequently, the Commission focused its research on the merchandise which was imported from Pakistan in the largest volume and which constituted at least 1 percent of U.S. consumption of such merchandise during 1976-78. The cotton articles meeting these criteria are (1) sheeting, duck, and

1/ Sec. 771(4)(A) of the Tariff Act of 1930 (19 U.S.C. 1677(4)(A)).
2/ Sec. 771(4)(D) (19 U.S.C. 1677(4)(D)).
3/ Id.

printcloth fabrics (wholly of cotton), (2) towels, and (3) men's and boys' T-shirts. These articles accounted for 52 percent, 17 percent, and 12 percent, respectively, of the total value of the cotton products under consideration imported from Pakistan during 1976-78.

The remainder of the articles subject to Pakistani subsidies and within the scope of these investigations consists of articles which either represented less than 1 percent of U.S. consumption of the like products or were not imported into the United States from Pakistan during the pertinent period. For these reasons, the staff did not research the domestic production of such articles.

Within each of the three product categories assessed, some data were received for specific types of fabrics, towels, or T-shirts. But the absence of sufficient information required by the statutory criteria for separate like-product analysis requires us to assess the effect of subsidized imports in relation to the domestic production of the pertinent product line or group rather than in relation to individual like products.

In order for the Commission to examine the woven fabrics (cotton sheeting, duck, and printcloth) as separate products, it would be necessary to have separate identification of production of these items in terms of production process or separate profit-and-loss data for each type of fabric. However, because the fabrics are constructed by the same basic production process and the Commission staff was unable to obtain separate profit-and-loss data for each of the fabrics, we assess the impact of the imported merchandise on the production of the narrowest group or range of products, including the subject fabrics, for which such data could be obtained, i.e., the production of cotton sheeting, duck, and printcloth fabrics was assessed as a single product line.

Research on the relevant domestic production of cotton towels covered both pile and nonpile towels. 1/ Although the two types are constructed by slightly different weaving processes, and some separate profit-and-loss information was submitted, we considered pile towels and nonpile towels as a single product line, because both styles can be produced on one loom with the addition of an appropriate attachment 2/ and the amount of separate profit-and-loss data received were too small to be indicative of the overall profitability of either pile towel or nonpile towel production. 3/

In the third category of merchandise, men's and boys' cotton T-shirts, some distinctions suggesting a separate product identity were found between underwear and outerwear T-shirts. However, these differences were essentially marketing differences rather than production differences. The construction of the underwear and outerwear T-shirts was found to be the same, with the main difference being that underwear T-shirts have the hemmed sleeves and outerwear T-shirts, hemmed or capped sleeves. The Commission was not able to obtain any separate profit-and-loss data for either type since producers generally do not maintain financial records on underwear and outerwear cotton T-shirts. We have, therefore, treated the domestic production of men's and boys' cotton underwear and outerwear T-shirts as a single product line.

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1/ Towels are included only within the scope of investigation No. 701-TA-62 (Final) since the subsidy provided for towels was found to be de minimis and not subject to a countervailing duty (44 F.R. 40884).
2/ Report, at p. A-48.
3/ Report, at p. A-68.

Sheeting, Duck, and Printcloth

The question of material injury

With respect to the question of material injury to the domestic industry or the likelihood thereof, the Commission is directed by section 771(7)(B) of the Tariff Act of 1930 to consider, among other factors, the volume of imports of the merchandise subject to the investigations, the effects of such imports on domestic prices of like products, and the impact of such imports on the affected U.S. industry.

The volume of subsidized imports.--Imports of the subject fabrics from Pakistan increased from 36 million square yards in 1977 to 83 million square yards in 1978 and to 95 million square yards in 1979, accounting for only about one-fourth of the total of such imports from all sources in 1979. 1/ U.S. production of these fabrics increased from 668 million square yards in 1978 to 672 million in 1979, and the share of the U.S. market accounted for by U.S. producers increased from 58 percent in 1978 to 64 percent in 1979. 2/

Price effects of subsidized imports.--The Commission's investigation revealed that sheeting, duck, and printcloth fabrics wholly of cotton from Pakistan are generally of lower quality than domestically produced fabrics. 3/ They are usually manufactured on older and less sophisticated machinery by relatively low-skilled labor 4/ . Because of these important quality differences, imports from Pakistan generally compete with lower priced imported fabrics from other countries rather than with the higher quality domestically produced fabrics. The prices of such imported fabrics from Pakistan were consistently below the domestic prices throughout 1977-79. 5/

1/ Report, at p. A-22.
2/ Ibid.
3/ Report, at pp. A-14, A-15, A-31, A-34.
4/ Report, at p. A-14.
5/ Report, at pp. A-43 through A-46.

Although the margin of underselling is often large, such factors as better quality and timely delivery have been given as reasons for purchasing domestic fabric rather than the lower priced imported fabrics. 1/

Impact of subsidized imports on the affected industry.--Section 771(7)(C)(iii) of the Tariff Act of 1930, instructs the Commission to examine, with respect to the impact of the subsidized imports on the domestic industry, all relevant economic factors including, but not limited to, actual and potential decline in output, sales, market share, profit, productivity, return on investment, utilization of capacity, factors affecting domestic prices, and actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment. The Commission received questionnaire responses from domestic producers believed to account for about two-thirds of the aggregate U.S. output of sheeting, duck, and printcloth fabrics wholly of cotton in 1979. On the basis of our consideration of the above economic factors, we find that the subsidized imports were not a cause of material injury to the domestic industry.

Despite the absolute increase in imports from Pakistan from 1978 to 1979 and the increase in their share of consumption, the subject imports did not adversely affect the domestic industry's growth. The increase in U.S. production and U.S. producers' share of consumption reflected the fact that imports from Pakistan displaced other low-quality imports, not domestic production. 2/ There were no reported sales lost to imports from Pakistan. 3/

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1/ Report, at p. A-24.
2/ Report, at pp. A-22, A-33.
3/ Report, at p. A-46.

The value of domestic shipments of sheeting, duck, and printcloth fabrics wholly of cotton increased from $169 million in 1978 to $187 million in 1979. 1/ The unit value of such shipments also increased, rising from 47.9 cents a square yard in 1978 to 53.3 cents a square yard in 1979. Exports of sheeting, duck, and printcloth fabrics wholly of cotton also increased, from 31 million square yards in 1978 to 41 million square yards in 1979, or by 30 percent. 2/ Exports of such fabrics increased from 4.7 percent of U.S. production in 1978 to 6.1 percent in 1979.

Capacity utilization information received by the Commission showed that domestic producers were operating at virtually 100 percent of capacity in 1978 and 1979. 3/ Inventories of sheeting, duck, and printcloth fabrics wholly of cotton decreased annually from 30.6 million square yards in 1978 to 25.6 million square yards in 1979. 4/ The ratio of producers' inventories to shipments also fell. 5/

The number of production workers employed in the manufacturing of sheeting, duck, and printcloth fabrics wholly of cotton increased slightly from 3,793 in 1978 to 3,870 in 1979. 6/ The total number of hours worked annually for reporting producers increased from 6.7 million in 1978 to 7.0 million in 1979. The average hourly productivity per worker also increased, from an average 29.6 square yards in 1978 to 30.1 square yards in 1979. Domestic wages paid increased annually from $28.8 million in 1978 to $33.3 million in 1979, 7/ and hourly wages increased annually from an average $4.32 in 1978 to $4.73 in 1979.

1/ Report, at p. A-25.
2/ Report, at p. A-22.
3/ Report, at p. A-25.
4/ Report, at p. A-26.
5/ Ibid.
6/ Report, at p. A-37.
7/ Report, at p. A-38.

Profitability of the domestic producers of sheeting, duck, and printcloth fabrics of cotton increased greatly from 1978 to 1979: aggregate net sales rose by 16 percent from $137 million in 1978 to $159 million in 1979, and net operating profit soared from $1.9 million in 1977 to $10.9 million in 1979. 1/ Aggregate net operating profits of $481,000 in 1978 were largely the result of major losses by one producer. The value of total assets employed in the production of cotton sheeting, duck, and printcloth fabrics wholly of cotton increased from 1978 to 1979, as did the ratios of net operating profit to net sales and to net assets. 2/

1/ Report, at p. A-39.
2/ Ibid.

## Towels

The question of material injury

With respect to the question of material injury to the domestic industry or the likelihood thereof, the Commission is directed by section 771(7)(B) of the Tariff Act of 1930 to consider, among other factors, the volume of imports of the merchandise subject to the investigation, the effects of such imports on domestic prices of like products, and the impact of such imports on the affected U.S. industry.

The volume of subsidized imports.--Imports of cotton towels from Pakistan increased between 1977 and 1979 from 28 million towels to 51 million towels. However, Pakistan accounted for no more than 3.6 percent of apparent consumption during this period. Domestic producers retained a large share of the U.S. market, accounting for more than 85 percent of apparent consumption in all 3 years. 1/ Domestic shipments of U.S.-produced cotton towels as reported in responses to the Commission's questionnaires increased from 36 million dozen in 1977 to 41 million dozen in 1979. 2/

Price effect of subsidized imports.--Information collected indicates that there was a significant margin of underselling by the imported subsidized towels, ranging from 24 to 74 percent between 1977 and 1979. 3/ However, no evidence was presented that such underselling adversely affected prices of U.S.-produced towels. Prices of U.S.-produced pile towels increased at a higher rate than those of pile towels imported from Pakistan, indicating no price suppression

1/ Report, at p. 52.
2/ Report, at p. A-54.
3/ Report, at p. A-72 and A-73.

or depression caused by the subsidized imports. 1/ Further, Pakistani towels are generally of poorer quality than most U.S.-made towels and thus do not compete in the same markets. Most Pakistani towels are sold primarily for institutional uses. 2/ In 1979, approximately 40 percent of Pakistani pile towel imports consisted of one specific product, bar mops, which are not an important item in U.S. towel production. 3/

Impact of subsidized imports on the affected industry.--The Commission received questionnaire responses from domestic producers accounting for more than 40 percent of the aggregate U.S. output of cotton towels during 1979. On the basis of our consideration of the economic factors listed in section 771(7)(C)(iii) of the Tariff Act of 1930, as amended, we find that the subsidized imports were not a cause of material injury to the domestic industry.

Domestic production of cotton towels (both pile and nonpile) decreased from 1.4 billion towels in 1977 to 1.2 billion in 1979. This decrease was not significantly affected by the increase in towel imports from Pakistan. 4/ About 60 percent of towels imported from Pakistan were of pile construction in 1979; during 1977-79, U.S. production of pile towels increased from 556 million in 1977 to 621 million in 1979.

Although the share of the U.S. market accounted for by domestic producers of cotton towels declined slightly from 1977 to 1979, it was consistently more th 85 percent. 5/ U.S. exports of cotton towels increased from 17.2 million towels, valued at $23.2 million, in 1977 to 18.3 million towels, valued at $43.7 million, in 1979, or by 6 percent in quantity and 88.4 percent in value. 6/

1/ Report, at pp. A-72 and A-73.
2/ Report, at p. A-58.
3/ Report, at p. A-59.
4/ Report, at p. A-52.
5/ Ibid.
6/ Report, at pp. A-56 and A-57.

As reported in responses to the Commission's questionnaires, U.S. capacity to produce cotton towels increased by approximately 11 percent during 1977-79, rising from 379 million towels in 1977 to 420 million towels in 1979. The domestic industry operated at full capacity in all 3 years. 1/ Although inventories of cotton towels were slightly higher in 1979 than in 1977 and 1978, the ratio of inventories to shipments fell between 1978 and 1979. 2/ The number of workers, hours worked, and wages all increased between 1978 and 1979. 3/

The profitability of domestic producers of cotton towels, as reported in responses to the Commission's questionnaires, increased steadily between 1977 and 1979. Aggregate net sales of cotton towels rose by 30 percent from $291 million to $378 million, aggregate net operating profit rose by about 72 percent from $26 million to $45 million. 4/ The ratio of net operating profit to net sales rose steadily from 9.0 percent to 11.9 percent. Return on investment for cotton towel producers also increased annually from 1977 to 1979.

Moreover, the ratios of net operating profit to the book value of fixed assets and to total assets increased each year between 1977 and 1979. 5/ Total cash flow from operations increased from $31 million in 1977 to $52 million in 1979, or by 65 percent. Capital expenditures decreased in 1978 but rose in 1979. 6/ U.S. producers responding to the Commission's questionnaires did not report any negative effects of imports of cotton towels from Pakistan on their growth, investment, or ability to raise capital. The responding producers stated that the actual effects of imports were either not measureable or unknown. 7/

1/ Report, at p. A-52.
2/ Report, at pp. A-57.
3/ Report, at pp. A-65 through A-67.
4/ Report, at pp. A-67 through A-69.
5/ Report, at p. A-69.
6/ Report, at p. A-70.
7/ Ibid.

Two domestic producers indicated lost sales as a result of imports from Pakistan. The Commission was advised by the firms which had switched their purchasing to Pakistani towels in lieu of domestic towels that the reasons for the changes were insufficient availability of domestically made institutional towels and the considerably lower price of the Pakistani towels. 1/

1/ Report, at p. A-73.

## T-Shirts

The question of material injury

With respect to the question of material injury to the domestic industry or the likelihood thereof, the Commission is directed by section 771(7)(B) of the Tariff Act of 1930 to consider, among other factors, the volume of imports of the merchandise subject to the investigation, the effects of such imports on domestic prices of like products, and the impact of such imports on the affected U.S. industry.

The volume of subsidized imports.--Imports of T-shirts from Pakistan increased 20 percent between 1977 and 1979, from 752,000 dozen to 905,000 dozen, but the share of apparent domestic consumption of such items remained small, averaging about 2 percent annually in the period. Moreover, the ratio of such imports from Pakistan to producers' shipments also averaged about 2 percent annually. 1/

Price effects of subsidized imports.--Price data reveal that there was significant price undercutting by the subsidized imports of T-shirts from Pakistan. However, there was no evidence of price depression or suppression, since prices of domestic T-shirts rose 12 to 14 percent during 1977-79.

During the period, the margin of underselling by Pakistani T-shirts, which ranged from 20 to 59 percent, was significantly greater than the net subsidy of 13.5 percent ad valorem, indicating that factors other than the subsidy accounted for the price difference. The record reveals that, compared with domestic T-shirts, Pakistani T-shirts were much lower in quality and were marketed differently, many of them being imported for sale at rock concerts, carnivals, and similar events. 2/

1/ Report, at pp. A-87 and A-88.
2/ Report at pp. A-89 through A-92.

Impact of subsidized imports on the affected industry

The Commission received questionnaire responses from domestic producers accounting for more than 50 percent of the total U.S. output of men's and boy's T-shirts during 1979. 1/ On the basis of our consideration of the economic factors listed in section 771(7)(C)(iii) of the Tariff Act of 1930, we find that the subsidized imports were not a cause of material injury to the domestic industry.

U.S. producers' shipments of T-shirts, which closely paralleled production during 1977-79, increased from 37.1 million dozen in 1977 to 38.2 million dozen in 1978 and then declined to 36.8 million dozen in 1979. 2/ Similarly, yearend inventories increased sharply from 1977 to 1978 and then fell in 1979, both in absolute terms and relative to producers' shipments. 3/ During 1980, however, sales resumed their upward trend, which began about 1972, and the industry is currently in an "oversold" position, according to the record. 4/ Furthermore, the Commission was unable to confirm any instance that domestic producers had lost sales to subsidized imports of T-shirts from Pakistan. 5/

The average number of workers engaged in the production of T-shirts increased from 10,536 in 1977 to 10,691 in 1978 before falling somewhat to 10,343 in 1979. The average number of hours increased from 16.5 million in 1977 to 17.6 million in 1978 and then fell to 16.2 million in 1979. The average hourly wage paid to the workers rose steadily from $3.81 in 1977 to $4.22 in 1979. The 11-percent increase in such hourly wages between 1977 and 1979 more than offset the 3-percent rise in productivity, indicating that unit labor costs rose about 8 percent during the period..6/

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1/ Report, at p. A-77.
2/ Report, at p. A-87 and A-88.
3/ Report, at A-81.
4/ Report, at pp. A-87 through A-89.
5/ Report, at p. A-92.
6/ Report, at pp. A-83 and A-84.

Aggregate net sales of men's and boys' cotton T-shirts by domestic producers accounting for 47 percent of production rose 19 percent between 1977 and 1979, from $206 million to $246 million. Cash flow from operations also rose steadily during the period, increasing by 8 percent. The ability of U.S. producers to raise capital was generally not adversely affected by imports of T-shirts from Pakistan. 1/

Aggregate net operating profit rose 21 percent from $13.6 million in 1977 to $16.4 million in 1978 before falling to $9.8 million in 1979. However, the major part of the decline was accounted for by a firm which reported significantly higher allocated costs in 1979 than in 1978, resulting in a substantial change in profitability. 2/

Conclusion

In investigation No. 701-TA-62 (Final), we therefore conclude that an industry in the United States is not materially injured or threatened with material injury, and that the establishment of an industry in the United States is not materially retarded, by reason of imports of textiles and textile products of cotton from Pakistan which the Commerce Department has found are being subsidized.

In investigation No. 701-TA-63 (Final), we also conclude that an industry in the United States would not be materially injured, would not be threatened with material injury, or the establishment of an industry in the United States would not be materially retarded, by reason of imports of the textiles and textile products of cotton from Pakistan covered by the countervailing duty order issued on July 13, 1979, if that order was revoked.

1/ Report, at pp. A-84 through 86.
2/ Report, at pp. A-84 and 85.

## VIEWS OF COMMISSIONER PAULA STERN

### INTRODUCTION

Though hampered by problems of data availability I was able to obtain from the record a clear view of the state of health of the industries involved in these investigations. On this basis, I do not find that an industry in the United States is being materially injured or threatened with material injury by reason of subsidized imports of men's and boys' apparel and textile mill products of cotton from Pakistan. Neither do I find that any industry in the United States would be materially injured or threatened with material injury if the current countervailing duties on such products were revoked.

### THE IMPORTED PRODUCT

The range of products covered by the petitions in these investigations was extensive. Investigation No. 701-TA-62 (Final) -- consideration of the effects on U.S. industry of imports subsidized under Pakistan's cash rebate program -- covered all imports of men's and boys' apparel and textile mill products of cotton. 1/ Investigation No. 701-TA-63 (Final) -- review of the effects on U.S. industry of imports subsidized under Pakistan's income tax relief and preferential export financing programs -- was nearly as broad. It covered all products included in Investigation No. 701-TA-62 (Final), except towels.

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1/ These products encompassed nearly all of Schedule 3 of the Tariff Schedules of the United States and covered numerous categories of cotton textile and apparel articles in various stages of manufacture.

THE DOMESTIC INDUSTRY

Given the available data and the legal parameters set by Section 771 (4)(A) and (D) and Section 771(10) of the Trade Agreements Act of 1979, I find that the impact of the subject imports for Investigations Nos. 701-TA-62 (Final) and 701-TA-63 (Final) should be assessed with regard to U.S. production of:

(1) sheeting, duck and printcloth fabric, wholly of cotton;

(2) men's and boys' cotton T-shirts;

and in addition, the impact of the subject imports for Investigation No. 701-TA-62 (Final) should also be assessed with regard to U.S. production of:

(3) cotton towels.

The vernacular notion of industry does not coincide with the U.S. statute for the purposes of these investigations. To a layman a definition of the industry as the U.S. textile and apparel industry might seem perfectly logical given the scope of the imports from Pakistan under consideration. However, the U.S. statute, though sometimes difficult to apply given data limitations, is precise in its intention to narrow the focus of the Commission's injury assessment from this broad concept of industry. The statute's general definition of industry as the domestic producers as a whole of the like product . . . 1/ is circumscribed by two further provisions: Section 771(10) defines like product as a "product which is like, or in the absence of like, most similar in characteristics and uses with, the article" subject to the investigation. Section 771(D) provides that:

> The effect of subsidized or dumped imports shall be assessed in relation to the United States production of a like product if available data permit the separate identification of production in terms of such criteria as the production process or the producer's profits. If the domestic production of the like product has no separate identity in terms of such criteria, then the effect of the subsidized or dumped imports shall be assessed by the examination of the production of the narrowest group or range of products, which includes a like product, for which the necessary information can be provided.

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1/ ". . . or those producers whose collective output constitutes a major proportion of the production of the product."

The record in this investigation did not allow an industry finding other than the one I have made. Regardless of one's view concerning the actual "like" product(s) or the similarity or differences in production processes, sufficient data were not available to justify other industry definitions raised in the course of these investigations, such as broadening the sheeting, duck and printcloth fabrics line to include such fabrics of blends or wholly manmade fibers, not just cotton; separating the analysis of the three fabrics; or narrowing the towel line by segregating pile and nonpile towels.

The product lines I have found to constitute separate industries for the purposes of these investigations (sheeting, duck and printcloth wholly of cotton, cotton towels and cotton T-shirts) together account for 81 percent of the imports under consideration. 1/ The petitions in these cases include many additional products. 2/ In reference to these additional products, the petitioner stated at the hearing, ". . . it would not be fair for us to ask you to go into each and every one of them, and therefore perhaps the best course of action is for the Commission to have a no finding with regard to these other products." 3/

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1/ The specified fabrics accounted for 52 percent of the value of U.S. imports from Pakistan from 1976 to 1978, towels accounted for 17 percent and T-shirts, 12 percent. Staff Report, p. A-5.

2/ The staff chose to emphasize those products imported from Pakistan in greatest volume and thus did not collect data on the more than 200 additional products.

3/ Hearing Transcript, p. 140. Also see pp. 139 and 146 for additional information.

Section 705(b) of the Trade Agreements Act of 1979, however, does not give the Commission the option to exclude some subsidized products notified by the Commerce Department from its determination. In light of the lack of evidence of material injury to producers of these additional products, I have determined that these miscellaneous imports are not causing or threatening material injury to a U.S. industry.

NO MATERIAL INJURY

U.S. imports from Pakistan of all three product lines rose from 1977 to 1979. Imports of cotton sheeting, duck and printcloth increased the most dramatically from 36.4 million square yards to 95.2 million square yards in 1979 or roughly 161 percent. The increase in imports of towels from Pakistan was also quite rapid. In 1977 the U.S. imported 28.2 million towels from Pakistan. By 1979 such imports were 50.5 million. Imports of T-shirts from Pakistan , on the other hand, grew more modestly reaching 905 thousand dozen in 1979, some 20 percent above their 1977 level.

To support the claim of material injury in these investigations, the information offered by the petitioner related to the so-called employment effects of these rising imports. Starting from the absolute value of the growth in imports in each product line and utilizing an industry estimate of the number of manhours it takes to produce a given quantity of the particular product, the petitioner performed a simple calculation to arrive at a statistical estimate of the number of manhours displaced by the growth in imports during this period. These manhour losses were then converted to employment losses based on a forty-hour work week, forty-eight weeks a year.

Such an analysis has some obvious deficiencies. It assumes, among other things, that during the period there was sufficient underutilized capacity in the domestic industry to produce the volume of imports supplied by Pakistan; that domestic producers were interested in producing the full variety of products supplied by Pakistan; and that each purchase of an imported item reduces the demand for a domestic good on a one-to-one basis. These assumptions imply that no net increase in demand can come with the importation of foreign goods and that the demand for the products is not related to their price.

To analyze the impact of subsidized imports on the domestic industry, the statute requires the Commission to evaluate "all relevant economic factors which have a bearing on the state of the industry, including, but not limited to -- (1) actual and potential decline in output, sales, market share, profits, productivity, return on investments; (2) factors affecting domestic prices; and (3) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital and investment. 1/ Clearly, a hypothetical calculation of lost manhours is not sufficient to characterize the health of a domestic industry.

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1/ Trade Agreements Act of 1979, Public Law 96-39, Section 771(c)(iii).

Although the staff was unable to gather useful data on certain factors mentioned above for some of the product lines, such data were not crucial to my determination and were in any event the best available data. 1/

Sheeting, Duck, and Printcloth Fabrics Wholly of Cotton (Invs. Nos. 701-TA-62 (Final) and 701-TA-63 (Final))

Though the market share held by Pakistani imports increased from 3.9 percent in 1977 to 9.7 percent in 1979, important indices related to the condition of U.S. producers of sheeting, duck and printcloth were highly favorable. Questionnaire responses indicated that capacity utilization was stable at high levels during this period. Producers indicated that they had been operating three 8-hour shifts a day, usually 6 days a week, all year. Capacity for reporting producers also increased somewhat during this period from 106.1 million square yards to 112.5 million square yards. Exports for reporting producers increased 36 percent while inventories fell 38 percent. Financial data available to the Commission indicated a tremendous increase in net operating profits. These profits grew more than 450 percent from $1.9 million in 1977 to $10.9 million in 1979. 2/ Return on investment 3/ followed a similar pattern, growing more than 400 percent during the period to 12.6 percent. Data on cash flow shows a rise of over 165 percent and capital expenditures grew significantly. Employment droppe marginally, by 1.2 percent, during 1977-1979; this seemed to result from an

1/ The Congress has recognized that "the significance of the various factors affecting an industry will depend upon the facts of each particular case. Neither the presence nor the absence of any factor can necessarily give decisive guidance with respect to an injury determination." House Committee on Ways and Means Report on the Trade Agreements Act of 1979, House Report No. 93-317, 96th Cong., 1st Sess. At 77 (1979).

2/ In 1978 profits fell severely to $481,000. This drop was explained by confidential information available to the Commission and was not reflective of any industry-wide financial difficulties.

3/ Defined here as the ratio of net operating profit to total assets.

increase in productivity by roughly the same amount. Wages and hours worked were up. While production was nearly steady, the level of shipments slipped a little during the period from 358 million square yards to 351 million square yards. However, the dollar value of such shipments increased roughly 12 percent from $167 million to $187 million.

The indicators relating to causality are mixed. Though the import/consumption ratio grew from 3.9 percent to 9.7 percent from 1977 to 1979, no lost sales were reported. 1/ This industry is clearly not suffering. Because there is no material injury, there can be no material injury by reason of imports from Pakistan.

Cotton T-shirts (Invs. Nos. 701-TA-62 (Final) and 701-TA-63 (Final))

The U.S. cotton T-shirt industry has been growing rapidly since the early 1970s, reflecting the transformation of T-shirts from a big volume utility item to a significant product category in the men's and boys' outerwear market. From 1977 to 1979, capacity utilization continued to be high--roughly 95 percent--and capacity continued to grow. Exports rose almost 140 percent from nearly 500 thousand dozen to nearly 1.2 million dozen. Cash flow also increased during this period, and capital expenditures more than doubled from 1977 to 1979.

Between 1978 and 1979, however, some industry indicators declined. U.S. consumption of cotton T-shirts fell from 39.1 million dozen to 37.1 million dozen. Producers' shipments, which closely paralleled production, increased

1/ Price data available to the Commission were not statistically representative.

from 37.1 million dozen in 1977 to 38.2 million dozen in 1978 and then declined to 36.8 million dozen in 1979. The decline in shipments partly reflected an oversupply in the market, which an industry source indicated resulted from the enthusiasm of new and existing suppliers to cash in on the T-shirt craze. This was confirmed by the fact that inventories dropped from 1978 to 1979 as producers sold off some of their excess merchandise. Employment dipped slightly between 1978 and 1979 from 10,691 workers to 10,343. Productivity, however, increased slightly during the period and wages rose nearly 11 percent.

None of this information points toward material injury to the domestic T-shirt industry. The data show that aggregate net operating profit increased 21 percent between 1977 and 1978 and then fell 41 percent in 1979 to $9.8 million. These data, however, were rendered defective by the allocation methods utilized by the companies which responded to the Commission's request for profit and loss data. The allocation methods used were not consistent from firm to firm and, in the case of one U.S. producer, caused an unexpected sharp decline in profitability between 1978 and 1979. The company could not explain this phenomenon other than to indicate that it was not reflective of the actual health of that company's knitwear operations between 1978 and 1979. 1/

I have concluded that material injury by reason of imports of cotton T-shirts has not been shown. The U.S. market share of imports from Pakistan rose less than a half-a-percent from 1977 to 1979, accounting for only about two

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1/ See Confidential Staff Report, pp. A-117-118 for more information.

percent of the U.S. market during the entire period. 1/ 2/ One producer alleged lost sales. However, staff follow-up revealed that these sales were lost to other domestic producers, not to imports from Pakistan. The minor declines in some economic indicators during the period under consideration are more indicative of adjustments in a thriving industry of economic difficulties. Consumer demand has rebounded in 1980 and the outlook for a continuation of this trend is promising.

Cotton Towels

(Inv. No. 701-TA-62 (Final))

Nearly all economic indicators on the U.S. cotton towel industry showed favorable trends from 1977 to 1979. Capacity utilization which was already 116.3 percent in 1977 increased to 120.7 percent in 1979. 3/ Meanwhile, capacity itself grew roughly eleven percent, reaching 420 million towels in 1979. Shipments dipped from 1977 to 1978 from 35.7 million dozen to 32.5 million dozen, but rebounded in 1979 to over 40 million dozen, an increase of 13.8 percent for the period. Employment rose and wages were up. Productivity increased as well. Though exports comprise only about one percent of

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1/ In a letter to counsel for the Government of Pakistan, Union Underwear Co., one of the largest U.S. producers of T-shirts, indicated that Pakistani T-shirt imports have a "minor impact" on the domestic T-shirt market. It stated that the domestic market "has not been basically hurt through Pakistani imports" and that the market is currently "oversold." Further, the company indicated that domestic producers "are unable to supply their customers with sufficient quantities," and the domestic industry is "booming." *See* Exhibit 10 and Staff Report, pp. A-87-89.

2/ Data on prices and underselling developed by the Commission were not statistically representative.

3/ The Commission staff in this case calculated capacity utilization on the basis of 8-hour days, 5 days a week, 50 weeks a year. Over 100 percent capacity indicates an additional operating time, *e.g.*, Sunday operations.

U.S. producers' shipments, the volume of such towel exports did rise from 1977-1979 by roughly 6 percent (in quantity). The volume of inventories rose 13.4 percent during this period, but the ratio of inventories to shipments remained fairly steady, averaging 11.8 percent. The one-fifth of the industry that reported profit and loss data showed positive earnings. Data on capital expenditures which were somewhat more representative revealed sizeable investments in each year. Although the value of these expenditures dipped in 1978, it rose in 1979 above the 1977 level.

U.S. production of cotton towels was stable from 1977 to 1978 at 1.4 million towels, but fell by about 14 percent from 1978 to 1979 to 1.2 million towels. A similar pattern was evident in the data on apparent consumption. The drop from 1978 to 1979 in this case was nearly as great as that of production. Data available to the Commission indicate that these decreases are limited to nonpile towels and appear to be related primarily to the growing use of paper towels as substitutes for nonpile cotton towels.

I have concluded that U.S. producers of cotton towels are not experiencing material injury. Actually, the industry as a whole is healthy as a result of rising consumer demand for pile towels. While two lost sales were verified by Commission staff, respondents cited lack of U.S. production of the products they wanted as well as price as factors in their purchase decision. Moreover, the Commission received numerous letters from domestic purchasers of Pakistani towels which put forward the view that U.S. industry either could not supply or was not producing the type of towels supplied by Pakistan. 1/

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1/ See Exhibits 8 and 9 and Prehearing Statement of Textiles by Peterson.

The legislative history of the Trade Agreements Act of 1979 sets the standard for an affirmative determination of threat of material injury. 1/ Such a threat must be "real and imminent" and not based upon "mere supposition and conjecture." The record of these investigations does not support a finding of threat. Imports have been rising recently, though the record shows that the levels of imports in sheeting, duck and printcloth and of cotton T-shirts from Pakistan were higher in 1976 than at any period during 1977-1979. 2/ It is not at all clear that upward trends will continue or accelerate. Pakistani textile machinery is outdated, and production methods are not efficient. Since 1978 capacity has been declining rather than increasing, and no expansion is expected. 3/ 4/

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1/ House Committee on Ways and Means Report on the Trade Agreements Act of 1979, House Report No. 96-317, 96th Cong., 1st Sess., at 47 (1979).

2/ See Posthearing Statement of the Export Promotion Bureau of Pakistan, Attachment 1.

3/ Hearing Transcript, pp. 194-204.

4/ The bilateral agreements, negotiated with Pakistan under the Multi-Fiber Agreement and in consultation with U.S. industry, provide an additional constraint on the growth of U.S. imports from Pakistan which is more or less effective depending on the particular product.

CONCLUSION

Material injury to a domestic industry does not exist in any of the three product lines. To the contrary, these segments of the textile and apparel industry are thriving. The record of these investigations clearly supports negative findings. 1/

1/ I concur in the Findings of Fact stated in the Views of Chairman Bill Alberger and Vice Chairman Michael Calhoun, with the exception of pricing and financial data in the findings listed below which I did not find to be representative.

| | | |
|---|---|---|
| Duck, Sheeting and Printcloth | -- | Findings B4 and B5 |
| Towels | -- | Findings B3, C6, and C-10 |
| T-shirts | -- | Finding B2 |

## INFORMATION OBTAINED IN THE INVESTIGATIONS

### Introduction

On March 20, 1980, the U.S. International Trade Commission received notice from the U.S. Department of Commerce--the administering authority under section 771(1) of the Tariff Act of 1930, as added by title I of the Trade Agreements Act of 1979 (93 Stat. 176; 19 U.S.C. 1677(1)) 1/--of its affirmative preliminary determination on March 17, 1980, that subsidies are being paid on textiles and textile mill products of cotton from Pakistan. 2/ Accordingly, on April 8, 1980, the Commission instituted investigation No. 701-TA-62 (Final) under section 705(b)(1) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)(1)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such cotton merchandise. 3/ The articles are provided for in the Tariff Schedules of the United States (TSUS) items 4/ listed in the Commission's notice published in the Federal Register on April 16, 1980 (45 F.R. 25977). On June 2, 1980, the Commission received notice from Commerce of its affirmative final determination of May 30, 1980. 2/

On January 1, 1980, the Trade Agreements Act amended section 303 of the Tariff Act, which applies to countries not parties to the Agreement on Subsidies and Countervailing Measures. On that date, Pakistan was not a party to the agreement. On March 17, 1980, however, the Office of the United States Trade Representative informed Commerce on behalf of the President that Pakistan was to be considered a "country under the Agreement," as defined in section 701(b) of the Trade Agreements Act. Consequently, the provisions of title VII of the Tariff Act, as added by title I, subtitle A, of the Trade Agreements Act, became applicable to this investigation. Section 705(b)(2) requires the Commission to make its final injury determination within 120 days after the day on which the administering authority makes its affirmative preliminary determination or within 45 days after the day on which the administering authority makes its affirmative final determination (in both instances, July 14, 1980).

On March 31, 1980, the Commission received a letter from counsel for the Export Promotion Bureau, Government of Pakistan, requesting a review of an outstanding order issued by Treasury on July 13, 1979 (44 F.R. 40884), imposing countervailing duties by reason of the payment or bestowal of

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1/ Effective Jan. 2, 1980, as provided for by Executive Order 12188, the responsibility for the administration of the countervailing duty law was transferred to the Secretary of Commerce from the Secretary of the Treasury.

2/ A copy of Commerce's letter to the Commission and notice appears in app. A.

3/ A copy of the Commission's notice of investigation and hearing appears in app. B.

4/ See the TSUS for complete description of the articles under consideration.

subsidies on cotton textiles and textile products from Pakistan. 1/ Section 104(b)(1) and (2) of the Trade Agreements Act provides that in the case of a countervailing duty order issued under section 303 of the Tariff Act--

(A) which is not a countervailing duty order to which subsection (a) applies,

(B) which applies to merchandise which is the product of a country under the Agreement, and

(C) which is in effect on January 1, 1980, or which is issued pursuant to court order in an action brought under section 516(d) of that act before that date,

the Commission, upon the request of the government of such a country submitted within 3 years after the effective date of title VII of the Tariff Act, shall make a determination as to whether an industry in the United States would be materially injured, or would be threatened with material injury, or the establishment of an industry in the United States would be materially retarded, by reason of imports of the merchandise covered by the countervailing duty order if the order were to be revoked.

Accordingly, on May 2, 1980, the Commission instituted investigation No. 701-TA-63 (Final) to make a determination as to injury to a domestic industry by reason of imports of the merchandise covered by the countervailing duty order of July 13, 1979, if that order were to be revoked. 2/ Section 104(b)(3) of the Trade Agreements Act requires the Commission to issue its determination in investigation No. 701-TA-63 (Final) within 3 years of the commencement date of the investigation. Section 207.32 of the Commission's Rules of Practice and Procedure (19 CFR 207.32) provides that the investigation will be conducted in compliance with the procedures, including applicable time limitations for the filing of staff reports, prescribed by part 207, subpart C (19 CFR 207), which apply to final determinations as to whether injury to domestic industries results from subsidized exports to the United States. Because the products covered in investigation No. 701-TA-63 (Final) are virtually the same as those covered in investigation No. 701-TA-62 (Final), the two investigations were conducted concurrently.

Notice of the institution of the investigation and of the public hearing was duly given by posting copies of the notices at the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and at the Commission's New York office. The notices were also published in the Federal Register on April 16, 1980 (45 F.R. 25977), for investigation No. 701-TA-62

1/ A copy of the letter on behalf of the Government of Pakistan appears in app. C.

2/ A copy of the Commission's notice of investigation and hearing appears in app. B.

(Final), on May 14, 1980 (45 F.R. 31834), for investigation No. 701-TA-63 (Final), and on June 5, 1980 (45 F.R. 37913), for the rescheduling of the hearing.

The investigations evolved from a series of petitions filed in November 1977 and July 1978 with the administering authority, then the Secretary of the Treasury, by the Amalgamated Clothing & Textile Workers Union, whose members are employed in the production of men's and boys' apparel and textile mill products. The petitions alleged that subsidies are being paid on such articles of cotton, wool, and manmade fibers from Pakistan and 12 other countries. 1/ On August 28, 1978, Treasury initiated an investigation to determine whether such products from Pakistan are being subsidized (43 F.R. 47340). On October 13, 1978, it identified the products under investigation from Pakistan and the other countries by providing the appropriate TSUS items (43 F.R. 47340). 2/ On July 13, 1979, Treasury issued a final affirmative determination that subsidies amounting to 1 percent ad valorem or less are being paid by the Government of Pakistan on such products, and that a countervailing duty equal to the net amount of the subsidies will be levied on all the products except towels, the subsidies on which were determined to be de minimis (44 F.R. 40884). This determination, which is the subject of the Commission's investigation No. 701-TA-63 (Final), was limited to the merchandise under consideration made from cotton, because Treasury found that Pakistan only exports such products of cotton.

On July 20, 1979, Treasury reopened the above-mentioned case to investigate a possible subsidy discovered too late to be included in the initial final determination (44 F.R. 42834). Because of the size of the possible subsidy, 7.5 percent to 12.5 percent ad valorem, and the fact that it was introduced specifically to promote Pakistani textile exports, a preliminary affirmative determination was issued simultaneously with the notice reopening the case, and is the subject of investigation No. 701-TA-62 (Final). On May 30, 1980, a final affirmative determination was issued by Commerce in the case (45 F.R. 37873).

## Nature and Extent of Bounties or Grants Being Provided

### Finding of the Administering Authority

The administering authority determined that Pakistani manufacturers and exporters of men's and boys' apparel and textile mill products of cotton received three types of export incentives from the Government of Pakistan which constituted bounties or grants within the meaning of section 303 of the Tariff Act. These programs, described on the following pages, were determined to have given the manufacturers a combined benefit, based on the f.o.b. (free on board) value of the exported product, of 8.3 percent on yarn, 10.8 percent on gray fabric, 13.3 percent on thread and other fabric, 13.1 percent on

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1/ The other countries include Uruguay, Brazil, Argentina, Colombia, India, the Philippines, the Republic of Korea, Taiwan, Malaysia, Mexico, Singapore, and Thailand.

2/ In the petitions, the products were identified in terms of quota categories established by the United States under the Multifiber Arrangement.

hosiery, 12.5 percent on towels, and 13.5 percent on apparel and other textiles.

## Share of Exports to the United States Subject to the Subsidy Determinations

In investigation No. 701-TA-62 (Final), all imports of men's and boys' apparel and textile mill products of cotton from Pakistan are subject to the subsidy determination. In investigation No. 701-TA-63 (Final), the products subject to the determination include all the above-mentioned products except towels, the subsidies on which were considered to be de minimis.

In 1979, Pakistan accounted for 9.4 percent of the quantity and 4.2 percent of the value of U.S. imports of men's and boys' apparel and textile mill products of cotton. These imports from Pakistan amounted to 177.8 million square yards equivalent, valued at $57.1 million (customs value).

## Range and Weighted Average of the Bounties or Grants as a Share of the Export Value of the Subject Merchandise

The first of the subsidy programs discussed below--cash rebates--was the subject of Commerce's preliminary determination of March 17, 1980, and its final determination of May 30, 1980. The July 13, 1979, final countervailing order covered the income tax relief and preferential export financing programs, which were determined to have given the manufacturers a combined estimated benefit, based on the f.o.b. value of the exported product, of 0.8 percent on thread, yarn, and fabric, 0.6 percent on hosiery, and 1.0 percent on men's and boys' apparel and other textiles. 1/

### Cash rebates on exports

This program, which was introduced specifically to promote Pakistani textile and apparel exports, provides exporters with a cash rebate calculated as a percentage of the f.o.b. value of the exported product. The percentage was determined to be 7.5 percent for yarn, 10.0 percent for gray fabric, and 12.5 percent for other fabric, thread, hosiery, towels, garments, and other textiles.

### Income tax relief

Pakistani manufacturers of the apparel and textile mill products are eligible to receive an income tax reduction, which varies depending upon the share of a firm's total production that is exported. The reduction is set at 50 percent of the total income tax liability applied to the percentage of a firm's total sales accounted for by exports. The amount of the ad valorem benefit received under the program was 0.09 percent for thread, yarn, and

1/ These figures represent the net estimated countervailing duty, which may not equal the sum of the ad valorem benefits of the individual programs.

fabric, 0.013 percent for towels, and 0.27 percent for hosiery. No figure was calculated by the administering authority for apparel and other textile products under this program.

Preferential export financing

Treasury found the Pakistani Government to have provided short-term export financing at a 3-percent rate at the same time that the normal commercial interest rate on such financing was 14 percent. The exporters usually maintained their loans for about 60 days, with the interest saved during the period constituting the subsidy. The ad valorem benefit of the incentive amounted to 0.33 percent for thread, yarn, and fabric, 0.08 percent for towels, and 0.05 percent for hosiery. No figure was calculated by the administering authority for apparel and other textile products under this program.

## Format of Report

Since the investigations cover a large number of cotton products at various stages of manufacture (i.e., from yarn through finished products), the remainder of the report is divided into parts in order to summarize all the products under consideration and to emphasize those products imported from Pakistan in greatest volume. The heavily imported products are (1) sheeting, duck, and printcloth fabrics, (2) towels, and (3) men's and boys' T-shirts, as shown in table 1. Of the $98 million in cotton products under consideration from Pakistan during 1976-78, the specified fabrics accounted for 52 percent of the total, towels, for 17 percent, and T-shirts, for 12 percent, or a combined share of 81 percent. Moreover, these articles were the only cotton products from Pakistan that represented as much as 1 percent of U.S. consumption of such articles.

The remainder of the report is divided into a summary of all the products included within the scope of the investigations and three specific parts, as follows:

Part I. Cotton sheeting, duck, and printcloth
Part II. Cotton towels
Part III. Men's and boys' cotton T-shirts.

These parts present a discussion of the considerations of material injury to an industry in the United States and the causal relationship between the subsidized imports and the alleged injury or threat thereof.

## Summary of All Products Included Within the Scope of the Investigations

### The Products

The products under consideration cover a large number of different textile and apparel articles made from cotton or cotton blends composed chiefly of cotton. Such articles include (1) yarns and threads; (2) cordage;

Table 1.--Cotton manufactures: U.S. imports from Pakistan, by types, for 1976-78

(In thousands of dollars)

| Article | Value |
|---|---|
| Yarn | 2 |
| Sewing thread | 23 |
| Cordage | 3 |
| Woven fabrics: | |
| Sheeting 1/ | 31,772 |
| Duck 1/ | 7,515 |
| Printcloth 1/ | 12,120 |
| Other | 10,481 |
| Pile fabrics | 307 |
| Narrow fabrics | 13 |
| Lace | 1 |
| Ornamented fabrics and motifs | 10 |
| Woven tapestry and upholstery fabrics | 3 |
| Handmade floor coverings | 27 |
| Sheets and pillowcases | 342 |
| Bedspreads, coverlets, quilts, and comforters | 288 |
| Lace or net furnishings | 31 |
| Towels 1/ | 16,636 |
| Tablecloths and napkins | 1,430 |
| Pile or tufted furnishings | 1,003 |
| Other textile furnishings | 423 |
| Handkerchiefs | 13 |
| Mufflers, scarves, shawls, and veils | 16 |
| Underwear | 17 |
| T-shirts 1/ | 11,918 |
| Woven dress, work, and sport shirts | 1,130 |
| Other men's and boys' apparel | 1,811 |
| Dust, mop, and similar cloths | 12 |
| Bags and sacks | 5 |
| Corset, footwear, or similar lacings | 15 |
| Other miscellaneous textiles | 22 |
| Headwear | 4 |
| Gloves | 718 |
| Luggage and handbags made from cotton fabrics | 35 |
| Total | 98,146 |

1/ Covered in depth in the following sections of this report.

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

(3) woven fabrics; (4) fabrics of special construction or for special purposes, articles of wadding or felt, fish nets, and machine clothing; (5) textile furnishings, such as floor coverings, bedding, and linens; (6) men's and boys' wearing apparel and accessories, including headwear and gloves; (7) certified hand-loomed and folklore products; and (8) miscellaneous textile products, including luggage and handbags made from cotton fabrics. It is evident from the list that many different industries are involved; in fact, in terms of the Standard Industrial Classification (SIC) system, which classifies establishments by type of industrial activity, roughly 40 separate 4-digit SIC industries are involved in the manufacture of the products. 1/

Overall U.S. Consumption

U.S. consumption of cotton used in textiles and textile products during 1979 was down somewhat from the levels of 1977 and 1978, 2/ as shown in table 2.

Table 2.--Cotton consumed in textiles and textile products: 1/ U.S. mill consumption, exports, imports, and apparent consumption, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Mill consumption 2/--------------million pounds--: | 3,170 | 3,041 | 3/ 3,077 |
| Exports 4/----------------------------------do----: | 370 | 356 | 478 |
| Imports: 4/ | | | |
| From Pakistan-----------------------------do----: | 5/ 22 | 5/ 38 | 5/ 46 |
| Total, all sources------------------------do----: | 669 | 845 | 746 |
| Apparent consumption-----------------------do----: | 3,469 | 3,530 | 3/ 3,345 |
| Ratio of imports to consumption: | | | |
| From Pakistan------------------------percent--: | 0.6 | 1.1 | 1.4 |
| Total, all sources------------------------do----: | 19.3 | 23.9 | 22.3 |

1/ Also includes women's, girls', and infants' apparel, not under investigation.
2/ Represents cotton consumed in U.S. production of textiles and textile products and, therefore, includes processing wastes.
3/ Preliminary.
4/ Measured in terms of the fiber equivalent pounds necessary to produce the end product and, therefore, includes processing wastes.
5/ Calculated by the Commission staff on the basis of conversion factors of the U.S. Department of Agriculture.

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

Note.--The data shown above should be used with caution since they include all cotton consumed in textiles and textile products, whether or not the articles are in chief weight or in chief value of cotton. Thus, although the data are not precise, they are indicative of the relative importance of imports from Pakistan.

1/ The term "industry" as used in the SIC may not have the same meaning as it has when defined by the Commission pursuant to sec. 771 (4) of the Tariff Act of 1930.
2/ In 1979, cotton accounted for 26 percent of total U.S. textile fiber consumption, manmade fibers, for 73 percent, and wool, for 1 percent.

A sharp increase in exports, coupled with a sizable decrease in imports, caused the decline in apparent consumption during 1979. Exports reached a record high during 1979, rising 34 percent from the 1978 level, as the favorable exchange rate of the U.S. dollar relative to other major currencies made U.S. goods price competitive in many foreign markets. Imports, on the other hand, fell 12 percent between 1978 and 1979, and their share of apparent U.S. consumption declined 1.6 percentage points to 22.3 percent. Nevertheless, imports exceeded exports in 1979 by 268 million pounds, although this was 45 percent less than the 1978 trade deficit.

Imports of cotton products from Pakistan rose sharply between 1977 and 1979, more than doubling from 22 million pounds to 46 million pounds. Pakistan's share of U.S. consumption of such products--although relatively small--also more than doubled, rising from 0.6 percent to 1.4 percent during the same period. In 1979, Pakistan was the third largest foreign supplier of cotton manufactures after Hong Kong and the People's Republic of China (China), as shown in table 3. Hong Kong was by far the largest foreign supplier of cotton manufactures from 1977 to 1979, but its share of total import volume declined steadily during the period from 35 percent to 29 percent.

## U.S. Tariff Treatment

Virtually all the cotton products under consideration are classifiable in schedule 3 of the TSUS; the exceptions include headwear, gloves, luggage, handbags, and certain household furnishings, which are classifiable in schedule 7. Many of the products were subject to tariff concessions pursuant to the seventh (Tokyo) round of Multilateral Trade Negotiations (MTN) under the General Agreement on Tariffs and Trade (GATT). However, staging of duty reductions on nearly all textile and apparel items will not begin until January 1, 1982, as opposed to January 1, 1980, for most other imported products. The concessions will, for the most part, be staged over a period of 6 to 8 years. None of the cotton products under consideration are eligible for duty-free treatment under the Generalized System of Preferences.

Textiles and apparel imported from Pakistan and 18 other countries are currently subject to quantitative restraints negotiated under the Multifiber Arrangement (MFA). 1/ The bilateral agreement with Pakistan, which runs from January 1, 1978, through June 30, 1982, applies only to cotton products, imports of which are shown in table 4. It provides for an annual growth rate

1/ Sanctioned by the GATT and formally known as the Arrangement Regarding International Trade in Textiles, the MFA was implemented in 1974 for a period of 4 years and extended in December 1977 for 4 more years through 1981.

Table 3.--Cotton manufactures: U.S. general imports, by principal sources, 1977-79

| Source | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (million square yards equivalent) | | |
| Hong Kong | 578.7 | 667.8 | 556.8 |
| China | 81.9 | 186.1 | 190.3 |
| Pakistan | 67.2 | 144.4 | 177.8 |
| India | 154.3 | 136.0 | 121.5 |
| Taiwan | 112.6 | 144.5 | 104.7 |
| Peru | 18.0 | 55.9 | 87.4 |
| Republic of Korea | 73.2 | 77.7 | 58.4 |
| Singapore | 27.2 | 57.1 | 57.1 |
| All other | 525.6 | 743.7 | 544.6 |
| Total | 1,638.7 | 2,213.2 | 1,898.6 |
| | Value (million dollars) | | |
| Hong Kong | 712.7 | 828.4 | 897.0 |
| China | 41.7 | 92.7 | 152.9 |
| Pakistan | 25.0 | 44.4 | 64.1 |
| India | 117.1 | 153.6 | 162.8 |
| Taiwan | 102.8 | 137.7 | 166.7 |
| Peru | 6.2 | 20.2 | 34.7 |
| Republic of Korea | 60.9 | 71.4 | 69.8 |
| Singapore | 32.5 | 70.9 | 78.7 |
| All other | 637.9 | 878.0 | 811.6 |
| Total | 1,736.8 | 2,297.3 | 2,438.3 |

Source: U.S. Bureau of the Census, U.S. General Imports: Cotton Manufactures (TQ 2010).

of 7 percent in the overall quota, which for 1978 was a revised 166.5 million square yards equivalent (SYE), 99.2 percent of which was filled. The overall quota for 1979 was 160.5 million SYE, 93.2 percent of which was filled. 1/

In February 1979 the Carter administration introduced a program to assist the textile and apparel industries in becoming more competitive at home and abroad. Often referred to as the white paper, the report on the program called, for, among other things, the Government to control import surges that cause market disruption by tightening controls under existing bilateral agreements. Moreover, if the MFA is not renewed or a suitable substitute,

1/ As of Mar. 31, 1980; the quota year is based on the date merchandise is exported from Pakistan.

Table 4.--Cotton manufactures: U.S. general imports, total and from Pakistan, by MFA categories, 1977-79

| MFA category No. | Description | Total U.S. imports of cotton manufactures | | | U.S. imports of cotton manufactures from Pakistan | | | Ratio (percent) of U.S. imports of cotton manufactures from Pakistan to total U.S. imports | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 1977 | 1978 | 1979 | 1977 | 1978 | 1979 | 1977 | 1978 | 1979 |
| | Grand total-------1,000 square yards equivalent-- | 1,638,734 | 2,213,238 | 1,898,629 | 67,150 | 144,394 | 177,836 | 4.1 | 6.5 | 9.4 |
| | Yarn, total-------------------------1,000 pounds-- | 11,525 | 26,514 | 10,533 | 0 | 2 | 0 | - | 1/ | - |
| 300 | Carded----------------------------------do---- | 10,609 | 19,932 | 9,147 | 0 | 2 | 0 | - | 1/ | - |
| 301 | Combed----------------------------------do---- | 916 | 6,582 | 1,386 | 0 | 0 | 0 | - | - | - |
| | Fabric, total-----------------1,000 square yards-- | 643,426 | 920,658 | 695,751 | 40,928 | 108,259 | 121,550 | 6.4 | 11.8 | 17.5 |
| 310 | Gingham---------------------------------do---- | 6,011 | 4,956 | 6,501 | 0 | 0 | 0 | - | - | - |
| 311 | Velveteen-------------------------------do---- | 2,732 | 2,628 | 1,501 | 0 | 0 | 0 | - | - | - |
| 312 | Corduroy--------------------------------do---- | 739 | 908 | 1,978 | 0 | 0 | 0 | - | - | - |
| 313 | Sheeting--------------------------------do---- | 217,844 | 303,384 | 228,110 | 30,987 | 45,517 | 59,576 | 14.2 | 15.0 | 26.1 |
| 314 | Poplin and broadcloth-------------------do---- | 16,083 | 21,311 | 18,389 | 0 | 119 | 209 | - | .6 | 1.1 |
| 315 | Printcloth------------------------------do---- | 50,160 | 163,075 | 103,311 | 1,969 | 32,031 | 30,360 | 3.9 | 19.6 | 29.4 |
| 316 | Shirting--------------------------------do---- | 2,246 | 1,255 | 880 | 0 | 0 | 0 | - | - | - |
| 317 | Twill and sateen------------------------do---- | 106,722 | 97,678 | 83,892 | 1,788 | 1,384 | 2,454 | 1.7 | 1.4 | 2.9 |
| 318 | Yarn-dyed, n.e.s------------------------do---- | 22,787 | 32,275 | 26,392 | 10 | 0 | 0 | 1/ | - | - |
| 319 | Duck------------------------------------do---- | 68,965 | 67,298 | 63,869 | 4,746 | 7,245 | 8,821 | 6.9 | 10.8 | 13.8 |
| 320 | Woven fabrics, n.e.s--------------------do---- | 149,137 | 225,890 | 160,928 | 1,428 | 21,963 | 20,130 | 1.0 | 9.7 | 12.5 |
| | Apparel: | | | | | | | | | |
| 330 | Handkerchiefs-------------------1,000 dozen-- | 2,535 | 2,362 | 2,324 | 0 | 1 | 0 | - | 1/ | - |
| 331 | Gloves--------------------1,000 dozen pairs-- | 8,416 | 10,793 | 12,651 | 27 | 219 | 213 | .3 | 2.0 | 1.7 |
| 332 | Hosiery---------------------------------do---- | 28 | 22 | 22 | 0 | 0 | 0 | - | - | - |
| | Men's and boys'-- | | | | | | | | | |
| 333 | Suit-type coats-----------------1,000 dozen-- | 246 | 305 | 204 | 0 | 0 | 0 | - | - | - |
| 334 | Other coats-----------------------------do---- | 463 | 787 | 617 | 0 | 2/ | 1 | - | - | .2 |
| 338 | Knit shirts-----------------------------do---- | 3,412 | 4,853 | 5,106 | 770 | 908 | 1,008 | 22.6 | 18.7 | 19.7 |
| 340 | Woven shirts----------------------------do---- | 4,616 | 5,758 | 6,620 | 31 | 21 | 23 | .7 | .4 | .3 |
| 345(pt) | Sweaters--------------------------------do---- | 68 | 83 | 116 | 0 | 0 | 0 | - | - | - |
| 347 | Trousers--------------------------------do---- | 3,659 | 4,595 | 4,596 | 3 | 4 | 3 | .1 | .1 | .1 |
| 350(pt) | Robes-----------------------------------do---- | 123 | 117 | 88 | 2/ | 0 | 2/ | .1 | - | .1 |
| 351(pt) | Nightwear-------------------------------do---- | 557 | 533 | 616 | 2/ | 1 | 0 | 1/ | .2 | - |
| 352(pt) | Underwear-------------------------------do---- | 315 | 306 | 426 | 54 | 20 | 12 | 17.1 | 6.5 | 2.8 |
| 359(pt) | Other apparel------------------1,000 pounds-- | 8,873 | 11,130 | 6,886 | 98 | 152 | 336 | 1.1 | 1.4 | 4.9 |
| | Made-ups and miscellaneous items: | | | | | | | | | |
| 360 | Pillowcases---------------------1,000 units-- | 2,364 | 1,124 | 1,536 | 204 | 36 | 164 | 8.6 | 2.3 | 14.6 |
| 361 | Sheets----------------------------------do---- | 213 | 289 | 198 | 21 | 11 | 1 | 9.9 | 5.6 | .3 |
| 362 | Bedspreads and quilts-------------------do---- | 548 | 384 | 693 | 25 | 14 | 16 | 4.6 | 2.0 | 4.2 |
| 363 | Terry and other pile towels-------------do---- | 32,788 | 40,501 | 38,575 | 4,489 | 6,021 | 8,894 | 13.7 | 15.6 | 22.0 |
| 369 | Other cotton manufactures----------1,000 pounds-- | 34,212 | 43,863 | 48,834 | 2,887 | 4,107 | 7,403 | 8.4 | 9.4 | 15.2 |

1/ Less than 0.05 percent.
2/ Less than 500 dozen.

Source: U.S. Bureau of the Census, U.S. General Imports: Cotton Manufactures (TQ 2010).

including unilateral controls and bilateral agreements, ceases to be in effect before the full MTN tariff concession is made on textile and apparel items, then a "snapback" clause provided for in section 504 of the Trade Agreements Act will allow such tariffs to revert to their pre-MTN levels during the remainder of the staging period.

## Overview of the U.S. Textile and Apparel Industries

In the years 1977-79, the textile and apparel industries together employed about 11 percent of the total U.S. industrial work force, more than any other single industrial employer. The textile industry processes cotton and other textile fibers into yarns, fabrics, and certain finished products such as carpeting, bedding, and linens. The apparel industry consists of cut and sew shops, which make clothing from purchased fabrics, and knitting mills, which make hosiery, underwear, and outerwear (e.g., sweaters) directly from yarn or from fabric knitted in the same mill. According to statistics of the Department of Commerce, the textile and apparel industries employed a total of 2.17 million persons in 1979, 1 percent less than the 1977 and 1978 annual level of 2.20 million employees. Nearly two-thirds of this work force was employed by the apparel industry.

The combined value of shipments of the textile and apparel industries increased 15.7 percent between 1977 and 1979, from $80.9 billion to $93.6 billion, the latter figure being equally divided between textiles and apparel. Moreover, the total value of their exports rose to a record $3.8 billion in 1979, or by 46 percent over the 1978 level and 60 percent over the 1977 level. The increased sales abroad between 1977 and 1979 resulted mainly from larger shipments of textiles; in fact, textiles, which represented nearly 80 percent of the exports in each of the years, accounted for 83 percent of the increase.

The sharp increase in exports during 1979 coupled with only a small increase in imports resulted in a reduction of the textile and apparel trade deficit for the first time since 1974. The deficit in 1979 amounted to $3.43 billion, 22 percent lower than the record deficit of $4.42 billion in 1978 but 13 percent higher than the 1977 deficit of $3.03 billion. Virtually all the deficit in 1977-79 was accounted for by apparel alone, which in 1979 amounted to $4.24 billion, down fractionally from its record $4.28 billion deficit in 1978. The textiles portion, on the other hand, experienced a sharp turnaround in its trade balance, which went from a deficit of $138 million in 1978 to a surplus of $815 million in 1979.

In 1979, imports of textiles and apparel, which in terms of value rose to a record $7.23 billion (f.o.b. foreign port), declined sharply in terms of quantity. General imports of cotton, wool, and manmade-fiber manufactures in 1979 dropped 19 percent to 4.65 billion SYE from the 1978 level of 5.74 billion SYE, the largest yearly volume since 1972. The decline in 1979 stemmed largely from significantly lower shipments of yarns and fabrics, which together were 36 percent lower than the 1978 level. Imports from four major suppliers--Hong Kong, Taiwan, the Republic of Korea, and Japan--totaled 2.44 billion SYE, 52 percent of overall trade and 21 percent lower than in 1978, when they represented 54 percent of all imports. Pakistani textiles and apparel accounted for 3.8 percent of the total in 1979, up from 2.5 percent in 1978.

## Overview of the Pakistani Textile and Apparel Industries and Their Ability to Generate Exports

Pakistan's textile industry is mainly a cotton-consuming industry, exporting about 60 percent of its production. During the late 1960's and early 1970's, Pakistan emerged as the largest exporter of cotton textiles in the world, according to a study authorized by the Government of Pakistan. 1/ This was possible through Government-controlled cotton prices, which were below world cotton prices, and low wage rates.

Pakistan's textile industry, about half of which is located in and around Karachi, is the country's largest industrialized employer. It consists of two main sectors, the commercial mills and the cottage industry. The 179 commercial mills account for most of Pakistan's textile output; as of February 1979, the textile industry included about 3,549,000 spinning spindles and 27,199 power looms. The cottage industry generally consists of small family-owned operations or units located in rural areas. Each unit consists of four power looms. Very little yarn spinning is done in the cottage-industry sector, but it is estimated to have about 50 percent of the power looms.

The many problems experienced by Pakistan's textile industry prompted the Government to have a study made of the industry to suggest measures for adoption as policy guidelines. Problems cited in the study include (1) Government regulations which create restrictions on efficient operations and growth of companies, (2) failure of industry management to improve performance, (3) large quantity of undisciplined labor, (4) Government subsidies which encourage inefficiency, (5) fear of government nationalization, which discourages capital investment for plant and equipment, and (6) individual companies' placing themselves in a poor liquidity position by borrowing excessively instead of utilizing their own capital or earnings.

Productivity in Pakistan's textile industry is poor compared with that in Western European mills. Pakistan's productivity in spinning is only about 18 percent of that of Western European mills, and that in weaving is only 14 percent. However, the study indicated that through proper measures the industry can upgrade its productivity by 175 percent in spinning and 368 percent in weaving. If export demand improves, some mills now idle can be modernized and brought back into production, but the ability to get credit may retard modernization of plant and equipment. Also, the Government's prohibition of open-end spinning machinery, particularly efficient on coarse yarns in osnaburgs and sheeting, will retard modernization. There is reportedly a lack of skilled labor, which has been migrating to the Middle East and Gulf areas, where higher paying jobs in the oil industry are available.

The towel industry in Pakistan consists of small, fragmented units. There are about 159 units with 2,108 looms, most of which have been installed in the past 10 years. Towel production has grown rapidly in that time, but production capacity would permit even greater output. The towels are of low quality and low absorbency, are coarse and rough, and, consequently, are sold

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1/ All Pakistan Textile Mills Associations, Study of the Cotton Textile Industry in Pakistan, Karachi, June 1979.

in the low end of export markets. Weaving technology is lacking in the towel industry, labor productivity is low, and waste is high. However, the study indicated that if management, inter alia, emphasizes improvements in weaving technology, increases labor productivity, and improves waste control, exports of towels can increase.

The readymade-garment industry is small and disorganized. Factors causing this are (1) Government legislation that provides exemption from labor laws and other social payments to small companies, (2) the low capital investment required to establish a unit, and (3) the relative ease of establishing a small unit. There are about 200 commercial garment exporters in Pakistan. The large units (about 10) are exclusively exporters of shirts, underwear, and trousers to member countries of the Council for Mutual Economic Assistance under barter agreements. Pakistan lags far behind world competition in garment technology, not having utilized the worksaving devices developed.

## Part I. Cotton Sheeting, Duck, and Printcloth

### The Product

#### Description and uses

Pakistan is a large producer of raw cotton, and Government programs have encouraged the use of cotton for the production of textiles rather than the export of the unprocessed cotton in bale form. The types of cotton fabric which are produced in the largest quantity by the Pakistani textile industry include heavy coarse fabrics, which consume large quantities of raw cotton and can be manufactured by less sophisticated machinery with relatively lower skilled labor. Most of the imports from Pakistan have traditionally been very coarse sheeting and duck fabrics, although some production has been shifted toward finer yarns in the manufacture of printcloth. These are the fabrics which are being specifically dealt with in this report since they account for the great majority of imported fabrics from Pakistan.

Virtually all the fabrics produced by the Pakistani industry are still wholly of cotton. Unlike the U.S. industry, the Pakistani industry has not moved into blends to any extent. In the United States, the very coarse fabrics--duck and osnaburg (a type of sheeting)--are still wholly of cotton for the most part. However, producers of sheeting and, to an even greater degree, printcloth in the United States are shifting to blended constructions very rapidly. Sheeting wholly of cotton is estimated to represent only about half of the 1979 production of cotton sheeting. Printcloth which is wholly of cotton now represents only about one-third of the output of cotton printcloth in the United States. 1/

Sheeting.--Sheeting is plainwoven fabric made of carded singles yarn. 2/ The quality and type of sheeting will range from very coarse, low-quality osnaburg of average yarn numbers of less than 10 to more finely woven class C sheeting of average yarn numbers in the 20s. 3/ Osnaburg is consumed in a variety of industrial uses, such as automobile interiors, industrial wiping cloths, saturated asphalt fabrics, luggage, upholstered furniture, and backing for tufted bathmats. Cotton osnaburg was formerly used in the manufacturing of sandbags, but it has now been displaced by other textile fabrics, primarily those of acrylic and polypropylene. The better quality sheeting is used in such products as mattress covers, pockets, shoe linings, pipe insulation coverings, filter fabrics, rubberized fabrics, laundry roll covering, and plastic laminates. These fabrics are also often used as the base fabric for coated fabrics, which are used in numerous applications.

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1/ This information was obtained by the Commission's staff from telephone conversations with individuals involved with the domestic industry.

2/ Combed bed-sheeting is a different type of fabric of higher quality construction, tighter weave, and finer yarns and is not included in the types of sheeting under review.

3/ Cotton yarn is numbered according to the number of 840-yard hanks that weigh 1 pound. For example, No. 1 cotton yarn measures 840 yards (1 hank) to the pound, and No. 100 cotton yarn measures 84,000 yards (100 hanks) to the pound. The higher the yarn number, the finer the yarn.

Some sheeting is manufactured with coarse filling yarn which has been soft spun so that the fabric can be easily napped. Known as soft-filled sheeting, this fabric is used in pockets and interlining for wearing apparel and in shoe linings.

Imports of sheeting from Pakistan are heavily concentrated in the coarse osnaburg and classes A and B sheetings. 1/ U.S. production of osnaburg in 1979 amounted to about 200 million square yards, practically all of which was wholly of cotton. Imports from all countries amounted to 25.7 million square yards; imports from Pakistan amounted to 5.3 million square yards. The items in the Tariff Schedules of the United States Annotated (TSUSA) covering imported gray osnaburg, wholly of cotton, include items 320.0136-.1036.

U.S. production of classes A, B, and C sheetings 1/ also amounted to about 200 million square yards during 1979, of which about 70 million was wholly of cotton. The finer class C sheeting accounted for more than two-thirds of domestic production. During 1979, total imports of the three classes amounted to 134.9 million square yards; all imports from Pakistan were wholly of cotton and amounted to 49.5 million square yards, most of which was of coarser classes A and B constructions of average yarn numbers 10 through 20. The TSUSA items covering these coarser gray types include items 320.1038-.2038.

U.S. production of soft-filled sheeting in 1979 also amounted to about 200 million square yards, of which about half was wholly of cotton. Although 1979 imports from all countries, amounting to 55.7 million square yards, represented a significant part of domestic consumption, the imports from Pakistan amounted to only 2.0 million square yards, all of which were included in TSUSA items 320.1040-.1940.

Duck.--Duck fabrics include a wide range of types of very durable fabrics which are of extremely heavy and closely woven construction. The yarns used in the manufacture of duck are carded, but seldom combed, and are nearly always coarser than number 16. The weight of the fabric is usually 5 ounces or more per square yard, but may go as high as 50 ounces per square yard. Two or more yarns plied or twisted together are often used either in the warp or the filling, or both, to add strength and durability to the fabric. Examples of end uses for duck fabric include folding chairs, hoses, hammocks, laundry bags, tents, shoe uppers, sailcloth, canvas, mailbags, tarpaulins, certain military equipment, belting, awnings, hunting clothing, pipe coverings, book-bindings, luggage linings, and conveyor belts.

Almost 60 percent of the domestic production of duck is of single-warp construction, the product area where most of the imports from Pakistan are concentrated. Domestic production of such fabric is estimated to have amounted to almost 74 million square yards in 1979, practically all of which

1/ Classes A, B, and C sheetings refer to the degree of fineness of the yarns used in producing the fabric; i.e., class A sheeting has an average yarn number of 15 or less; class B has an average of 16 to 21; and class C has an average of more than 21.

was wholly of cotton. Total imports of single-warp duck amounted to about 55.3 million square yards during 1979; imports from Pakistan amounted to 6.8 million square yards and were concentrated in the lighter weight single fillings of average yarn numbers 10 to 15 (TSUSA items 320.1001-.1501) and in all weights of ply filling (TSUSA items 320.1003-.1503 and 320.1004-.1504). The domestic production of ply-warp ducks, which amounted to about 58 million square yards in 1979, has had very little competition from Pakistani imports, which amounted to only 131,000 square yards in 1979.

Printcloth.--Printcloth is a plainwoven fabric, not napped, not fancy or figured, made of singles yarn, carded but normally not combed, with a difference of usually not over 15 yarns per inch between the warp and the filling, and having an average yarn number generally ranging between 27 and 44.

Printcloth is dyed and/or printed and is used primarily for apparel products such as dresses, shirts, and aprons and for home furnishings including curtains, drapes, and bedspreads. Industrial uses of printcloth are relatively minor.

Most of the domestic production of cotton printcloth is of average yarn numbers in the 30s. About 660 million square yards of this fabric was produced in 1979, about one-third of which was wholly of cotton. Total imports of printcloth wholly of cotton amounted to 98.2 million square yards; imports from Pakistan amounted to 30.9 million square yards. All the Pakistani imports of printcloth during 1979 were wholly of cotton, and were concentrated in types of fabric having average yarn numbers 20 through 39. The TSUSA items involved were items 320.2032-.3932.

Manufacturing processes

There are six general steps or stages in processing cotton fiber into a woven fabric. The first is the opening. Cotton fiber starts its trip through the mill in the opening room, where the cotton bales are opened and the fiber is blended either with other fibers or with cotton. The fiber is moved by air tubes during this process for rapid handling.

The second process is carding, the process in which the fibers are brushed up and made more or less parallel. Considerable portions of foreign matter are removed, and the product is put into a manageable form known as sliver. The sliver is approximately the size of a man's thumb in diameter. The carding is done by means of rollers or flats that are clothed or set with fine, cylindrical pressed steel wire or teeth called card clothing.

The third stage is the production of roving. Here strands of sliver are combined and stretched to form a new individual sliver in the roving frame. These strands are stretched, reduced in size, then twisted to give them strength. Roving is finer in diameter than sliver but greater in diameter than yarn. Roving may be considered as a condensed sliver which has been drawn, drafted, twisted, doubled, and redoubled, as well as being made free of foreign matter.

The fourth stage is spinning. This is the final operation in cotton yarn manufacture. It completes the working of the cotton fibers into a commercial, fine, coherent yarn sufficiently twisted so that it is now ready for weaving purposes. All the twist put into the products of the previous stages has been only enough to cause the fibers to hold together, sustain themselves, and prevent their collapsing. In these stages, the cotton was still comparatively loose and in a fluffy condition and had very little tensile strength. In yarn manufacture, the spinning frames stretch the rovings into thin yarns and twist them further for more strength.

Stage five is warping. Warp yarns, which are usually stronger and have a tighter twist than filling yarns, are wound on large drums called warp beams. They are dipped into boiling starch to give them a protective coating and help prevent breaking during weaving. The warp yarns will run in the vertical direction of the fabric.

The final stage is weaving. This is the process of forming a fabric on a loom by interlacing the warp and filling threads (yarns) with each other. The plain weave, which is the type used for fabrics in this discussion, is recognized by one warp over and one warp under the filling throughout the fabric construction.

U.S. tariff treatment

The various cotton sheeting, 1/ duck, and printcloth fabrics which are the subject of the present investigations are provided for under items 320.01-.39, 321.01-.39, and 322.01-.39 of the TSUS, as shown in the following tabulation (in percent ad valorem):

| TSUSA item No. | Brief description | Col. 1 rate: Current | Col. 1 rate: MTN final concession 1/ | Current col. 2 rate |
|---|---|---|---|---|
| | Woven fabrics, wholly of cotton: | | | |
| | Not fancy or figured: | | | |
| 320.01-.39 | Not bleached and not colored. | 5.9% to 13.12% | 5.1% to 10% | 10.35% to 23.65% |
| 321.01-.39 | Bleached, but not colored. | Base rate + 1.9% | Base rate + 1.2% | Base rate + 3% |
| 322.01-.39 | Colored, whether or not bleached. | Base rate + 3.8% | Base rate + 2.4% | Base rate + 6% |

1/ Effective Jan. 1, 1987.

1/ The petitioner stated at the public hearing that it was not alleging material injury to an industry producing a product like the class B sheeting. There is no separate breakout for class B sheeting.

The column 1 (most-favored-nation) rates of duty applicable to merchandise entered under these TSUS items are 5.9 percent ad valorem to 13.12 percent ad valorem for TSUS items 320.01-.39 depending upon the average yarn number of the fabric as indicated by the fourth and fifth digits; 1/ the base rate 2/ plus 1.9 percent ad valorem for items 321.01-.39; and the base rate 2/ plus 3.8 percent ad valorem for items 322.01-.39. These rates have been in effect since January 1, 1972. The column 2 rates of duty (applicable to imports from certain Communist-dominated countries) are 10.35 percent to 23.65 percent ad valorem for TSUS items 320.01-.39. The column 2 rates of duty for TSUS items 321.01-.39 and 322.01-.39 are base rate plus 3 percent ad valorem and base rate plus 6 percent ad valorem, respectively. The concession agreed upon at the MTN will be implemented in six successive annual stages beginning on January 1, 1982, and ending on January 1, 1987.

In general, the current duty structure applies higher rates of duty to cotton cloths of fine yarns than to those of coarser yarns (as indicated by the average yarn number). The rates also increase with the degree of processing, i.e., bleaching, dyeing, or printing. Moreover, fancy or figured fabrics are dutiable at higher rates than plain fabrics of the same average yarn number and finish, and fabrics in chief value but not wholly of cotton and containing silk or manmade fibers are dutiable at higher rates than similar fabrics wholly of cotton.

The fabrics herein considered are subject to restraints (quantitative limitations) under the terms of the Multifiber Arrangement. None of these items are eligible for duty-free treatment under the Generalized System of Preferences provided for in the Trade Act of 1974.

The Pakistani Government controls exports under the restraint levels established pursuant to the bilateral agreements negotiated under the terms of the MFA. For quota purposes, cotton sheeting, duck, and printcloth fabrics from Pakistan are entered under product categories 313, 319, and 315, respectively. Pakistan filled 96.2 percent of category 313 in 1978 and an estimated 84.6 percent in 1979, 147.7 percent of category 315 in 1978 3/ and an estimated 91.2 percent in 1979, and 42.2 percent of category 319 in 1978 and an estimated 59.3 percent in 1979.

## Nature and Extent of Bounties or Grants Being Provided

As mentioned earlier in this report, the combined benefits from the three programs that have been paid by the Pakistani Government to the manufacturers

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1/ If the fourth and fifth digits are 01, the average yarn number is 1 and the rate of duty would be 5.9 percent ad valorem. The rates ascend from 5.9 percent as the average yarn numbers increase.

2/ The base rates constitute the rate for the item of comparable average yarn number in 320.01-.39.

3/ The overshipments of printcloth during 1978 have been charged off to future quotas for other products within the overall group quota established in subsequent negotiations between the United States and Pakistan.

and exporters of certain textile mill products (including cotton fabrics) amount to 10.8 percent ad valorem. Nearly all the net subsidy, or 10 percent, was provided under the cash rebate program. The remaining 0.8 percent was provided under the other two subsidy programs. Treasury first calculated its estimate of benefits at 0.42 percent, but later revised this to 0.8 percent ad valorem because evidence was found that indicates the possible increased utilization of these benefits since they were calculated 2 years earlier. All of Pakistan's exports of cotton sheeting, duck, and printcloth fabrics to the United States are covered by subsidies.

## U.S. Producers

Cotton sheeting, duck, and printcloth fabrics are produced by approximately 70 to 80 different cotton weaving establishments in the United States, with the larger establishments operating more than 1 plant at various locations. About 30 establishments account for 85 to 90 percent of such production. Most of these larger establishments are vertically integrated; i.e., they perform spinning, weaving, and finishing operations. Several of the larger firms also produce substantial quantities of such products as sheets, towels, blankets, and bedspreads. The majority of the cotton-fabric-producing plants are located in the Southeastern United States, with a heavy concentration in North Carolina, South Carolina, Georgia, and Alabama.

Cotton sheeting is produced by approximately 35 different companies, about half of which account for 80 to 90 percent of the production. Cotton duck fabrics are also produced by approximately 35 different companies; 20 account for 90 to 95 percent of the production. Cotton printcloth is produced by about 40 different companies, with 25 accounting for about 90 percent of the production. Many of the larger companies produce all three types of fabrics.

## The U.S. Market and Channels of Distribution

The U.S. market for the cotton fabrics under consideration is generally grouped into three categories--industrial, apparel, and home furnishings. Most fabrics intended for industrial purposes are usually made from coarse and medium yarns and include duck and sheeting. Printcloth is widely used in apparel and home furnishings as well as in industrial products.

Although the channels of distribution differ, orders are often placed 6 to 12 months before the end product is delivered to the ultimate user. Weaving mills, finishing plants, converters, apparel and home furnishings manufacturers, and industrial consumers all hold inventories of cotton fabrics. Most of the stocks are usually in the possession of weaving mills and finishing plants, but in substantial part they are owned by piece goods converters. These converters may add an additional stage to finishing such as bleaching or dyeing before selling the fabric.

## Consideration of Material Injury to an Industry in the United States

### U.S. production

In 1979, U.S. production of sheeting, duck, and printcloth fabrics of cotton amounted to about 1.4 billion square yards, about the same level as the previous year's production. Production in 1977 was about 1.5 billion square yards, the highest for the 1977-79 period (table 5). Although most of the output of duck and osnaburg was wholly of cotton, the production of classes A, B, and C sheetings wholly of cotton amounted to only about one-third of the total production of these types of sheetings. Only about one-third to one-half of soft-filled sheeting and about one-third of the total production of printcloth was wholly of cotton. The net production of all types of sheeting, duck, and printcloth wholly of cotton during 1979 amounted to approximately 670 million square yards (table 6).

During 1979, U.S. production of sheeting wholly of cotton accounted for 47.4 percent of the total of such sheeting, duck, and printcloth fabrics produced. Annual production of all types of sheeting wholly of cotton increased slightly but consistently during 1977-79 from about 296 million square yards in 1977 to 304 million square yards in 1978 and to 319 million square yards in 1979.

U.S. production of duck wholly of cotton in 1979 represented 19.8 percent of the total production of all sheeting, duck and printcloth wholly of cotton. During 1977-79, production was fairly consistent, ranging between about 132 million and 133 million square yards.

U.S. production of printcloth wholly of cotton in 1979 accounted for 32.8 percent of the total production of sheeting, duck, and printcloth fabrics wholly of cotton. Production of such printcloth during 1977-79 declined annually from about 256 million square yards in 1977 to 220 million square yards in 1979, or by 14.2 percent. The decline, was due in part to the shift in production to fabrics of manmade fibers. Several reasons are given for this shift. One is the recently implemented dust standards promulgated by the Occupational Safety and Health Administration (OSHA). These standards established maximum allowable levels of dust particles in the working areas of textile mills. Since the dust produced by the processing of manmade fibers is considerably less than that produced by cotton, many mills have shifted their spinning facilities to manmades in order to comply with the standards. This trend is expected to continue and possibly accelerate over the next several years. Other reasons are the greater cost stability and predictability for manmade fibers, consumer preference for the better launderability of fabrics containing manmade fibers, and greater import competition from all-cotton fabrics than from fabrics containing manmade fibers.

Individual production of sheeting, duck, and printcloth fabrics fluctuated during 1977-79, and overall production for the three fabrics trended slightly downward. This is true whether or not the production of blended

Table 5.--Sheeting, duck, and printcloth fabrics of cotton: 1/ U.S. production, imports, total and from Pakistan, exports, and apparent consumption, 1977-79

| Fabric and year | Production 2/ | Imports | | Exports | Apparent consumption 2/ | Ratio of imports to consumption | |
|---|---|---|---|---|---|---|---|
| | | Total | From Pakistan | | | Total | From Pakistan |
| | 1,000 square yards | | | | | Percent | Percent |
| Sheeting: | | | | | | | |
| 1977 | 592,960 | 215,987 | 30,606 | 10,370 | 798,577 | 27.0 | 3.8 |
| 1978 | 607,643 | 305,560 | 45,056 | 11,291 | 901,912 | 33.9 | 5.0 |
| 1979 | 637,498 | 226,732 | 57,351 | 15,956 | 848,274 | 26.7 | 6.8 |
| Duck: | | | | | | | |
| 1977 | 132,403 | 71,161 | 3,970 | 8,752 | 194,812 | 36.5 | 2.0 |
| 1978 | 132,737 | 67,022 | 5,690 | 4,161 | 195,598 | 34.3 | 2.9 |
| 1979 | 133,034 | 64,761 | 6,914 | 8,002 | 189,794 | 34.1 | 3.6 |
| Printcloth: | | | | | | | |
| 1977 | 769,532 | 52,651 | 1,840 | 104,732 | 717,451 | 7.0 | .2 |
| 1978 | 693,556 | 161,904 | 32,031 | 64,816 | 790,644 | 20.5 | 4.1 |
| 1979 | 660,620 | 98,185 | 30,889 | 74,691 | 684,115 | 14.3 | 4.5 |
| Total: | | | | | | | |
| 1977 | 1,494,895 | 339,799 | 36,416 | 123,854 | 1,710,811 | 19.5 | 2.1 |
| 1978 | 1,433,936 | 534,486 | 82,777 | 80,268 | 1,888,154 | 28.3 | 4.3 |
| 1979 | 1,431,152 | 389,678 | 95,154 | 98,648 | 1,722,182 | 22.6 | 5.5 |

1/ This includes fabrics which are wholly of cotton or 50 percent or more in chief weight of cotton.

2/ Partially estimated from information obtained by the Commission's staff from telephone conversations with individuals involved with the domestic industry.

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

Table 6.--Sheeting, duck, and printcloth fabrics wholly of cotton: U.S. production, imports, total and from Pakistan, exports, and apparent consumption, 1977-79

| Fabric and year | Production 1/ | Imports: Total | Imports: From Pakistan | Exports 1/ | Apparent consumption 1/ | Ratio of imports to consumption: Total | Ratio of imports to consumption: From Pakistan |
|---|---|---|---|---|---|---|---|
| | 1,000 square yards | | | | | Percent | Percent |
| Sheeting: | | | | | | | |
| 1977 | 296,480 | 184,617 | 30,606 | 5,185 | 475,912 | 38.8 | 6.4 |
| 1978 | 303,821 | 254,245 | 45,056 | 5,646 | 552,420 | 46.0 | 8.2 |
| 1979 | 318,749 | 201,408 | 57,351 | 7,978 | 512,179 | 39.3 | 11.2 |
| Duck: | | | | | | | |
| 1977 | 132,403 | 61,428 | 3,970 | 8,752 | 185,079 | 33.2 | 2.1 |
| 1978 | 132,737 | 59,837 | 5,690 | 4,161 | 188,413 | 31.8 | 3.0 |
| 1979 | 133,034 | 55,999 | 6,914 | 8,002 | 181,031 | 30.9 | 3.8 |
| Printcloth: | | | | | | | |
| 1977 | 256,511 | 50,022 | 1,840 | 34,911 | 271,622 | 18.4 | .7 |
| 1978 | 231,185 | 149,039 | 32,031 | 21,605 | 358,619 | 41.6 | 8.9 |
| 1979 | 220,207 | 96,075 | 30,889 | 24,897 | 291,385 | 33.0 | 10.6 |
| Total: | | | | | | | |
| 1977 | 685,394 | 296,067 | 36,416 | 48,848 | 932,613 | 31.7 | 3.9 |
| 1978 | 667,743 | 463,121 | 82,777 | 31,412 | 1,099,452 | 42.1 | 7.5 |
| 1979 | 671,990 | 353,482 | 95,154 | 40,877 | 984,595 | 35.9 | 9.7 |

1/ Partially estimated from information obtained by the Commission's staff from telephone conversations with individuals involved with the domestic industry.

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

cotton fabrics is included with the wholly cotton fabrics, although the decline is more pronounced for the blended fabrics. The trends for these cotton fabrics reflect the downward direction of overall consumption of cotton during a period of record total textile production and consumption. Cotton's share of the industrial end-use market accounted for only 20 percent of total fibers consumed in these uses during 1978. Cotton's declining share of consumption in a number of products, such as tarpaulins, tents, beltings, bookbindings, awnings, and bags, has been reflected in the declining output and consumption of cotton fabrics. The demand for products to meet the continuing and expanding needs of industrial converters is being met either by alternative domestic products of manmade fibers or by imported fabrics wholly of cotton, which can be produced without the burden of lint or dust standards like those imposed upon the U.S. industry. A corresponding situation faces cotton in household and apparel markets, where printcloth has important outlets.

Significant quantities of fabrics in part or wholly of manmade fibers can be and are substituted for fabrics wholly of cotton in certain specific end uses. However, there has always been, and still is, an uncompromising preference among particular converters and end users for fabric wholly of cotton. The preferences of certain industrial users for duck, sheeting, and printcloth wholly of cotton and of manufacturers of household and apparel products for printcloth wholly of cotton are based on specific physical characteristics required of the fabrics. For some industrial uses, minimum static requirements preclude the use of anything but fabrics wholly of cotton. Certain end users and converters of industrial fabrics have specific types of machinery which are adapted to and adjusted for fabric wholly of cotton. Particular dyeing and finishing facilities of converters can satisfactorily process only fabric wholly of cotton. The same is true for certain bonding, adhesive, and coating operations. Adjustment and replacement of machinery to process fabrics which are wholly or in part of manmade fibers would, in most cases, involve a large amount of downtime and expense to these converters.

Mills analyze fabrics of different fiber content as discrete entities in terms of production, marketing, costs, and profitability. Although some all-cotton fabrics are commercially competitive and interchangeable with certain manmade-fiber fabrics or blended fabrics, there are significant differences in production characteristics, costs, and marketing considerations among the types of fabrics. Mill cost accountants keep separate records of the costs incurred in producing each type of fabric, and such costs are part of the marketing-decision process that determines the content and pricing of each mill's line of fabrics.

Fabrics of 100-percent cotton can be produced on the same looms as fabrics of manmade fibers and blends of cotton and manmade fibers. However, in practice, production of all-cotton fabric is segregated from production of other fabrics owing to different operating characteristics and requirements. Fabrics wholly of cotton usually require somewhat slower loom speeds than do fabrics containing manmade fibers. In addition, production of all-cotton fabrics differs from that of fabrics containing manmade fibers in that yarn breakage is more frequent, fewer looms can be assigned to each worker, and dust control is more difficult. Also, cotton production is traditionally segregated from production of manmade-fiber fabrics to prevent contamination of the fabric. Conversion of a set of looms from production of all-cotton fabrics to that of fabrics made of other yarns is possible but involves a considerable amount of time and cost. There have been instances where a mill has found it unprofitable to continue the production of fabrics wholly of cotton, but too costly to convert its facilities to a blended or manmade-fiber operation. In such cases, a mill will often shut down that particular facility rather than convert it to alternative products.

Moreover, some manufacturers of particular household and apparel products are sometimes faced with consumer preferences for products wholly of cotton. For many years, cotton producers have promoted, at great expense, the use of 100-percent cotton products, not only for appearance and comfort but also for prestige. As a result, many consumers are convinced that they are getting a superior product if it is wholly of cotton, and there are retailers which cater to these preferences.

In both cases, converters will often pay some cost premium for the domestically produced fabric as an assurance of quality and timely delivery. When the difference in price between domestic and imported fabrics exceeds that which converters are willing to pay for such assurance, they will purchase imports. In the future, the reliance of converters on imports may become more important for supply reasons than for cost differences, as many domestic producers are reportedly planning to shift more and more toward the manufacture of fabrics either wholly or in part of manmade fibers.

During 1977-79, a period of record domestic manmade fiber production, output of printcloth fabrics wholly or chiefly of polyester manmade fibers increased from about 350 million square yards in 1977 to 455 million in 1978 and to 525 million in 1979. Production of industrial-type fabrics of manmade fibers has also increased dramatically in recent years. Imports of all types of manmade fiber fabrics during 1977 amounted to 457 million square yards, increased to 518 million in 1978, but declined to 399 million in 1979. Imports of manmade-fiber gray fabrics wholly of spun yarns and chiefly of polyester fiber (which is most often used in blends with cotton (TSUSA item 338.3068) amounted to 7.5 million square yards in 1977, 7.6 million square yards in 1978, and 16.3 million square yards in 1979. None of this fabric was imported from Pakistan.

Capacity and capacity utilization

As part of its consideration of injury to the domestic industry, the Commission asked U.S. producers of cotton sheeting, duck, and printcloth to report their annual capacities to produce such fabrics in their domestic facilities. Capacity was defined as the maximum sustainable production at one 8-hour shift a day, 5 days a week, 50 weeks a year. Although the Commission received questionnaires from producers accounting for 66 percent of total U.S. production of all three types of fabrics in 1979, capacity information was supplied by producers representing only 5 percent of the domestic industry. Capacity for the reporting producers increased slightly during 1977-79. These producers were operating three 8-hour shifts a day, usually 6 days a week, all year. Full capacity based on the operations of the 3 responding producers is 3 8-hour shifts a day, 6 days a week. Capacity utilization for these firms is shown in the following tabulation:

| Year | Production | Capacity | Capacity utilization |
|---|---|---|---|
| | 1,000 square yards | 1,000 square yards | Percent |
| 1977 | 105,256 | 106,105 | 99.2 |
| 1978 | 107,377 | 107,377 | 100.0 |
| 1979 | 111,712 | 112,500 | 99.3 |

The ratio of capacity utilization remained almost the same during 1977-79. This high level is not necessarily representative of the domestic industry, since nonreporting producers may not be operating three shifts a day and more than 5 days a week. However, several large producers that did not provide capacity data indicated they operated at near capacity levels in 1977-79.

U.S. producers' shipments and exports

Information received from producers of the three types of fabrics in 1979 that reported both quantity and value is presented in the following tabulation:

| Year | Quantity | Value | Unit value |
|---|---|---|---|
| | 1,000 square yards | 1,000 dollars | Cents per square yard |
| 1977 | 358,318 | 167,137 | 46.6 |
| 1978 | 352,426 | 168,852 | 47.9 |
| 1979 | 350,766 | 186,960 | 53.3 |

Domestic shipments of these fabrics declined annually in quantity, but increased annually in value during 1977-79. The unit value increased annually from 46.6 cents per square yard to 53.3 cents per square yard during this period owing to the larger share of printcloth reported in each year.

The majority of reporting producers indicated that they did not produce or ship cotton sheeting, duck, or printcloth fabrics for export during 1977-79. The domestic producers that did report exports of such fabrics exported a total of 842,836 square yards, valued at $1,008,000, in 1977. In 1978, such exports declined to 721,868 square yards, valued at $885,000, in 1978 and then increased to 1,142,555 square yards, valued at $1,964,000, in 1979. The unit values increased annually during this period from $1.20 per square yard in 1977 to $1.23 per square yard in 1978 and to $1.72 per square yard in 1979.

Annual U.S. exports of cotton sheeting, duck, and printcloth 1/ from all domestic producers averaged 100.9 million square yards, valued at $77.1 million, during 1977-79. Exports in 1979 amounted to 98.6 million square yards, valued at $78.5 million (table 7). The export market for these fabrics represented about 15 percent of the quantity of domestic production in 1979. Printcloth is the dominant fabric, accounting for approximately three-fourths of these exports in 1979, followed by sheeting and duck. Canada is the leading recipient of such fabrics, receiving one-third of the quantity and one-fourth of the value in 1979. There are numerous other markets for these fabrics, but each country varies in importance from year to year and by type of fabric (tables 8-10).

Inventories

Data showing the quantity of inventories for those producers providing such information are shown in table 11 along with related information. These producers accounted for 53 percent of the domestic production in 1979.

Table 11.--Cotton sheeting, duck, and printcloth fabrics: U.S. producers' end-of-period inventories and shipments, 1977-79

| Year | U.S. producers' inventories | U.S. producers' shipments | Ratio of producers' inventories to producers' shipments |
|---|---|---|---|
| | 1,000 square yards | 1,000 square yards | Percent |
| 1977 | 41,050 | 358,318 | 11.5 |
| 1978 | 30,637 | 352,426 | 8.7 |
| 1979 | 25,563 | 350,766 | 7.3 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Inventories decreased annually from 41 million square yards in 1977 to 25.6 million square yards in 1979. The ratio of producers' inventories to their shipments followed a similar pattern. Producers' inventories averaged 32.4 million square yards annually during 1977-79.

1/ Includes blended fabrics of cotton and manmade fibers as well as those fabrics wholly of cotton.

Table 7.--Cotton sheeting, duck, and printcloth fabrics: 1/ U.S. exports, by types, 1977-79

| Type of fabric | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Cotton sheeting: | | | |
| Not bleached or not colored | 3,221 | 6,254 | 7,139 |
| Bleached or colored | 7,149 | 5,037 | 8,816 |
| Subtotal | 10,370 | 11,291 | 15,955 |
| Cotton duck: | | | |
| Not bleached or not colored | 2,838 | 1,538 | 4,831 |
| Bleached or colored | 5,914 | 2,623 | 3,170 |
| Subtotal | 8,752 | 4,161 | 8,001 |
| Cotton printcloth: | | | |
| Not bleached or not colored | 48,285 | 2/ 24,207 | 2/ 41,593 |
| Bleached or colored | 56,447 | 40,609 | 33,098 |
| Subtotal | 104,732 | 64,816 | 74,691 |
| Total | 123,854 | 80,268 | 98,647 |
| | Value (1,000 dollars) | | |
| Cotton sheeting: | | | |
| Not bleached or not colored | 1,723 | 3,346 | 3,791 |
| Bleached or colored | 5,714 | 5,459 | 7,894 |
| Subtotal | 7,437 | 8,805 | 11,685 |
| Cotton duck: | | | |
| Not bleached or not colored | 2,868 | 1,837 | 2,470 |
| Bleached or colored | 7,713 | 3,686 | 4,721 |
| Subtotal | 10,581 | 5,523 | 7,191 |
| Cotton printcloth: | | | |
| Not bleached or not colored | 5,066 | 2/ 12,051 | 2/ 22,103 |
| Bleached or colored | 56,854 | 46,487 | 37,549 |
| Subtotal | 61,920 | 58,538 | 59,652 |
| Total | 79,938 | 72,866 | 78,528 |

1/ Does not include bed sheeting, but does include blended fabrics of cotton and manmade fibers as well as those fabrics wholly of cotton.
2/ Includes a small amount of fabric other than printcloth.

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

Table 8.--Cotton sheeting (except combed bed sheeting): U.S. exports, by principal markets, 1977-79

| Market | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Canada | 3,829 | 6,495 | 6,861 |
| Hong Kong | 47 | 386 | 2,473 |
| United Kingdom | 425 | 484 | 1,048 |
| Saudi Arabia | 47 | 343 | 476 |
| Panama | 98 | 154 | 349 |
| Australia | 426 | 207 | 230 |
| All other | 5,498 | 3,222 | 4,518 |
| Total | 10,370 | 11,291 | 15,955 |
| | Value (1,000 dollars) | | |
| Canada | 3,897 | 5,000 | 5,608 |
| Hong Kong | 41 | 305 | 1,532 |
| United Kingdom | 350 | 400 | 1,194 |
| Saudi Arabia | 14 | 464 | 450 |
| Panama | 52 | 197 | 386 |
| Australia | 204 | 132 | 177 |
| All other | 2,879 | 2,307 | 2,338 |
| Total | 7,437 | 8,805 | 11,685 |
| | Unit value (per square yard) | | |
| Canada | $1.02 | $.77 | $.82 |
| Hong Kong | .87 | .79 | .62 |
| United Kingdom | .82 | .83 | 1.14 |
| Saudi Arabia | .30 | 1.35 | .95 |
| Panama | .53 | 1.28 | 1.11 |
| Australia | .48 | .64 | .77 |
| All other | .52 | .72 | 1.93 |
| Average | .72 | .78 | .73 |

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

Table 9.--Cotton duck: U.S. exports, by principal markets, 1977-79

| Market | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Canada | 2,449 | 2,032 | 5,034 |
| United Kingdom | 100 | 210 | 470 |
| Venezuela | 431 | 175 | 196 |
| Honduras | 166 | 107 | 193 |
| Dominican Republic | 471 | 197 | 272 |
| Italy | 156 | 102 | 92 |
| Panama | 353 | 107 | 173 |
| France | 418 | 94 | 233 |
| All other | 4,208 | 1,137 | 1,338 |
| Total | 8,752 | 4,161 | 8,001 |
| | Value (1,000 dollars) | | |
| Canada | 2,972 | 2,436 | 3,478 |
| United Kingdom | 106 | 335 | 552 |
| Venezuela | 409 | 276 | 323 |
| Honduras | 228 | 151 | 295 |
| Dominican Republic | 791 | 215 | 239 |
| Italy | 252 | 155 | 176 |
| Panama | 14 | 150 | 123 |
| France | 536 | 193 | 118 |
| All other | 5,273 | 1,612 | 1,887 |
| Total | 10,581 | 5,523 | 7,191 |
| | Unit value (per square yard) | | |
| Canada | $1.21 | $1.20 | $0.69 |
| United Kingdom | 1.06 | 1.60 | 1.17 |
| Venezuela | .95 | 1.58 | 1.65 |
| Honduras | 1.37 | 1.41 | 1.53 |
| Dominican Republic | 1.68 | 1.09 | .88 |
| Italy | 1.62 | 1.52 | 1.91 |
| Panama | .04 | 1.40 | .71 |
| France | 1.28 | 2.05 | .51 |
| All other | 1.25 | 1.42 | 1.41 |
| Average | 1.21 | 1.33 | .90 |

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

Table 10.--Cotton printcloth: U.S. exports, by principal markets, 1977-79

| Market | 1977 | 1978 1/ | 1979 1/ |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| United Kingdom | 7,534 | 9,028 | 11,646 |
| Canada | 61,383 | 29,463 | 21,591 |
| Italy | 275 | 120 | 12,148 |
| France | 919 | 1,254 | 5,470 |
| Nigeria | 49 | 140 | 2,783 |
| Australia | 3,032 | 3,503 | 2,107 |
| Greece | 3,235 | 2,205 | 1,149 |
| Hong Kong | 494 | 673 | 1,168 |
| All other | 27,811 | 18,430 | 16,629 |
| Total | 104,732 | 64,816 | 74,691 |
| | Value (1,000 dollars) | | |
| United Kingdom | 7,003 | 12,842 | 15,056 |
| Canada | 15,007 | 16,077 | 10,482 |
| Italy | 281 | 157 | 5,856 |
| France | 1,108 | 1,103 | 3,239 |
| Nigeria | 124 | 139 | 2,591 |
| Australia | 3,140 | 4,243 | 2,498 |
| Greece | 4,428 | 2,709 | 1,801 |
| Hong Kong | 473 | 846 | 1,636 |
| All other | 30,356 | 20,422 | 16,493 |
| Total | 61,920 | 58,538 | 59,652 |
| | Unit value (per square yards) | | |
| United Kingdom | $.93 | $1.42 | $1.29 |
| Canada | .24 | .55 | .49 |
| Italy | 1.02 | 1.31 | .48 |
| France | 1.21 | .88 | .59 |
| Nigeria | 2.53 | .99 | .93 |
| Australia | 1.04 | 1.21 | 1.19 |
| Greece | 1.37 | 1.23 | 1.57 |
| Hong Kong | .96 | 1.26 | 1.40 |
| All other | 1.09 | 1.11 | .99 |
| Average | .59 | .90 | .80 |

1/ Includes a small amount of fabrics other than printcloth.

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

U.S. imports

Significance of the volume of imports or any increase in that volume.--The value of U.S. imports of all types of cotton fabrics increased from $310.9 million during 1977 to $382.5 million during 1978, but declined to $343.5 million during 1979 (table 12). Imports from Hong Kong, the principal source of these articles, declined annually from $80.3 million in 1977 to $67.2 million in 1979, or by 16.3 percent (table 13). However, Pakistan, the second leading source, increased its share from $11.3 million in 1977 to $32.4 million in 1979, representing a 187-percent increase.

The value of U.S. imports of cotton sheeting, duck, and printcloth fabrics from all countries amounted to $122.9 million in 1977, or 39.5 percent of total cotton fabric imported. In 1979, such imports increased to $148.1 million, or 43.1 percent of the total. Hong Kong was the leading source of such imports, followed by Pakistan, accounting for 27 and 26 percent of the total, respectively. China and Peru were also important sources of imports.

Imports of cotton duck from Pakistan during 1977-79 increased steadily from 4.0 million square yards during 1977 to 5.7 million in 1978 and to 6.9 million in 1979 (tables 14 and 15). Practically all the imports were of single-warp duck, the type which accounts for almost 60 percent of domestic production. Domestic production of single-warp duck in 1979 is estimated to have been about 74 million square yards; imports from Pakistan, therefore, were equivalent to about 9 percent of domestic production of single-warp duck during 1979. The imports from Pakistan were concentrated in average yarn numbers 10 to 15, classified under TSUSA items 320.1001 through 320.1501; 320.1003 through 320.1503; and 320.1004 through 320.1504.

Imports of all types of cotton sheeting from Pakistan during 1977-79 increased steadily from 30.6 million square yards during 1977 to 45.1 million during 1978 and to 57.4 million during 1979 (table 16). Osnaburg imports from Pakistan amounted to 5.3 million square yards during 1979. U.S. production of osnaburg during 1979 is estimated to have been about 200 million square yards; imports from Pakistan, therefore, were equivalent to between 2 and 3 percent of domestic production of osnaburg. The TSUSA items covering imported gray osnaburgs wholly of cotton include items 320.0336 through 320.1036.

Imports of classes A, B, and C sheeting from Pakistan during 1977-79 increased steadily from 25.1 million square yards in 1977 to 41.4 million in 1978 and to 49.5 million in 1979. Imports are concentrated in the coarser A and B types, of which domestic production during 1979 amounted to about 68 million square yards. Imports from Pakistan during 1979 were equivalent to almost three-fourths of domestic production of A and B classes of sheeting. The TSUSA items covering these imported A and B sheetings from Pakistan are items 320.1038 through 320.2038. Imports of other types of sheeting from Pakistan have been insignificant.

Imports of cotton printcloth from Pakistan during 1977-79 increased from 1.8 million square yards in 1977 to 32.0 million in 1978, and then declined to 30.9 million in 1979 (table 17). All imports from Pakistan were wholly of cotton. Domestic production during 1979 amounted to about 660 million square yards, about one-third or 220 million yards of which was wholly of cotton.

Table 12.—Cotton fabrics of all types and of specified types: U.S. imports for consumption, total and from Pakistan, by types, 1977-79

| Types | 1977 | | | 1978 | | | 1979 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Imports | | Ratio of imports from Pakistan to total | Imports | | Ratio of imports from Pakistan to total | Imports | | Ratio of imports from Pakistan to total |
| | Total | From Pakistan | | Total | From Pakistan | | Total | From Pakistan | |
| | Million dollars | Million dollars | Percent | Million dollars | Million dollars | Percent | Million dollars | Million dollars | Percent |
| All types of cotton fabrics | 310.9 | 11.3 | 3.6 | 382.5 | 25.5 | 6.7 | 343.5 | 32.4 | 9.4 |
| Total sheeting, duck, and printcloth | 122.9 | 9.8 | 8.0 | 173.8 | 19.8 | 11.4 | 148.1 | 26.3 | 17.8 |
| Sheeting | 67.2 | 7.7 | 11.5 | 95.6 | 10.4 | 10.9 | 78.0 | 15.0 | 19.2 |
| Duck | 38.0 | 1.7 | 4.5 | 35.2 | 2.2 | 6.3 | 37.9 | 3.0 | 7.9 |
| Printcloth | 17.6 | .4 | 2.3 | 43.0 | 7.2 | 16.7 | 32.2 | 8.3 | 25.8 |

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

Table 13.--All cotton fabrics: 1/ U.S. imports for consumption, by principal sources, 1977-79

| Source | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Hong Kong | 152,139 | 172,351 | 123,923 |
| Pakistan | 40,311 | 106,724 | 117,268 |
| Peru | 17,821 | 51,750 | 77,083 |
| Japan | 30,773 | 28,235 | 19,150 |
| China: | | | |
| Mainland | 54,430 | 128,536 | 68,939 |
| Taiwan | 59,259 | 85,077 | 40,070 |
| India | 76,520 | 48,395 | 40,450 |
| Egypt | 8,804 | 13,393 | 30,365 |
| Korea | 36,046 | 41,328 | 26,254 |
| United Kingdom | 4,413 | 5,757 | 4,888 |
| All other | 132,783 | 203,720 | 116,708 |
| Total | 613,299 | 885,266 | 665,098 |
| | Value (1,000 dollars) | | |
| Hong Kong | 80,276 | 74,565 | 67,162 |
| Pakistan | 11,279 | 25,544 | 32,395 |
| Peru | 6,095 | 19,192 | 31,376 |
| Japan | 27,210 | 28,860 | 23,698 |
| China: | | | |
| Mainland | 17,942 | 37,479 | 23,141 |
| Taiwan | 19,688 | 28,157 | 17,097 |
| India | 34,124 | 22,090 | 21,722 |
| Egypt | 2,658 | 4,381 | 11,079 |
| Korea | 12,883 | 13,030 | 10,464 |
| United Kingdom | 7,842 | 10,161 | 10,385 |
| All other | 90,853 | 119,127 | 94,982 |
| Total | 310,850 | 382,586 | 343,501 |

1/ Includes sheeting, duck, and printcloth.

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

Imports from Pakistan, therefore, were equivalent to about 14 percent of domestic production of printcloth wholly of cotton. The imports were concentrated in average yarn numbers in the 20s and 30s, and classified in TSUSA items 320.2732 through 320.3932.

Rate of increase in subsidized exports to the United States and the availability of other export markets.--Imports of cotton sheeting, duck, and printcloth fabrics from Pakistan were valued at $9.8 million in 1977 (table 12). These imports, which are all wholly of cotton, more than doubled the following year to $19.8 million, and increased again in 1979 to $26.3 million, accounting for 11.4 and 17.8 percent of the total in those years. 1/ The value of imports of certain fabrics from Pakistan increased as a share of the total during 1977-79.

Sheeting accounted for more than half of the sheeting, duck, and printcloth fabrics imported from Pakistan during 1979 (table 14). The largest share of the sheeting was classes A, B, and C, which accounted for approximately 80 to 90 percent of the total of the three types of sheeting fabrics imported during 1977-79. All these imports from Pakistan are covered by subsidies, as mentioned earlier in this report.

Table 14.--Cotton sheeting, duck, and printcloth fabrics: U.S. imports for consumption from Pakistan, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Sheeting | 30,606 | 45,056 | 57,351 |
| Duck | 3,970 | 5,690 | 6,914 |
| Printcloth | 1,840 | 32,031 | 30,889 |
| Total | 36,416 | 82,777 | 95,154 |
| | Value (1,000 dollars) | | |
| Sheeting | 7,735 | 10,429 | 14,969 |
| Duck | 1,681 | 2,203 | 2,999 |
| Printcloth | 389 | 7,207 | 8,315 |
| Total | 9,805 | 19,839 | 26,283 |
| | Unit value (cents per square yard) | | |
| Sheeting | 23.8 | 23.1 | 26.1 |
| Duck | 42.4 | 38.7 | 43.4 |
| Printcloth | 21.6 | 22.5 | 26.9 |
| Total | 26.9 | 24.0 | 27.6 |

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

1/ The import statistics may be understated to the extent that some imports of cotton sheeting from Pakistan are believed by the staff to have been misclassified and reported under "other" statistical categories.

Table 15.--Cotton duck: U.S. imports for consumption from Pakistan, by types, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Single warp | 3,715 | 5,674 | 6,779 |
| Ply warp | 255 | 16 | 136 |
| Total | 3,970 | 5,690 | 6,914 |
| | Value (1,000 dollars) | | |
| Single warp | 1,538 | 2,182 | 2,933 |
| Ply warp | 143 | 21 | 66 |
| Total | 1,681 | 2,203 | 2,999 |
| | Unit value (cents per square yard) | | |
| Single warp | 41.4 | 38.5 | 43.3 |
| Ply warp | 52.6 | 131.6 | 48.5 |
| Total | 42.4 | 38.7 | 43.4 |

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

Table 16.--Cotton sheeting: U.S. imports for consumption from Pakistan, by types, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 square yards) | | |
| Osnaburg | 1,424 | 1,141 | 5,269 |
| Classes A, B, and C | 25,075 | 41,407 | 49,511 |
| Soft filled | 4,051 | 1,707 | 2,017 |
| Other 1/ | 56 | 801 | 555 |
| Total | 30,606 | 45,056 | 57,351 |
| | Value (1,000 dollars) | | |
| Osnaburg | 364 | 278 | 1,412 |
| Classes A, B, and C | 6,293 | 9,510 | 12,794 |
| Soft filled | 1,067 | 432 | 613 |
| Other 1/ | 11 | 209 | 150 |
| Total | 7,735 | 10,429 | 14,969 |
| | Unit value (cents per square yard) | | |
| Osnaburg | 25.6 | 24.4 | 26.8 |
| Classes A, B, and C | 25.1 | 23.0 | 25.8 |
| Soft filled | 26.3 | 25.3 | 30.4 |
| Other 1/ | 19.6 | 26.1 | 27.1 |
| Total | 25.3 | 23.1 | 26.1 |

1/ Does not include combed bed sheeting.

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

Table 17.--Cotton printcloth: 1/ U.S. imports for consumption from Pakistan, 1977-79

| Year | Quantity | Value | Unit value |
|---|---|---|---|
| | 1,000 square yards | 1,000 dollars | Cents per square yard |
| 1977 | 1,840 | 398 | 21.6 |
| 1978 | 32,031 | 7,207 | 22.5 |
| 1979 | 30,889 | 8,315 | 26.9 |

1/ Consists entirely of shirting other than shirting 80x80.

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

U.S. importers

Cotton sheeting, duck, and printcloth fabrics are imported by approximately 75 importers in the United States. The size and volume of fabric imported as well as the range of other textile goods which they import differ greatly. Most importers act only as an intermediate step between foreign mills and domestic purchasers, while others act as converters that perform additional finishing of the fabric, such as bleaching, dyeing, or printing, before reselling. Some domestic producers purchase imported fabrics to supplement their inventories, usually types of fabrics that they do not produce.

The importers generally have the fabric sold either before it is ordered from the foreign mill or before it arrives in port. This practice is known in the trade as back-to-back orders. If the fabric is already woven and in the foreign mill's inventory, it can be delivered within 3 months. However, if it is yet to be produced, it could take up to 6 months for delivery.

Employment

Productivity.--Data showing the average number of workers employed by producers of cotton sheeting, duck, and printcloth are given in the following tabulation:

| Average number of employees in reporting establishments: | 1977 | 1978 | 1979 |
|---|---|---|---|
| All persons | 19,553 | 19,109 | 19,129 |
| Production and related workers employed in the production of-- | | | |
| All products | 17,182 | 16,700 | 16,628 |
| Cotton sheeting, duck, and printcloth fabrics | 3,916 | 3,793 | 3,870 |

Workers involved in the production of cotton sheeting, duck, and printcloth accounted for slightly less than one-fourth of those involved in the total production of all products in 1977-79. The percentage ranged from a low of 22.7 percent in 1978 to a high of 23.3 percent in 1979.

Data on the number of production workers and hours worked in the production of cotton sheeting, duck, and printcloth were provided by producers accounting for 32 percent of domestic production in 1979. Such information is given in the following tabulation:

| Year | Production workers 1/ | Hours worked 1/ | Production 1/ | Worker productivity 1/ |
|---|---|---|---|---|
| | Number | 1,000 hours | 1,000 square yards | Square yards per hour |
| 1977 | 3,506 | 6,575 | 195,365 | 29.7 |
| 1978 | 3,312 | 6,663 | 196,896 | 29.6 |
| 1979 | 3,445 | 7,036 | 212,075 | 30.1 |

1/ Represents only those producers that provided complete information for all of the above headings.

During 1977-79, production and hours worked in such production increased annually. Productivity averaged 29.8 square yards per hour during this period. Hours worked by production and related workers producing cotton sheeting, duck, and printcloth fabrics accounted for one-fourth of the total hours worked on all products for these reporting producers.

Wages.--The following tabulation shows the average wages of workers employed in the production of cotton sheeting, duck, and printcloth fabrics:

| Year | Wages paid | Hours worked | Hourly wages |
|---|---|---|---|
| | 1,000 dollars | 1,000 hours | |
| 1977 | 26,125 | 6,575 | $3.97 |
| 1978 | 28,782 | 6,663 | 4.32 |
| 1979 | 33,302 | 7,036 | 4.73 |

The average hourly wages of production workers increased 19 percent from $3.97 per hour in 1977 to $4.73 per hour in 1979.

## Financial experience of U.S. producers

Profit-and-loss experience.--The Commission mailed a total of 29 questionnaires to producers of cotton sheeting, duck, and printcloth fabrics requesting profit-and-loss information. Usable data were received from eight domestic producers accounting for about 37 percent of total U.S. production of such cotton fabrics in 1979.

As shown in table 18, aggregate net sales rose by 22 percent from $131 million in 1977 to $159 million in 1979. The aggregate cost of goods sold as a percentage of sales increased from 93.2 percent in 1977 to 93.9 percent in 1978 and then declined to 88 percent in 1979. General, selling, and administrative expenses remained fairly steady during 1977-79.

Net operating profit jumped more than 450 percent from $1.9 million in 1977 to $10.9 million in 1979 despite a sharp drop to $481,000 in 1978. The drop in net operating profit in 1978, however, was largely the result of major losses reported by one producer in that year. The ratio of net operating profit to net sales followed a similar trend, decreasing from 1.5 percent in 1977 to 0.4 percent in 1978 and increasing to 6.8 percent in 1979.

Table 18.--Profit-and-loss experience and cash flow from operations of U.S. producers on their cotton sheeting, duck, and printcloth fabrics operations, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Net sales--------------1,000 dollars--: | 131,003 | 136,788 | 159,360 |
| Cost of goods sold--------------do----: | 122,060 | 128,478 | 140,186 |
| Gross profit--------------------do----: | 8,943 | 8,310 | 19,174 |
| General, selling, and administrative expenses-------------1,000 dollars--: | 6,998 | 7,829 | 8,297 |
| Net operating profit------------do----: | 1,945 | 481 | 10,877 |
| Cash flow from operations before taxes----------------1,000 dollars--: | 5,843 | 5,146 | 15,564 |
| Ratio of net operating profit to net sales---------------percent--: | 1.5 | 0.4 | 6.8 |
| Number of firms reporting------number--: | 8 | 8 | 8 |
| Number of firms reporting net operating: losses----------------------number--: | 3 | 2 | 2 |

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

* * * a large domestic producer, reported losses of * * * in 1977, * * * in 1978, and * * * in 1979. If this firm's operations are excluded from the aggregate industry data, the net operating profit as well as the ratio of net operating profit to net sales show continuous increases each year during 1977-79, as presented in the following tabulation:

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Net sales--------------1,000 dollars--: | *** | *** | *** |
| Net operating profit------------do----: | *** | *** | *** |
| Ratio of net operating profit to net sales----------------------percent--: | *** | *** | *** |

Return on investment.--To provide an additional measure of profitability, domestic producers were requested to supply information on the value of total assets employed in the production of cotton sheeting, duck, and printcloth fabrics. Fixed assets data were requested on the bases of original cost, net book value, and estimated replacement cost, but all the responding firms did not report as requested in the questionnaire. Usable data were received from six of the eight producers supplying information on profit-and-loss experience.

As shown in table 19, the ratio of net operating profit to the book value of fixed assets or total assets followed the same fluctuating trend, declining in 1978 and increasing in 1979, as the ratio of net operating profit to net sales during 1977-79. Current assets and hence total assets are undervalued because * * * did not report its current assets. If * * * operations were excluded from the aggregate data presented in the table, the return on investment would show only a slight positive decline in 1978 compared with 1977 rather than the negative return on investment shown in the table. Book-value calculations are somewhat distorted by the time period during which the investments were made.

Table 19.--Assets and net sales and operating profit of U.S. producers of cotton sheeting, duck, and printcloth fabrics, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Assets: | | | |
| Current assets--------1,000 dollars--: | *** | *** | *** |
| Book value of fixed assets-----do----: | *** | *** | *** |
| Total assets----------------do----: | *** | *** | *** |
| Net sales------------------------do----: | *** | *** | *** |
| Net operating profit or (loss)---do----: | *** | *** | *** |
| Ratio of net operating profit or (loss): to-- | | | |
| Net sales------------------percent--: | *** | *** | *** |
| Book value of fixed assets-----do----: | *** | *** | *** |
| Total assets------------------do----: | *** | *** | *** |

Five of the eight domestic producers that provided usable financial data produced more than one type of fabric (i.e., sheeting, duck, and printcloth). These producers were contacted by telephone by the staff and asked if financial information that they provided could be separated to provide individual data on sheeting, duck, and printcloth. All agreed it would be a lengthy and difficult, if not impossible, task to provide such information.
* * *. These producers represented 37 percent of domestic production in 1979. Of the other three producers, two produced only printcloth and another produced only sheeting; they accounted for * * * percent and less than * * * percent of the total cotton sheeting, duck, and printcloth fabric industry, respectively.

Actual and potential negative effects of subsidized merchandise on U.S. producers' cash flow, ability to raise capital, and investment.--For purposes of this analysis, cash flow from operations is defined as net operating profit plus depreciation and amortization. Income taxes paid are not taken into consideration owing to different tax rates which may apply to individual firms. As shown in table 18, cash flow from operations for eight producers increased by 169 percent from $5.8 million in 1977 to $15.6 million in 1979 despite a decrease to $5.1 million in 1978.

Capital expenditures.--Only 4 of the 12 responding firms provided their capital expenditures for plant and equipment used in the production, warehousing, and marketing of cotton sheeting, duck, and printcloth fabrics for 1977-79. These four firms accounted for an estimated 10 percent of total U.S. production of all such cotton fabrics in 1979. Capital expenditures increased 150 percent from $0.9 million in 1977 to $2.1 million in 1978 but then declined to 1.3 million in 1979, as shown in the following tabulation in thousands of dollars:

| Year | Capital expenditures |
|---|---|
| 1977 | 853 |
| 1978 | 2,129 |
| 1979 | 1,305 |

## Consideration of the Causal Relationship Between Subsidized Imports and the Alleged Injury or Threat Thereof

### Market share and penetration

Imports in 1978 of sheeting, duck, and printcloth fabrics wholly of cotton from Pakistan more than doubled from the previous year and increased again in 1979 by 15 percent. Imports of these fabrics from Pakistan as a share of apparent U.S. consumption of the same types of fabric increased steadily from 3.9 percent in 1977 to 9.7 percent in 1979, while the ratio of such imported fabrics from all countries increased in 1978 from the previous year and then declined in 1979 (table 20). As a share of U.S. consumption of fabrics chiefly of cotton (whether or not wholly of cotton), imports from Pakistan increased from 2.1 percent in 1977 to 5.5 percent in 1979 (table 21).

Tables 20 and 21 indicate that the ratio of total imports of all three fabric types to apparent consumption during 1977-79 increased in 1978 and then declined in 1979, whether they are such fabrics wholly of cotton or such fabrics chiefly of cotton. This occurred for the individual sheeting and printcloth fabrics as well as the combined total of the three types. The ratio of imports from Pakistan to apparent consumption increased each year during 1977-79 for each of the types of fabrics.

Table 20.--Cotton sheeting, duck, and printcloth fabrics wholly of cotton: Ratios of imports, total and from Pakistan, to apparent consumption of such fabrics, 1977-79

(In percent)

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Total: | | | |
| Total imports | 31.7 | 42.1 | 35.9 |
| Imports from Pakistan | 3.9 | 7.5 | 9.7 |
| Sheeting: | | | |
| Total imports | 38.8 | 46.0 | 39.3 |
| Imports from Pakistan | 6.4 | 8.2 | 11.2 |
| Duck: | | | |
| Total imports | 33.2 | 31.8 | 30.9 |
| Imports from Pakistan | 2.1 | 3.0 | 3.8 |
| Printcloth: | | | |
| Total imports | 18.4 | 41.6 | 33.0 |
| Imports from Pakistan | .7 | 8.9 | 10.6 |

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

Table 21.--Cotton sheeting, duck, and printcloth fabrics chiefly of cotton (whether or not wholly of cotton): Ratios of imports, total and from Pakistan, to apparent consumption of such fabrics, 1977-79

(In percent)

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Total: | | | |
| Total imports | 19.5 | 28.3 | 22.6 |
| Imports from Pakistan | 2.1 | 4.3 | 5.5 |
| Sheeting: | | | |
| Total imports | 27.0 | 33.9 | 26.7 |
| Imports from Pakistan | 3.8 | 5.0 | 6.8 |
| Duck: | | | |
| Total imports | 36.5 | 34.3 | 34.1 |
| Imports from Pakistan | 2.0 | 2.9 | 3.6 |
| Printcloth: | | | |
| Total imports | 7.0 | 20.5 | 14.3 |
| Imports from Pakistan | .2 | 4.1 | 4.5 |

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

Comparison of prices of domestic and foreign products

The following analysis of prices of domestic and imported cotton sheeting, duck, and printcloth is based on data obtained from responses to the Commission's questionnaires and from official statistics of the U.S. Department of Commerce. Domestic producers were asked to report their lowest net selling prices in each quarter of 1977-79 for their top three lines produced in 1979. Importers reported lowest net selling prices in the same periods for these cotton fabrics from Pakistan sold in the largest volume and and second largest volume in 1979. Net selling price in both cases consists of the sales price, f.o.b. point of shipment, after discounts, returns, and allowances exclusive of U.S. freight charges and excise taxes.

Responses to the Commission's questionnaire relating to importers' prices of sheeting, duck, and printcloth were not adequate for comparisons with the data for domestic producers. Therefore, an estimated average import price was constructed by adding average duty and other wholesale cost margins to the unit value of these U.S. imports from Pakistan for each quarter during 1977-79.

Cotton sheeting.--Only one U.S. producer reported prices for sales of cotton sheeting during January 1977-September 1978, and the weighted average U.S. producers' price shifted sharply with the addition of price data of other U.S. producers in October-December 1978. As a result, there is no discernible trend in the average U.S. producers' prices displayed in table 22 over the period 1977-79. The reported prices * * * during January 1977-September 1978, and the average of reported U.S. producers' prices in four of the remaining five quarters of the period showed * * *.

Estimated average importers' selling prices were lower than reported domestic prices in all quarters during 1977-79. Import prices rose and fell throughout the period, ranging from * * * per pound to * * * per pound. The margin by which reported average domestic prices exceeded estimated average import prices varied markedly owing to the shift in reported domestic prices reported above. The absolute margin ranged from * * * per pound to * * * per pound. As a percentage of U.S. producers' prices, the margin ranged from nearly 14 percent to more than 40 percent.

Cotton duck.--The average price received by U.S. producers for cotton duck declined from * * * per pound to * * * per pound in the first half of 1977 and then rose to * * * in the last half of the year (table 23). Prices continued to decline in 1978, and then rose in 1979 to an average of * * * per pound in October-December. Estimated importers' selling prices fluctuated over the 3-year period, ranging from * * * per pound in July-September 1977 to * * * per pound in January-March 1979.

Table 22.--Cotton sheeting: Weighted averages of U.S. producers' lowest net selling prices, unit values of U.S. imports from Pakistan, estimated importers' selling prices, and estimated margins of underselling, by quarters, 1977-79

| Period | Weighted average of producers' lowest net selling price | Unit value of U.S. imports from Pakistan | Estimated importers' selling price 1/ | Estimated margin of underselling: Value | Estimated margin of underselling: Percent by imported product |
|---|---|---|---|---|---|
| | Per pound | | | | |
| 1977: | | | | | |
| January-March | 2/ *** | *** | *** | *** | 40.5 |
| April-June | 2/ *** | *** | *** | *** | 36.7 |
| July-September | 2/ *** | *** | *** | *** | 31.4 |
| October-December | 2/ *** | *** | *** | *** | 33.8 |
| 1978: | | | | | |
| January-March | 2/ *** | *** | *** | *** | 40.4 |
| April-June | 2/ *** | *** | *** | *** | 38.0 |
| July-September | 2/ *** | *** | *** | *** | 39.9 |
| October-December | 2/ *** | *** | *** | *** | 13.8 |
| 1979: | | | | | |
| January-March | *** | *** | *** | *** | 16.8 |
| April-June | *** | *** | *** | *** | 15.0 |
| July-September | *** | *** | *** | *** | 17.4 |
| October-December | *** | *** | *** | *** | 23.2 |

1/ Unit (Customs) value plus 10 percent average duty plus 15 percent for other costs and profit. * * *

2/ * * *.

The average of reported U.S. producers' prices for cotton duck exceeded estimated importers' selling prices in every quarter during 1977-79. The value of this margin was substantial, ranging from * * * to * * * per pound, or from 29 percent to 48 percent of average reported domestic prices.

Table 23.--Cotton duck: Weighted averages of U.S. producers' lowest net selling prices, unit values of U.S. imports from Pakistan, estimated importers' selling prices, and estimated margins of underselling, by quarters, 1977-79

| Period | Weighted average of producers' lowest net selling price | Unit value of U.S. imports from Pakistan | Estimated importers' selling price 1/ | Estimated margin of underselling: Value | Estimated margin of underselling: Percent by imported product |
|---|---|---|---|---|---|
| | Per pound | | | | |
| 1977: | | | | | |
| January-March----- | *** | *** | *** | *** | 43.5 |
| April-June-------- | *** | *** | *** | *** | 43.3 |
| July-September---- | *** | *** | *** | *** | 44.3 |
| October-December-- | *** | *** | *** | *** | 41.4 |
| 1978: | | | | | |
| January-March----- | *** | *** | *** | *** | 48.0 |
| April-June-------- | *** | *** | *** | *** | 44.2 |
| July-September---- | *** | *** | *** | *** | 39.7 |
| October-December-- | *** | *** | *** | *** | 37.3 |
| 1979: | | | | | |
| January-March----- | *** | *** | *** | *** | 28.9 |
| April-June-------- | *** | *** | *** | *** | 32.8 |
| July-September---- | *** | *** | *** | *** | 40.9 |
| October-December-- | *** | *** | *** | *** | 37.6 |

1/ Unit (Customs) value plus 8 percent average duty plus 15 percent for other costs and profit.

Cotton printcloth.--Average U.S. producers' prices for cotton printcloth trended upward during 1977-79, ranging from a low of * * * per pound in April-June 1977 to a high of * * * per pound in October-December 1979 (table 24). Estimated importers' selling prices also rose over the period, but very irregularly. The margins between average producers' and importers' prices are comparatively small for cotton printcloth, ranging from * * * per pound to * * * per pound during the 12 quarters. Although producers' prices generally exceeded importers' prices, the estimated importers' selling price was greater than the average producers' price in the first quarter of 1979. For most of the 3-year period, the margin by which imported cotton printcloth undersold the domestic product represented less than 11 percent of the average U.S. producers' selling price.

Table 24.--Cotton printcloth: Weighted averages of U.S. producers' lowest net selling prices, unit values of U.S. imports from Pakistan, estimated importers' selling prices, and estimated margins of underselling, by quarters, 1977-79

| Period | Weighted average of producers' lowest net selling price | Unit value of U.S. imports from Pakistan | Estimated importers' selling price 1/ | Estimated margin of underselling: Value | Estimated margin of underselling: Percent by imported product |
|---|---|---|---|---|---|
| | Per pound | | | | |
| 1977: | | | | | |
| January-March | *** | *** | *** | *** | 9.7 |
| April-June | 2/ *** | *** | *** | *** | 6.3 |
| July-September | 2/ *** | *** | *** | *** | 1.7 |
| October-December | 2/ *** | *** | *** | *** | 14.2 |
| 1978: | | | | | |
| January-March | 2/ *** | *** | *** | *** | 11.0 |
| April-June | 2/ *** | *** | *** | *** | 18.5 |
| July-September | *** | *** | *** | *** | 10.9 |
| October-December | *** | *** | *** | *** | 10.3 |
| 1979: | | | | | |
| January-March | *** | *** | *** | 3/ *** | 3/ (7.7) |
| April-June | *** | *** | *** | *** | 2.5 |
| July-September | 2/ *** | *** | *** | *** | 11.2 |
| October-December | 2/ *** | *** | *** | *** | 13.9 |

1/ Unit (Customs) value plus 8 percent average duty plus 15 percent for other costs and profit.
2/ * * *.
3/ Estimated importers' margin of overselling; valued as a percentage of average producers' price.

## Loss of sales

Domestic producers were requested to supply evidence of lost sales resulting from imports of cotton sheeting, duck, and printcloth fabrics from Pakistan. Lost sales are considered to have occurred when customers are lost or new customers for such fabrics cannot be obtained because of imports of these fabrics from Pakistan. Also, if customers reduced their purchases of such fabrics because of imports from Pakistan or if the domestic producers reduced their prices to meet import competition, either of these conditions is considered to be a lost sale. The producers reported no sales lost to imports from Pakistan.

## Part II. Cotton Towels

### The Product

#### Description and uses

The term "towels," as used in this investigation, refers to all nonornamented woven or tufted towels that are of cotton. The two types of towels under review are of woven pile or tufted 1/ construction and of woven nonpile construction. Virtually all U.S. production and imports of towels are composed of these two types. The largest share (by quantity) of all imported towels from all countries are of nonpile construction, consisting primarily of shop towels, dish towels, and hand towels.

Towels made of woven pile construction consist primarily of terry towels (turkish towels), which have uncut pile loops on both sides of the towel in either plain or pattern weave. These loops, in effect, enlarge the surface area, thereby improving the absorbency of the towel. The more pile loops there are, the more absorbent the towel is. Similar to terry towels are velour towels, which are also made from terry cloth but with the pile loops sheared on one side of the towel. Terry and velour towels are used primarily as bath towels and hand towels; terry towels are also used as bar mop towels and to a lesser but growing extent as dish towels. Bar mops generally contain double loops, which contribute to their 60 to 70 percent additional absorbency in wiping table tops and bar tops.

Towels made from woven nonpile fabrics consist primarily of huck, crash, and shop towels. Huck towels are basically hand and face towels used largely by the institutional trade, such as hospitals and hotels, and distributed by linen supply houses for use in barber shops, beauty salons, and so forth. In addition, they come in continuous lengths for use in public restrooms. Huck towels which are noted for their firmness, servicing qualities, and absorptive power, have the slightly rough surface of a dobby or honeycomb weave. Crash towels are coarse, plainwoven towels with rough surfaces, and are used primarily as dish towels.

The other significant type of woven towel without a pile is the shop towel, which is basically an industrial wiping cloth made from plainwoven fabrics such as osnaburg. Shop towels are most often used in commercial and industrial establishments for cleaning machine parts and other articles and are subsequently laundered for further use. 2/

Pile and nonpile towels vary considerably in price and quality. Among the quality variables are weight, density of weave (threads per inch), finish, quality of yarn used, consistency of dimension, and overall appearance.

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1/ Production of tufted towels is insignificant.

2/ Even though wiping rags have uses similar to those of shop towels, they are not considered in this investigation because of their one-time usage. With the increased use of manmade fibers in textiles, from which wiping rags are made, rag merchants have had increased difficulty segregating all cotton rags. The lack of absorbency of rags containing manmade fibers has further stimulated the dependence on and use of cotton shop towels in recent years.

## Manufacturing processes

Terry towels are constructed on a loom consisting of a setup of ground warps held in tension arranged alternately with pile warps that form loops as their tension is released at intervals during the weaving process. Proper balance in tensile strength between the filling and ground warp yarns must be met in order to assure durability. Better grade towels are usually constructed from two-ply yarns, whereas poorer grade towels are often constructed from single yarns with less twist. The finished edges of these towels are hemmed, fringed, or selvaged. The selvaged edge is formed by filling yarns bound in the warp yarns.

Plainwoven towels are those constructed on a loom where the filling is passed over one warp yarn and under the next, alternating in this manner once across the cloth. By varying the number of warp and filling yarns and filling yarn direction, different types of plainwoven material may be produced. In order to produce a strong and durable fabric, the warp yarn should be twisted more tightly than the filling yarn. The finished edge is the same as those found in the terry towels.

At the public hearing an allegation was raised that a different type of loom is needed to produce pile and nonpile towels. During telephone follow-ups to Commission questionnaire responses, two domestic producers of cotton towels indicated that one loom could be used to produce both types of towels; however, a special attachment must be installed on the basic loom in order to produce the loops on pile towels.

## U.S. tariff treatment

The cotton towels which are the subject of this investigation are provided for under TSUS items 366.18, 366.21, 366.24, and 366.27. The current column 1 most-favored-nation rates of duty and the column 2 statutory rates of duty for certain Communist-dominated countries applicable to merchandise entered under these TSUS items are shown in the following tabulation:

| TSUS item No. | Brief description | Col. 1 rate | | Current col. 2 rate |
|---|---|---|---|---|
| | | Current | MTN final concession 1/ | |
| | Of pile or tufted construction: | | | |
| 366.18 | Valued not over 45 cents each. | 14% ad val. | 10.5% ad val. | 40% |
| | Valued over 45 cents each: | | | |
| 366.21 | Valued not over $1.45/lb. | 14¢/lb 2/ | 13.5¢/lb 3/ | 40% |
| 366.24 | Valued over $1.45/lb. | 14% ad val. | 10.5% ad val. | 40% |
| 366.27 | Other (nonpile)-------- | 15% ad val. | 10.5% ad val. | 40% |

1/ Effective Jan. 1, 1987.
2/ The ad valorem equivalent of this rate is 9.4% for all countries based on 1979 imports.
3/ The ad valorem equivalent of this rate is 9.0% for all countries based on 1979 imports.

The towels included in this investigation are subject to quantitative export limitations as set forth in the bilateral agreement between the United States and Pakistan under the Multifiber Arrangement. Pile towels, with the exception of pile dish towels, are classified in MFA category 363 (terry and other pile towels). In 1979, the restraint level for category 363 from Pakistan was 17,433,640 towels; Pakistan exported 62.6 percent of this amount to the United States. 1/

Nonpile towels, including pile dish towels, are classified in MFA category 369 (other cotton manufactures), which is a basket category containing a wide variety of cotton furnishings and miscellaneous cotton products. During 1979 the restraint level for category 369 from Pakistan was set at 4,335,950 pounds; Pakistan exported 96.2 percent of this amount to the United States. 2/

## Nature and Extent of Bounties or Grants Being Provided

The administering authority determined that Pakistani manufacturers and exporters of cotton towels received export incentives from the Government of Pakistan which constituted bounties or grants within the meaning of section 703 of the Tariff Act. Subsidies granted to towel producers and exporters were estimated to total 12.5 percent based on the f.o.b. value of the exported product. The 12.5 percent figure is based entirely upon the cash rebates program. No countervailing duty was levied on cotton towels as a result of

1/ Quota limitations are based on Pakistani exports.
2/ Bar mops are not subject to these limitations; however, they come under the aggregate limitation on Pakistani exports.

the income tax relief program and the preferential export financing program, since the sum of those export incentives--0.093 percent--was considered by Treasury to be de minimis. Accordingly, cotton towels are not included in investigation No. 701-TA-63 (Final), but are included in investigation No. 701-TA-62 (Final).

## U.S. Producers

A towel manufacturer rarely produces all the types of towels which are covered by this investigation. The cotton weaving mills industry (SIC 2211) provides for firms primarily engaged in the production of woven fabrics and other textile mill products, including both pile and nonpile towels. These woven products are over 12 inches in width and are wholly or chiefly by weight of cotton.

According to the U.S. Department of Commerce, there are 308 establishments producing cotton woven products, about two-thirds of which are located in the Southeastern United States. 1/ Approximately 10 of these establishments account for the majority of towel production. These establishments produce a large portion of pile or terry towels and a small portion of nonpile towels, as well as a wide variety of other textile fabrics and cotton manufactures. The smaller companies are generally the producers of nonpile towels. Also, firms that weave toweling fabric generally manufacture (cut and hem) the finished towels.

There are a number of additional establishments making towels from purchased domestic and imported toweling fabric. These establishments account for a small share of the total number of cotton towels produced. Towels produced by these manufacturers are predominantly those of nonpile construction (i.e., shop towels and dish towels).

## The U.S. Market and Channels of Distribution

The producers of cotton towels are only a part of the complex cotton textile industry in the United States. During 1977-79, U.S. towel producers experienced an increase in demand, both in the United States and abroad. As a result, manufacturers of these items expanded their marketing operations and distribution channels through sales representatives, contracting officers, and mill outlet stores.

Sales representatives and contracting officers serve similar purposes for both small and large producers of cotton towels. Sales representatives primarily cater to low-volume retailers and wholesalers that do not have ready access to buying markets, whereas contracting officers primarily cater to large chainstores and wholesalers that sell in large volume.

Mill outlet stores enable the towel manufacturer to sell direct to the consumer without the aid of a middleman and to sell those items that are

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1/ The southeastern States in which towel production is concentrated are North Carolina, Georgia, South Carolina, and Alabama.

seconds or do not meet the standards of a quality product. The selling price is considerably lower at the mill outlet store than in retail establishments.

The import channels of distribution are similar to those of the U.S. producers, with the exception of the mill outlet store. In some instances, importers actually import towels for their own use as promotional and stock items.

## Consideration of Material Injury to an Industry in the United States

### U.S. production

U.S. production of pile and nonpile towels is shown in the following tabulation (in thousands of units):

| Year | Pile | Nonpile | Total |
|---|---|---|---|
| 1977 | 555,696 | 837,564 | 1,393,260 |
| 1978 | 591,072 | 812,964 | 1,404,036 |
| 1979 | 620,784 | 589,692 | 1,210,476 |

Approximately 10 years ago, consumer demand for pile towels increased considerably. The pile towel is popular not only because of its durability and absorbency characteristics, but also because it is regarded as a fashion item in the home. Foreign manufacturers of pile towels that export to the U.S. experience difficulty in penetrating the U.S. market in this item because of rapid changes in consumer buying trends and preferences; therefore, U.S. producers have been able to retain a relatively large share of the U.S. market and to increase their production.

Unlike the pile towel industry in the United States, the nonpile towel industry has experienced a steady decline in production (table 25). Factors contributing to this decline in production are (1) substitution of paper towels and blow dryers for cotton nonpile towels in public restrooms and (2) imports of nonpile towels at prices that are considerably lower than similar domestically produced towels.

Table 25.--Cotton pile and nonpile towels: U.S. production, imports, total and from Pakistan, exports, and apparent consumption, 1977-79

| Type and year | Production | Imports: Total | Imports: From Pakistan | Exports | Apparent Consumption | Ratio of imports to consumption: Total | Ratio of imports to consumption: From Pakistan |
|---|---|---|---|---|---|---|---|
| | 1,000 units | | | | | Percent | Percent |
| Pile: | | | | | | | |
| 1977---- | 555,696 | 60,916 | 16,208 | 1/ 11,593 | 2/ 605,019 | 10.0 | 2.7 |
| 1978---- | 591,072 | 63,365 | 18,356 | 1/ 13,376 | 2/ 641,061 | 9.8 | 2.9 |
| 1979---- | 620,784 | 78,405 | 30,292 | 1/ 15,440 | 2/ 683,749 | 11.5 | 4.4 |
| Nonpile: | | | | | | | |
| 1977---- | 837,564 | 94,180 | 12,010 | 3/ | 4/ 931,744 | 10.1 | 1.3 |
| 1978---- | 812,964 | 124,526 | 11,684 | 3/ | 4/ 937,490 | 13.3 | 1.2 |
| 1979---- | 589,692 | 124,109 | 20,223 | 3/ | 4/ 713,801 | 17.4 | 2.8 |
| Total: | | | | | | | |
| 1977---- | 1,393,260 | 155,096 | 28,206 | 17,197 | 1,531,159 | 10.1 | 1.8 |
| 1978---- | 1,404,036 | 187,891 | 30,040 | 12,191 | 1,579,736 | 11.9 | 1.9 |
| 1979---- | 1,210,476 | 202,514 | 50,516 | 18,310 | 1,394,680 | 14.5 | 3.6 |

1/ Based on producers' questionnaire responses representing 37.2 percent of total U.S. production.
2/ Export allowance was made from producers' questionnaire responses.
3/ Export data were not separately classified or reported on producers' questionnaire responses for nonpile towels.
4/ No allowance was made for exports.

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

Capacity and capacity utilization

Information submitted by six domestic cotton towel producers (both pile and nonpile) accounting for approximately 33 percent of U.S. production in 1979 indicates that their rate of capacity utilization increased between 1977 and 1979, as shown in the following tabulation:

| Year | Production | Capacity 1/ | Capacity utilization |
|---|---|---|---|
| | 1,000 units | 1,000 units | Percent |
| 1977-------- | 440,650 | 379,003 | 116.3 |
| 1978-------- | 485,929 | 409,765 | 118.6 |
| 1979-------- | 507,378 | 420,279 | 120.7 |

1/ Defined as the maximum sustainable production at 1 8-hour shift a day, 5 days a week, 50 weeks a year.

The increase in capacity utilization from 116.3 percent in 1977 to 120.7 percent in 1979 reflects an increase in the operation of the facilities in 1978 and 1979.

Information was submitted by five domestic producers of pile towels representing approximately 75 percent of U.S. production of pile towels in 1979. Capacity utilization for these manufacturers of pile towels is shown in the following tabulation:

| Year | Production | Capacity 1/ | Capacity utilization |
|---|---|---|---|
| | 1,000 units | 1,000 units | Percent |
| 1977 | *** | *** | *** |
| 1978 | *** | *** | *** |
| 1979 | *** | *** | *** |

1/ Defined as the maximum sustainable production at 1 8-hour shift a day, 5 days a week, 50 weeks a year.

Once again, the * * * in capacity utilization from *** percent in 1977 to *** percent in 1979 reflects * * * in the operation of the facilities by *** percentage points during 1977-79.

Information was submitted by * * * * * * * * of nonpile towels representing *** percent of U.S. production of nonpile towels in 1979. Capacity utilization for * * * * * * * is shown in the following tabulation:

| Year | Production | Capacity 1/ | Capacity utilization |
|---|---|---|---|
| | 1,000 units | 1,000 units | Percent |
| 1977 | *** | *** | *** |
| 1978 | *** | *** | *** |
| 1979 | *** | *** | *** |

1/ Defined as the maximum sustainable production at 1 8-hour shift a day, 5 days a week, 50 weeks a year.

* * * * * * *

U.S. producers' shipments and exports

U.S. producers' domestic shipments of both pile and nonpile towels were reported by seven primarily pile towel domestic producers representing approximately 40 percent of total U.S. domestic shipments of towels in 1979, as shown in the following tabulation:

| Year | Quantity | | Value | | Unit value | |
|---|---|---|---|---|---|---|
| | Total 1/ | Questionnaire responses | Total 1/ | Questionnaire responses | Total 1/ | Questionnaire responses |
| | 1,000 dozen | | 1,000 dollars | | Per dozen | |
| 1977---------- | 117,518 | 35,691 | 605,406 | 600,524 | $5.15 | $16.83 |
| 1978---------- | 114,064 | 32,539 | 688,147 | 574,266 | 6.03 | 17.65 |
| 1979---------- | 100,858 | 40,606 | 788,888 | 645,017 | 7.82 | 15.88 |

1/ Compiled from statistics of the U.S. Department of Commerce.

U.S. producers' domestic shipments of pile and nonpile towels as reported in the Commission's questionnaires increased 13.8 percent in quantity and 7.4 percent in value from 1977 to 1979, although the unit value decreased by 5.6 percent during the same period.

U.S. producers' domestic shipments of cotton pile towels as compiled from questionnaire responses from six producers' representing approximately *** percent of total U.S. producers domestic shipments of towels in 1979 are shown in the following tabulation:

| Year | Quantity | Value | Unit value |
|---|---|---|---|
| | 1,000 dozen | 1,000 dollars | Per dozen |
| 1977-------------- | *** | *** | *** |
| 1978-------------- | *** | *** | *** |
| 1979-------------- | *** | *** | *** |

Producers' domestic shipments of pile towels increased approximately *** percent in quantity and *** percent in value during 1977-79, predominantly because of the 13.0-percent increase in consumption during the same period (table 25). The increase in consumption is related to the upward trend set for pile towels as a fashion item.

U.S. producers' domestic shipments of cotton nonpile towels compiled from questionnaire responses from * * * representing approximately * * * percent of total U.S. producers' domestic shipments in 1979 are shown in the following tabulation:

| Year | Quantity | Value | Unit value |
|---|---|---|---|
| | 1,000 dozen | 1,000 dollars | Per dozen |
| 1977 | *** | *** | *** |
| 1978 | *** | *** | *** |
| 1979 | *** | *** | *** |

* * * * * * *

U.S. exports of cotton towels amounted to 18.3 million towels, valued at $43.7 million, in 1979. This represented a 6-percent increase in quantity and an 88.4-percent increase in the value of exports since 1977, when they amounted to 17.2 million towels, valued at $23.2 million (table 26). Japan was the primary recipient of such towels during this period. Other leading markets were Canada, the United Kingdom, and West Germany.

Although towels vary in dimension and value, the actual number exported relative to value is an indication of the types of towels being exported. The more expensive towels are normally those of pile construction, and the less expensive are those of nonpile construction. Measuring the towels on a unit-value basis, the total exports averaged $2.38 per towel in 1979 (table 26). Switzerland was the destination for the most expensive towels, which averaged $4.15 per towel, and Kuwait received the least expensive towels, which averaged $1.64 per towel. U.S.-made towels are generally superior to those produced by many other countries; therefore, the values of U.S.-made towels are generally higher.

Towel exports represent a minimal amount of total U.S. producers' shipments of towels. They accounted for 1.2 percent of total producers' shipments in 1977 and 1.5 percent in 1979, indicating that exports are gradually increasing.

Inventories

The Commission received data on yearend inventories from producers of pile and nonpile towels accounting for approximately 40 percent of total U.S. producers' domestic shipments in 1979. Yearend inventories of pile and nonpile

Table 26.--Cotton pile and nonpile towels: U.S. exports, by principal markets, 1977-79

| Market | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 units) | | |
| Japan | 2,562 | 1,510 | 3,217 |
| Canada | 4,530 | 2,539 | 2,012 |
| United Kingdom | 764 | 1,259 | 2,396 |
| West Germany | 771 | 801 | 1,051 |
| Switzerland | 125 | 245 | 515 |
| Australia | 815 | 477 | 592 |
| France | 248 | 105 | 694 |
| Saudi Arabia | 420 | 434 | 690 |
| Kuwait | 319 | 442 | 694 |
| Italy | 457 | 175 | 539 |
| Sweden | 1,384 | 237 | 558 |
| Netherlands Antilles | 495 | 327 | 402 |
| All other | 4,307 | 3,640 | 4,950 |
| Total | 17,197 | 12,191 | 18,310 |
| | Value (1,000 dollars) | | |
| Japan | 3,957 | 3,100 | 6,983 |
| Canada | 5,256 | 6,662 | 6,338 |
| United Kingdom | 1,665 | 3,861 | 6,142 |
| West Germany | 1,109 | 1,784 | 2,606 |
| Switzerland | 232 | 819 | 2,138 |
| Australia | 4,191 | 1,323 | 1,603 |
| France | 444 | 264 | 1,473 |
| Saudi Arabia | 275 | 1,536 | 1,273 |
| Kuwait | 529 | 804 | 1,138 |
| Italy | 524 | 403 | 1,097 |
| Sweden | 587 | 678 | 1,080 |
| Netherlands Antilles | 831 | 935 | 1,005 |
| All other | 3,577 | 8,239 | 10,783 |
| Total | 23,177 | 30,408 | 43,659 |
| | Unit value (dollars per unit) | | |
| Japan | $1.54 | $2.05 | $2.17 |
| Canada | 1.16 | 2.62 | 3.15 |
| United Kingdom | 2.18 | 3.07 | 2.56 |
| West Germany | 1.44 | 2.23 | 2.48 |
| Switzerland | 1.86 | 3.35 | 4.15 |
| Australia | 5.14 | 2.78 | 2.71 |
| France | 1.79 | 2.52 | 2.12 |
| Saudi Arabia | 0.66 | 3.54 | 1.85 |
| Kuwait | 1.66 | 1.82 | 1.64 |
| Italy | 1.15 | 2.31 | 2.03 |
| Sweden | 0.42 | 2.86 | 1.94 |
| Netherlands Antilles | 1.68 | 2.86 | 2.50 |
| All other | .83 | 2.26 | 2.18 |
| Average | 1.35 | 2.49 | 2.38 |

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

towels compiled from seven producers' questionnaire responses increased 13.4 percent in quantity from 1977 to 1979 while the ratio of inventories to producers' domestic shipments remained relatively unchanged, as shown in the following tabulation:

| Year | Shipments | Yearend inventories | Ratio of inventories to shipments |
|---|---|---|---|
| | 1,000 dozen | 1,000 dozen | Percent |
| 1977----------- | 35,691 | 4,094 | 11.5 |
| 1978----------- | 32,539 | 4,046 | 12.4 |
| 1979----------- | 40,606 | 4,642 | 11.4 |

The increase in the ratio of inventories to producers' domestic shipments in 1978 is associated with the decrease in producers' domestic shipments from 1977 to 1978 and the relatively stable level of inventories during the same period.

Information on inventories was received from producers representing approximately *** percent of total U.S. producers' shipments of pile towels in 1979. The yearend inventories of cotton pile towels * * * by * * * percent during 1977-79 as shown in the following tabulation:

| Year | Shipments | Yearend inventories | Ratio of inventories to shipments |
|---|---|---|---|
| | 1,000 dozen | 1,000 dozen | Percent |
| 1977----------- | *** | *** | *** |
| 1978----------- | *** | *** | *** |
| 1979----------- | *** | *** | *** |

* * *

Yearend inventories of nonpile cotton towels for 1977-79, compiled from questionnaire responses from two producers representing approximately *** percent of U.S. producers' domestic shipments in 1979, are shown in the following tabulation:

| Year | Shipments | Yearend inventories | Ratio of inventories to shipments |
|---|---|---|---|
| | 1,000 dozen | 1,000 dozen | Percent |
| 1977---------- | *** | *** | *** |
| 1978---------- | *** | *** | *** |
| 1979---------- | *** | *** | *** |

*       *       *       *       *       *       *

U.S. imports

Significance of the volume of imports or any increase in that volume.--Imports of nonornamented (both pile and nonpile) towels totaled 202 million towels, valued at $60 million, in 1979, representing increases of 31 percent in quantity and value over imports in 1977. Such imports increased consistently during the period (table 27).

Table 27.--Cotton pile and nonpile towels: U.S. imports for consumption, by types, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 units) | | |
| Pile | 60,916 | 63,365 | 78,405 |
| Nonpile | 94,180 | 124,526 | 124,109 |
| Total | 155,096 | 187,891 | 202,514 |
| | Value (1,000 dollars) | | |
| Pile | 35,351 | 40,633 | 45,930 |
| Nonpile | 10,284 | 12,678 | 14,054 |
| Total | 45,635 | 53,311 | 59,984 |
| | Unit value (cents per unit) | | |
| Pile | 1/ 58 | 1/ 64 | 1/ 59 |
| Nonpile | 11 | 10 | 11 |
| Average | 30 | 28 | 30 |

1/ Based on rounded figures.

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

Imports of Pakistani towels, both pile and nonpile, are used primarily by institutions such as hospitals, motels, rental services, and beauty shops. These institutional towels are not produced by domestic manufacturers for the most part and are generally of lower quality. 1/ Nonornamented cotton towels of pile or tufted construction represented the smallest share of total imports, amounting to 78 million towels or 39 percent of total towel imports in 1979. The value of such imports was $46 million or 77 percent of the total value. These imports increased steadily during the period, with the quantity increasing 29 percent and the value increasing 30 percent.

1/ Transcript of the hearing, pp. 248, 266, and 269.

Pakistan was the largest supplier of imported pile cotton towels to the United States in 1979--30 million towels, valued at $9 million--accounting for 39 percent of the total quantity and 20 percent of the total import value of pile towels. Other leading suppliers of such towels were India, Brazil, Hong Kong, and El Salvador. India supplied the largest average annual quantity and value of pile towels during 1977-79 (table 28).

Since the effective date, January 1, 1978, of the current MFA bilateral agreement between the United States and Pakistan, imports of bar mops from Pakistan have increased dramatically. About 40 percent of the quantity but only 14 percent of the value of total pile towel imports during 1979 were accounted for by bar mops (TSUSA item 366.1855). Pakistan was by far the leading supplier of bar mops, with 65 percent of the total quantity and value of such imports.

One of the leading importers of Pakistani cotton towels indicated in its prehearing statement that its customers preferred Pakistani cotton towels because they were of 100 percent cotton, and the customers did not believe that U.S. producers could supply this product. 1/ Responses to Commission questionnaires indicated that 11.3 percent of U.S. towel production was of 100 percent cotton in 1979.

Almost one-third of the quantity and two-thirds of the value of total pile towel imports during 1979 were accounted for by more expensive bath and hand towels (TSUSA item 366.2460). 2/ Imports of such towels from Pakistan increased sharply during 1979, making Pakistan the second leading supplier after India. The value of such imports from both India and Pakistan was still far below the value of imports from such sources as Brazil and Hong Kong. About 15 percent of the quantity and 11 percent of the value of total pile towel imports during 1979 were accounted for by inexpensive bath and hand towels (TSUSA item 366.1865). 3/ India, Pakistan, and Hong Kong were the leading suppliers of such towels.

Imports of nonpile towels increased from 94 million towels, valued at $10.3 million, in 1977 to 124 million towels, valued at $14.1 million, in 1979 (table 29). Imports under most TSUSA items for nonpile towels continued to increase steadily during 1977-79, resulting in overall increases of 25 percent in quantity and 27 percent in value.

About 18 percent of the quantity and 29 percent of the value of nonpile towel imports during 1979 were dish towels (TSUSA item 366.2760), of which Pakistan was by far the leading supplier with about 60 percent of the total. About 70 percent of the quantity and 55 percent of the value of nonpile towel imports during 1979 were shop towels (TSUSA item 366.2740). Hong Kong, Singapore, and China were the leading suppliers with about 75 percent of the total; Pakistan was fourth in importance with about 4 percent of the total.

Most of the remaining imports of nonpile towels were huck and crash towels (TSUSA item 366.2780). Hong Kong and Pakistan supplied almost 70 percent of the total of such towel imports in 1979.

1/ Prehearing statement of Textiles by Petersen, p. 1.
2/ Valued over $1.45 per pound.
3/ Valued not over 45 cents each.

Table 28.--Cotton pile or tufted towels: U.S. imports for consumption, by principal sources, 1977-79

| Source | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 units) | | |
| Pakistan | 16,208 | 18,356 | 30,292 |
| India | 21,677 | 18,987 | 24,902 |
| Brazil | 3,427 | 3,940 | 3,196 |
| Hong Kong | 8,757 | 9,326 | 7,235 |
| El Salvador | 433 | 2,122 | 2,923 |
| Taiwan | 1,444 | 2,065 | 3,080 |
| Poland | 607 | 1,218 | 1,260 |
| Korea | 3,322 | 3,968 | 1,356 |
| China | 2,503 | 230 | 131 |
| Canada | 6 | 28 | 21 |
| Japan | 287 | 76 | 17 |
| All other | 2,245 | 3,049 | 3,992 |
| Total | 60,916 | 63,365 | 78,405 |
| | Value (1,000 dollars) | | |
| Pakistan | 3,970 | 4,891 | 8,974 |
| India | 7,283 | 5,509 | 8,691 |
| Brazil | 7,612 | 9,407 | 7,948 |
| Hong Kong | 6,823 | 7,781 | 5,919 |
| El Salvador | 1,555 | 2,855 | 4,818 |
| Taiwan | 1,323 | 1,847 | 3,143 |
| Poland | 1,161 | 2,332 | 2,473 |
| Korea | 2,335 | 3,109 | 1,162 |
| China | 1,367 | 180 | 103 |
| Canada | 3 | 70 | 15 |
| Japan | 170 | 69 | 12 |
| All other | 1,749 | 2,583 | 2,672 |
| Total | 35,351 | 40,633 | 45,930 |
| | Unit value (cents per unit) | | |
| Pakistan | 24 | 27 | 30 |
| India | 33 | 29 | 35 |
| Brazil | 222 | 239 | 249 |
| Hong Kong | 78 | 83 | 82 |
| El Salvador | 359 | 135 | 165 |
| Taiwan | 91 | 89 | 102 |
| Poland | 191 | 191 | 196 |
| Korea | 70 | 71 | 86 |
| China | 54 | 58 | 78 |
| Canada | 50 | 250 | 71 |
| Japan | 59 | 91 | 71 |
| All other | 77 | 85 | 67 |
| Average | 58 | 64 | 59 |

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

Table 29.--Cotton nonpile towels: U.S. imports for consumption, by principal sources, 1977-79

| Source | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 units) | | |
| Hong Kong | 54,949 | 72,756 | 60,678 |
| Pakistan | 12,010 | 11,684 | 20,223 |
| Singapore | 19,661 | 20,879 | 17,403 |
| China | 98 | 8,907 | 16,230 |
| India | 3,845 | 5,822 | 5,902 |
| Brazil | 529 | 1,063 | 815 |
| Belgium | 237 | 335 | 474 |
| Taiwan | 445 | 464 | 273 |
| Korea | 835 | 447 | 212 |
| Mexico | 633 | 1,494 | 580 |
| Japan | 714 | 304 | 84 |
| All other | 225 | 369 | 1,235 |
| Total | 94,180 | 124,524 | 124,109 |
| | Value (1,000 dollars) | | |
| Hong Kong | 5,141 | 6,309 | 5,850 |
| Pakistan | 1,538 | 1,622 | 3,137 |
| Singapore | 1,614 | 1,783 | 1,643 |
| China | 30 | 483 | 1,173 |
| India | 806 | 1,050 | 1,037 |
| Brazil | 178 | 444 | 370 |
| Belgium | 214 | 238 | 319 |
| Taiwan | 53 | 72 | 83 |
| Korea | 263 | 136 | 58 |
| Mexico | 77 | 127 | 49 |
| Japan | 151 | 133 | 48 |
| All other | 219 | 281 | 287 |
| Total | 10,284 | 12,678 | 14,054 |
| | Unit value (cents per unit) | | |
| Hong Kong | 9 | 9 | 10 |
| Pakistan | 13 | 14 | 16 |
| Singapore | 8 | 9 | 9 |
| China | 31 | 5 | 7 |
| India | 21 | 18 | 18 |
| Brazil | 34 | 42 | 45 |
| Belgium | 90 | 71 | 67 |
| Taiwan | 12 | 16 | 30 |
| Korea | 32 | 30 | 27 |
| Mexico | 12 | 9 | 8 |
| Japan | 21 | 44 | 58 |
| All other | 97 | 76 | 23 |
| Average | 11 | 10 | 11 |

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

<u>Rate of increase in subsidized exports to the United States and availability of other export markets</u>.--All Pakistani exports of cotton pile and nonpile towels to the United States are subsidized by that Government. In 1977, Pakistan accounted for 18 percent of the quantity of total cotton towel imports and 12 percent of the value; by 1979, those shares had risen to 25 and 20 percent, respectively (table 30).

Table 30.--Cotton pile and nonpile towels: U.S. imports for consumption from Pakistan and all other countries, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | | Quantity | |
| Pakistan--------1,000 units--: | 28,206 | 30,040 | 50,516 |
| All other--------------do----: | 126,890 | 159,483 | 151,998 |
| Total--------------do----: | 155,096 | 189,891 | 202,514 |
| Ratio of imports from Pakistan to total percent--: | 18 | 16 | 25 |
| | | Value | |
| Pakistan------1,000 dollars--: | 5,508 | 6,512 | 12,111 |
| All other--------------do----: | 39,014 | 46,830 | 47,874 |
| Total--------------do----: | 44,522 | 53,342 | 59,985 |
| Ratio of imports from Pakistan to total percent--: | 12 | 12 | 20 |
| | | Unit value | |
| Pakistan-----cents per unit--: | 20 | 22 | 24 |
| All other--------------do----: | 31 | 29 | 31 |
| Average------------do----: | 29 | 28 | 30 |

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

U.S. imports of pile towels from Pakistan accounted for 27 percent of the quantity and 11 percent of the value of total imports of cotton pile towels in 1977; in 1979, these figures amounted to 39 percent and 20 percent, respectively (table 31).

In 1977, Pakistan supplied 13 percent of the quantity and 15 percent of the value of total U.S. imports of cotton nonpile towels. In 1979, such imports from Pakistan accounted for 16 percent of the quantity and 22 percent of the value (table 32).

Table 31.--Cotton pile or tufted towels: U.S. imports for consumption from Pakistan and all other countries, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity | | |
| Pakistan--------1,000 units--: | 16,208 | 18,356 | 30,292 |
| All other---------------do----: | 44,708 | 45,009 | 48,113 |
| Total---------------do----: | 60,916 | 63,365 | 78,405 |
| Ratio of imports from Pakistan to total percent--: | 27 | 29 | 39 |
| | Value | | |
| Pakistan------1,000 dollars--: | 3,970 | 4,891 | 8,974 |
| All other---------------do----: | 31,381 | 35,742 | 36,956 |
| Total---------------do----: | 35,351 | 40,633 | 45,930 |
| Ratio of imports from Pakistan to total percent--: | 11 | 12 | 20 |
| | Unit value | | |
| Pakistan-----cents per unit--: | 24 | 27 | 30 |
| All other---------------do----: | 70 | 79 | 77 |
| Average-------------do----: | 58 | 64 | 59 |

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

Table 32.--Cotton nonpile towels: U.S. imports for consumption from Pakistan and all other countries, 1977-79

| Type | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity | | |
| Pakistan--------1,000 units--: | 12,010 | 11,684 | 20,223 |
| All other--------------do----: | 82,170 | 112,842 | 103,886 |
| Total--------------do----: | 94,180 | 124,526 | 124,109 |
| Ratio of imports from Pakistan to total percent--: | 13 | 9 | 16 |
| | Value | | |
| Pakistan------1,000 dollars--: | 1,538 | 1,662 | 3,137 |
| All other--------------do----: | 8,746 | 11,056 | 10,917 |
| Total--------------do----: | 10,284 | 12,678 | 14,054 |
| Ratio of imports from Pakistan to total percent--: | 15 | 13 | 22 |
| | Unit value | | |
| Pakistan-----cents per unit--: | 13 | 14 | 16 |
| All other--------------do----: | 11 | 10 | 11 |
| Average------------do----: | 11 | 10 | 11 |

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

## U.S. importers

There are approximately 600 importers of cotton towels in the United States, most of which are located in New York, Los Angeles, Chicago, and Dallas. Of that total, four importers account for 25 percent of all imports into the United States. Importing firms are frequently large-volume dealers, although there are those that deal in small volume and sell directly to wholesale and retail establishments.

During telephone followups to the Commission questionnaires, 1/ importers indicated that the primary recipients of pile and nonpile towels were linen rental services, institutions (i.e., hotels, motels, and schools), and beauty shops. These institutions preferred a lower priced towel because of the high incidence of theft in their establishments.

1/ Telephone conversations with U.S. importers of cotton towels on June 5-17, 1980.

Employment

Productivity.--The Commission received four questionnaire responses from producers accounting for approximately *** percent of total U.S. production of both pile and nonpile cotton towels in 1979. Workers involved in the production of pile and nonpile towels accounted for *** percent of the production workers employed in the reporting establishments in 1979. The number of workers engaged in towel production *** percent during the 1977-79 period, as shown in the following tabulation:

| Average number of employees in reporting establishments: | 1977 | 1978 | 1979 |
|---|---|---|---|
| All persons | *** | *** | *** |
| Production and related workers employed in the production of-- | | | |
| All products | *** | *** | *** |
| Cotton towels | *** | *** | *** |

The number of workers involved in the production of pile towels was reported by *** pile towel producers representing about *** percent of total U.S. pile towel production and *** percent of the production workers employed in the reporting establishments in 1979. Workers involved in the production of nonpile cotton towels were reported by *** nonpile towel producers representing about *** percent of total nonpile towel production and *** percent of total production workers employed in nonpile towel production in 1979. Both pile and nonpile towel production workers increased during 1977-79.

| Average number of employees in reporting establishments: | 1977 | 1978 | 1979 |
|---|---|---|---|
| All persons | *** | *** | *** |
| Production and related workers employed in the production of-- | | | |
| All products | *** | *** | *** |
| Pile cotton towels | *** | *** | *** |
| Nonpile cotton towels | *** | *** | *** |

Data showing the number of production workers and hours worked in the production of all cotton towels compiled from questionnaire responses from four producers representing approximately *** percent of total cotton towel production in 1979 are shown in the following tabulation:

| Year | Production workers | Hours worked | Production | Worker productivity |
|---|---|---|---|---|
| | --Number-- | --1,000 hours-- | --1,000 units-- | --Units per hour-- |
| 1977 | *** | *** | *** | *** |
| 1978 | *** | *** | *** | *** |
| 1979 | *** | *** | *** | *** |

During 1977-79, the production of cotton towels, both pile and nonpile, *** percent. * * * * * * * * in the number of hours worked in 1978, productivity *** percent. In 1979, productivity *** from 1978, owing to *** in the number of production workers and *** in the number of towels produced.

Data on the number of production workers and hours worked in the production of cotton pile and nonpile towels are shown in the following tabulation: 1/

| Year | Production workers | | Hours worked | | Production | | Worker productivity | |
|---|---|---|---|---|---|---|---|---|
| | Pile | Nonpile | Pile | Nonpile | Pile | Nonpile | Pile | Nonpile |
| | --Number-- | | --1,000 hours-- | | --1,000 units-- | | --Units per hour-- | |
| 1977 | *** | *** | *** | *** | *** | *** | *** | *** |
| 1978 | *** | *** | *** | *** | *** | *** | *** | *** |
| 1979 | *** | *** | *** | *** | *** | *** | *** | *** |

* * * * * * *

Wages.--The average hourly wages of workers producing both pile and nonpile towels, compiled from questionnaire responses from four producers representing *** percent of total U.S. cotton towel production in 1979, *** percent during 1977-79. *** in wages occurred annually, as shown in the following tabulation:

| Year | Wages paid | Hours worked | Hourly wages |
|---|---|---|---|
| | --1,000 dollars-- | --1,000 hours-- | |
| 1977 | *** | *** | *** |
| 1978 | *** | *** | *** |
| 1979 | *** | *** | *** |

1/ Figures for pile cotton towels were compiled from questionnaire responses from *** producers representing *** percent of total U.S. pile towel production in 1979; figures for nonpile cotton towels were compiled from questionnaire responses from *** producers representing *** percent of total U.S. nonpile towel production in 1979.

The following tabulation shows the average wages of workers employed in the production of cotton pile and nonpile towels: 1/

| Year | Wages paid | | Hours worked | | Hourly wages | |
|---|---|---|---|---|---|---|
| | Pile | Nonpile | Pile | Nonpile | Pile | Nonpile |
| | --1,000 dollars-- | | --1,000 hours-- | | | |
| 1977 | *** | *** | *** | *** | *** | *** |
| 1978 | *** | *** | *** | *** | *** | *** |
| 1979 | *** | *** | *** | *** | *** | *** |

* * * * * * *

Financial experience of U.S. producers

Profit-and-loss experience.--The Commission mailed a total of 28 questionnaires to cotton towel producers requesting profit-and-loss information. Usable profit-and-loss data were received from six producers representing 18.2 percent of total U.S. production of pile and nonpile towels in 1979.

As set forth in table 33, aggregate net sales of both pile and nonpile cotton towels increased from $291 million in 1977 to $378 million in 1979, or by 30 percent. The rise in sales was due to an increase in the volume of sales as well as in the average sales price. The aggregate cost of goods sold as a percentage of sales decreased from 79.1 percent in 1977 to 76.6 percent in 1978 and then increased slightly to 76.8 percent in 1979. The ratio of general, selling, and administrative expenses to net sales decreased from about 11.8 percent in 1977 and 12.0 percent in 1978 and to 11.2 percent in 1979.

Aggregate net operating profit rose by 73 percent from $26 million in 1977 to $45 million in 1979. The ratio of net operating profit to net sales followed a similar trend, increasing from 9.0 percent in 1977 to 11.4 percent in 1978 and to 11.9 percent in 1979.

1/ Figures for pile cotton towels were compiled from questionnaire responses from *** producers representing *** percent of total U.S. pile towel production in 1979; figures for nonpile towels were compiled from questionnaire responses from *** producers representing *** percent of total U.S. nonpile towel production in 1979.

Table 33.--Profit-and-loss experience of U.S. producers on their cotton pile and nonpile towel operations, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Net sales--------------------------1,000 dollars--: | 290,901 | 328,593 | 377,763 |
| Cost of goods sold-------------------------do----: | 230,184 | 251,813 | 290,197 |
| Gross profit-------------------------------do----: | 60,717 | 76,780 | 87,566 |
| General, selling, and administrative expenses 1,000 dollars--: | 34,419 | 39,408 | 42,439 |
| Net operating profit-----------------------do----: | 26,298 | 37,372 | 45,127 |
| Ratio of net operating profit to net sales percent--: | 9.0 | 11.4 | 11.9 |
| Number of firms reporting----------------number--: | 6 | 6 | 6 |
| Number of firms reporting net operating losses number--: | 2 | 2 | 2 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

* * * * * * *

Return on investment.--To provide an additional measure of profitability, domestic producers were requested to supply information on the value of total assets employed in the production of cotton pile and nonpile towels. Fixed assets data were requested on the bases of original cost, net book value, and estimated replacement cost, but not all the responding firms reported as requested in the questionnaire. * * * did not report current assets for cotton pile towel operations, hence current assets and total assets presented are understated.

As set forth in table 36, the ratio of net operating profit of cotton pile and nonpile towels to the book value of fixed assets or total assets increased each year during 1977-79 as did the ratio of net operating profit to net sales. Book-value calculations, and hence total asset calculations, are somewhat distorted by the time period during which the investments were made.

Table 36.--Assets, net sales and net operating profit or loss of U.S. producers of cotton pile and nonpile towels, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Assets: | | | |
| Current assets------------------1,000 dollars--: | *** | *** | *** |
| Book value of fixed assets---------------do----: | *** | *** | *** |
| Total assets---------------------------do----: | *** | *** | *** |
| Net sales----------------------------------do----: | *** | *** | *** |
| Net operating profit----------------------do----: | *** | *** | *** |
| Ratio of net operating profit to-- | | | |
| Net sales-----------------------------percent--: | 9.1 | 11.4 | 12.0 |
| Book value of fixed assets---------------do----: | 42.3 | 51.6 | 56.9 |
| Total assets-----------------------------do----: | 19.4 | 25.1 | 27.4 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

* * * * * * *

Actual and potential negative effects of subsidized merchandise on U.S. producers' cash flow, ability to raise capital, and investment.--For purposes of this analysis, cash flow from operations is defined as net operating profit plus depreciation and amortization. Income taxes paid are not taken into consideration owing to different tax rates which may apply to individual firms.

Usable data on cash flow were received from five of the six producers supplying profit-and-loss information. They were * * * producers of pile cotton towels, representing 31.5 percent of total U.S. pile towel production in 1979, and * * * producers of nonpile cotton towels, representing * * * percent of total U.S. nonpile towel production in 1979. Total cash flow from operations increased from $31 million in 1977 to $52 million in 1979, or by 65 percent, as shown in the following tabulation (in thousands of dollars):

| Cash flow from operations before taxes: | 1977 | 1978 | 1979 |
|---|---|---|---|
| For pile cotton towels-------- | *** | *** | *** |
| For nonpile cotton towels----- | *** | *** | *** |
| Total----------------------- | 31,430 | 43,255 | 51,988 |

* * * * * * *

Some domestic producers responded to the Commission's questionnaire requesting information pertaining to actual and potential negative effects, if any, of imports of cotton towels from Pakistan on U.S. producers' ability to raise capital and investment. The responding producers alleged that the actual effects of imports are either not measurable or unknown; however, imports may indirectly constrain profit owing to a probable decrease in business. Futhermore, a decrease in business may cause a restraint in reinvestment of profits, a reduction in the volume of production, and eventually an alteration in investment into other profitable areas.

Capital expenditures.--Only five of the eight responding firms provided their capital expenditures for plant and equipment used in the production, warehousing, and marketing of pile cotton towels for the years 1977-79. These five firms accounted for an estimated * * * percent of total U.S. production of cotton towels in 1979. Capital expenditures were not reported by nonpile towel producers. As presented in the following tabulation, capital expenditures decreased more than * * * percent from * * * in 1977 to * * * in 1978, but then increased to * * * in 1979:

| | Capital expenditures (1,000 dollars) |
|---|---|
| 1977----------------- | *** |
| 1978----------------- | *** |
| 1979----------------- | *** |

## Consideration of the Causal Relationship Between Subsidized Imports and the Alleged Injury or Threat Thereof

### Market share and penetration

The share of U.S. consumption of all cotton towels (both pile and nonpile) supplied by imports increased from 10.1 percent in 1977 to 14.5 percent in 1979. During the same period the ratio of imports supplied by Pakistan to U.S. consumption doubled, increasing from 1.8 percent in 1977 to 3.6 percent in 1979 (table 39). The following ratios based upon statistics from the U.S. Department of Commerce show that imports of all cotton towels from Pakistan increased more rapidly between 1977 and 1979 than total imports of all towels.

Table 39.--Cotton pile and nonpile towels: Ratios of imports, total and from Pakistan, to apparent consumption, 1977-79

(In percent)

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Total cotton towels: | | | |
| Total imports | 10.1 | 11.9 | 14.5 |
| Pakistan | 1.8 | 1.9 | 3.6 |
| Cotton pile towels: | | | |
| Total imports | 10.0 | 9.8 | 11.5 |
| Pakistan | 2.7 | 2.9 | 4.4 |
| Cotton nonpile towels: | | | |
| Total imports | 10.1 | 13.3 | 17.4 |
| Pakistan | 1.3 | 1.2 | 2.7 |

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

Although U.S. production of all towels declined by 13 percent between 1977 and 1979 and U.S. consumption of these articles declined by 9 percent, total U.S. imports increased by 31 percent. During the same period, imports from Pakistan increased 79 percent.

### Comparisons of prices of domestic and foreign products

The following analysis of prices of domestic and imported cotton towels is based on data obtained from responses to the Commission's questionnaires by U.S. producers and importers. Domestic producers were asked to report their lowest net selling prices for their top three lines produced in each quarter during 1977-79. Importers reported lowest net selling prices in the same period for cotton towels from Pakistan sold in the largest volume in 1979. Net selling price in both cases consists of the sales price, f.o.b. point of shipment, after discounts, returns, and allowances exclusive of freight charges and excise taxes.

Cotton pile or tufted towels.

* * * * * * *

Table 40.--Cotton pile or tufted towels: Ranges and weighted averages of lowest net selling prices of U.S. producers and importers of Pakistani towels and margins of underselling, by quarters, 1977-79

| Period | Producers' lowest net selling price | | Importers' lowest net selling price | | Margin of underselling by imported product | |
|---|---|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average | Value | Percent |
| | Per pound | | | | | |
| 1977: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 27 |
| April-June | *** | *** | *** | *** | *** | 24 |
| July-September | *** | *** | *** | *** | *** | 33 |
| October-December | *** | *** | *** | *** | *** | 37 |
| 1978: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 34 |
| April-June | *** | *** | *** | *** | *** | 31 |
| July-September | *** | *** | *** | *** | *** | 31 |
| October-December | *** | *** | *** | *** | *** | 33 |
| 1979: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 32 |
| April-June | *** | *** | *** | *** | *** | 28 |
| July-September | *** | *** | *** | *** | *** | 24 |
| October-December | *** | *** | *** | *** | *** | 34 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Some of the entries are based on limited questionnaire response and are only representative of the industry price level, not of the general market price level.

Cotton nonpile towels.

* * * * * * *

Table 41.--Cotton nonpile towels: Ranges and weighted averages of lowest net selling prices of U.S. producers and importers of Pakistani towels and margins of underselling, by quarters, 1977-79

| Period | Producers' lowest net selling price 1/ | | Importers' lowest net selling price | | Margin of underselling by imported product | |
|---|---|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average | Value | Percent |
| | Per pound | | | | | Percent |
| 1977: | | | | | | |
| January-March----- | *** | *** | *** | *** | *** | 62 |
| April-June-------- | *** | *** | *** | *** | *** | 63 |
| July-September---- | *** | *** | 2/ | 2/ | 2/ | 2/ |
| October-December-- | *** | *** | 2/ | 2/ | 2/ | 2/ |
| 1978: | | | | | | |
| January-March----- | *** | *** | 2/ | 2/ | 2/ | 2/ |
| April-June-------- | *** | *** | 2/ | 2/ | 2/ | 2/ |
| July-September---- | *** | *** | *** | *** | *** | 67 |
| October-December-- | *** | *** | *** | *** | *** | 57 |
| 1979: | | | | | | |
| January-March----- | *** | *** | *** | *** | *** | 59 |
| April-June-------- | *** | *** | *** | *** | *** | 68 |
| July-September---- | *** | *** | *** | *** | *** | 70 |
| October-December-- | *** | *** | *** | *** | *** | 74 |

1/ * * *.

2/ No importers responded to the questionnaire concerning sales of nonpile cotton towels from Pakistan in this period.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Some of the entries are based on limited questionnaire response and are only representative of the industry price level, not of the general market price level.

## Loss of sales

Two domestic producers responding to the Commission's questionnaire indicated lost sales as a result of imports from Pakistan. Telephone follow-ups with their customers indicated that the prevailing factor contributing to the shift from domestic towels to Pakistani towels was the nonavailability of domestically made institutional towels and the considerably lower price of the Pakistani towels.

# Part III. Men's and Boys' Cotton T-shirts

## The Product

### Description and uses

The men's and boys' T-shirts 1/ under consideration are those made for underwear and outerwear use from jersey or interlock knit fabric (as opposed to ribbed, patterned, or novelty knits and lace or net construction), of cotton or blends composed chiefly of cotton. T-shirts intended for underwear use are usually unornamented, constructed with hemmed sleeves, and white, although the increasingly popular fashion underwear T-shirts come in a variety of colors. T-shirts intended for outerwear use are generally colored, constructed with hemmed or capped sleeves, and adorned with printing, flocking, or other forms of embellishment. Otherwise, both types of T-shirts have short sleeves, crew necklines, and hemmed bottom edges. Also, T-shirts may or may not have a breast pocket (without flap) and reinforcement tape in the shoulder seams.

Virtually all T-shirts are made of cotton or, to a lesser but increasing extent, blends of cotton and polyester (a manmade fiber). Cotton is used extensively because of its absorbency and softness, while the growing use of the blends reflect their price competitiveness. Moreover, the use of polyester stems from its durability, resistance to shrinkage, and inherent brightness. Little or no use is made of silk, wool, linen, or manmade fibers other than polyester and, to an even lesser extent, rayon because of their relatively high cost or lack of suitability for the intended end use.

### Manufacturing processes

Compared with that of most other types of apparel, the manufacture of T-shirts is generally less labor intensive and involves fewer steps. In vertically integrated knitting mills, T-shirts are knitted from yarn or manufactured from fabric knitted in the same mill. The basic components (i.e., the body shell and sleeves) are usually made separately from tubular-shaped fabric knitted to body size and sewn together. The knitting machines used by vertically integrated producers of T-shirts can be operated to manufacture a limited number of other products, including pullover sport shirts and knit fabrics. In cut and sew shops, T-shirts are made from purchased knit fabrics which are shaped and cut to a pattern and sewn together.

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1/ Apparel for men and boys is defined in the TSUS as an article for males over 6 years of age.

## U.S. tariff treatment

Men's and boys' cotton T-shirts are classified for tariff purposes under TSUS items 380.00 and 380.06, 1/ depending upon the presence or absence of ornamentation, as shown in the following tabulation:

| TSUS item No. | Brief description | Col. 1 rate of duty | | Current col. 2 rate |
|---|---|---|---|---|
| | | Current | MTN final concession | |
| 380.00 | Ornamented | 35% ad val. | 21% ad val. 1/ | 90% ad val. |
| 380.06 | Not ornamented | 21% ad val. | 2/ | 45% ad val. |

1/ Effective Jan. 1, 1987.
2/ No concession granted.

No tariff concession was granted at the MTN on the T-shirts that are not ornamented, which accounted for 98 percent of imported cotton T-shirts in 1979. However, a concession of 40 percent was granted on the ornamented T-shirts; it will be staged over 6 successive years, beginning on January 1, 1982. The column 2 rates on cotton T-shirts remained unchanged.

Virtually all men's and boys' cotton T-shirts from Pakistan are entered, for quota purposes, under MFA product category 338 (men's and boys' knit cotton shirts). Pakistan filled 47 percent of its quota in 1978 and 60 percent in 1979. 2/ In addition, there is a combined sublimit quota for knit shirts under TSUSA items 380.0651 (tank tops) and 380.0652 (other knit shirts); imports from Pakistan under the latter item are outerwear T-shirts. The sublimit was 46 percent filled in 1978 and nearly 78 percent filled in 1979.

## Nature and Extent of Bounties or Grants Being Provided

The three subsidy programs of the Government of Pakistan discussed earlier in this report were determined to have provided Pakistani manufacturers and exporters of men's and boys' cotton T-shirts a combined benefit of 13.5 percent, based on the f.o.b. value of the exported product. All but a small part of the net subsidy, or 12.5 percent, was provided under the cash rebate program. The remaining 1 percent was the net benefit of the income tax relief and preferential export financing programs.

1/ The product coverage of TSUS items 380.00 and 380.06 extends beyond T-shirts (they also include certain coats, robes, nightwear, sweaters, and other apparel).
2/ As of Feb. 29, 1980; quota year based on date merchandise was exported from Pakistan.

## U.S. Producers

The SIC classifies establishments producing knit apparel (e.g., T-shirts) not only by the garments they make but also by the processes employed in making those garments. Establishments primarily engaged in knitting T-shirts and other underwear from yarn, or in manufacturing these articles from knit fabric produced in the same mill, are classified in the knit underwear mills industry (SIC 2254). Those that cut and sew T-shirts from purchased knit fabrics are classified in the men's and boys' underwear industry (SIC 2322). These two industries, which are believed to account for the major part of the T-shirts produced domestically, comprised a combined total of 80 companies in 1977 with shipments of men's and boys' underwear of at least $100,000 each, according to statistics of the Department of Commerce.

The number of producing establishments classified in industries 2254 and 2322 has remained fairly stable in recent years, according to the Bureau of Labor Statistics. During January-March 1978, there were 109 establishments in industry 2254, compared with 105 in the corresponding period of 1977. For industry 2322, there were 92 plants in January-March 1978 and 95 in the corresponding period of 1977. Geographically, the establishments are located primarily in the South and, to a lesser extent, the Northeast.

T-shirts are also made in establishments classified in the knit outerwear mills industry (SIC 2253) and in the men's and boys' shirt and nightwear industry (SIC 2321); however, their principal products are knit sweaters and sport shirts and cut and sewn dress and sport shirts, respectively. Not considered as producers are screen-printing establishments, which print patterns on T-shirts and other articles.

## The U.S. Market and Channels of Distribution

Historically, men's and boys' T-shirts were marketed as basic underwear. Recently, however, T-shirts have become a significant fashion item in underwear and sportswear, largely owing to the importance of the casual life style, the penchant for novelty, and the growth of certain sports during the past decade. Traditionally white, T-shirts are now being dyed in a variety of colors and appliqued or printed with items of topical interest. Given the continued interest in fashion T-shirts, some suppliers have been changing their product mix from staple underwear T-shirts to higher priced, fashion outerwear T-shirts.

All but a small part of the overall U.S. T-shirt market (i.e., about 96 percent) is supplied by domestic producers, which is a situation in marked contrast to that for most other types of apparel, such as sweaters, where imports represent about half of the domestic market. The comparatively low level of import penetration of T-shirts primarily reflects the small number of steps involved in manufacturing the garments, which partially offsets the advantage of lower labor costs of the major foreign suppliers.

Because domestic and imported T-shirts are marketed as either underwear or outerwear, the channels of distribution differ. Those merchandised as outerwear are often sold to screen printers, embroiderers, or other converters, which in turn sell the garments directly to retailers or wholesalers. All other T-shirts are, for the most part, sold directly to mail-order chains, mass merchandisers, department stores, and specialty stores.

* * * * * * *

## Consideration of Material Injury to an Industry in the United States

### U.S. production

Data on U.S. production of men's and boys' T-shirts were received from producers accounting for 51 percent of T-shirt output in 1979, and are shown in table 42.

Table 42.--Men's and boys' T-shirts: U.S. production, by fibers, 1977-79

(In thousands of dozens)

| Fiber | 1977 | 1978 | 1979 |
|---|---|---|---|
| Cotton | 13,638 | 13,655 | 12,496 |
| Cotton/manmade-fiber blends, containing at least 50 percent by weight of cotton | 5,804 | 7,412 | 7,270 |
| All other | 191 | 262 | 161 |
| Total | 19,633 | 21,329 | 19,927 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

U.S. T-shirt production increased 9 percent between 1977 and 1978 as producers experienced an increase in sales and inventories, and then declined 7 percent in 1979 as producers sold from inventories, partly because of an oversupply in the marketplace. As shown in the table, virtually all the T-shirts were made of cotton or blends containing at least 50 percent by weight of cotton.

Capacity and capacity utilization

Information submitted by domestic T-shirt producers shows that their rate of capacity utilization declined continuously between 1977 and 1979, as shown in the following tabulation:

| Year | Production | Capacity 1/ | Capacity utilization |
|---|---|---|---|
| | ------------1,000 dozen------------ | | -------Percent------- |
| 1977---------- | 19,092 | 19,799 | 96.4 |
| 1978---------- | 19,998 | 21,242 | 94.1 |
| 1979---------- | 18,999 | 20,360 | 93.3 |

1/ Defined as the maximum sustainable production at 1 8-hour shift a day, 5 days a week, 50 weeks a year.

The decline reflects an expansion in capacity coupled with a drop in production levels. A comparison of firms submitting data on production and capacity revealed that, on the average, the larger firms (in terms of production volume) experienced a higher utilization rate than did the small firms.

U.S. producers' shipments and exports

Data on domestic shipments of T-shirts received from producers are shown in table 43. Although the total reported value of shipments rose continuously between 1977 and 1979, the increase primarily reflected upward pressure on prices, largely as a result of rising labor and raw material costs, and the popularity of the high-priced outerwear T-shirts compared with the low-priced underwear T-shirts. In terms of quantity, producers' shipments rose 2 percent between 1977 and 1978 and then fell 5 percent in 1979 to the lowest annual level during 1977-79. The decline in 1979 partly reflected an oversupply in the market, particularly for outerwear T-shirts, which one producer indicated was a result of a "bandwagon effect" among new and existing suppliers to cash in on the "T-shirt craze" of the 1970's. Several producers indicated that the oversupply was temporary, however, and that consumer demand has picked up sharply, especially for outerwear T-shirts, during 1980.

Shipments of underwear T-shirts reported by the producers declined 10 percent between 1977 and 1979, while outerwear T-shirt shipments rose 12 percent between 1977 and 1978 and then fell about 5 percent in 1979. Nevertheless, the 1979 level was still 7 percent higher than the 1977 level.

Table 43.--Men's and boys' cotton T-shirts: U.S. producers' domestic shipments, by types, 1977-79

| Year | Underwear T-shirts | Outerwear T-shirts | Total |
|---|---|---|---|
| | Quantity (1,000 dozen) | | |
| 1977 | 11,319 | 7,232 | 18,551 |
| 1978 | 10,793 | 8,130 | 18,923 |
| 1979 | 10,204 | 7,749 | 17,953 |
| | Value (1,000 dollars) | | |
| 1977 | 122,103 | 98,677 | 220,780 |
| 1978 | 123,893 | 121,803 | 245,696 |
| 1979 | 125,953 | 131,683 | 257,636 |
| | Unit value (per dozen) | | |
| 1977 | $10.79 | $13.64 | $11.90 |
| 1978 | 11.48 | 14.98 | 12.98 |
| 1979 | 12.34 | 16.99 | 14.35 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

U.S. producers' exports of cotton T-shirts more than doubled between 1977 and 1979, rising from 497,000 dozen to nearly 1.2 million dozen (table 44). About three-fourths of the increased exports came during 1979, and reflected substantially larger shipments to Italy and Japan, the principal foreign markets. Although U.S. producers' sales of T-shirts to Italy, the principal foreign market, more than doubled between 1977 and 1979, Italy's share of U.S. T-shirt sales abroad dropped from 31 percent to 29 percent. This anomaly reflected the twelvefold increase in the number of T-shirts sold during the period to Japan, which accounted for close to 19 percent of total U.S. T-shirt exports in 1979.

Nevertheless, exports' share of U.S. producers' shipments--although growing rapidly--remained relatively small in 1979, accounting for about 4 percent of total shipments reported by those producers that also reported data on exports. Moreover, in terms of the balance of trade, exports totaled 318,000 dozen less than imports. In terms of value, however, exports exceeded imports in 1979 by $10.4 million, making the T-shirt sector one of the few areas in the apparel industry to experience a favorable balance of trade.

Table 44.--Men's and boys' cotton T-shirts: U.S. exports of domestic merchandise, by principal markets, 1977-79

| Market | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 dozen) | | |
| Italy | 155 | 199 | 341 |
| Japan | 17 | 121 | 221 |
| Netherlands | 10 | 7 | 90 |
| France | 44 | 23 | 87 |
| Bahamas | 29 | 48 | 61 |
| Canada | 21 | 27 | 54 |
| Sweden | 12 | 17 | 39 |
| United Kingdom | 12 | 8 | 34 |
| All other | 197 | 219 | 262 |
| Total | 497 | 669 | 1,189 |
| | Value (1,000 dollars) | | |
| Italy | 2,061 | 3,673 | 5,866 |
| Japan | 490 | 3,613 | 5,918 |
| Netherlands | 215 | 139 | 1,098 |
| France | 538 | 483 | 1,862 |
| Bahamas | 487 | 1,174 | 1,737 |
| Canada | 304 | 278 | 542 |
| Sweden | 182 | 408 | 898 |
| United Kingdom | 265 | 246 | 659 |
| All other | 3,071 | 4,532 | 6,026 |
| Total | 7,613 | 14,546 | 24,606 |
| | Unit value (per dozen) 1/ | | |
| Italy | $13.33 | $18.41 | $17.19 |
| Japan | 29.09 | 29.94 | 26.83 |
| Netherlands | 20.73 | 19.34 | 12.15 |
| France | 12.17 | 20.91 | 21.29 |
| Bahamas | 16.78 | 24.24 | 28.36 |
| Canada | 14.15 | 10.37 | 10.04 |
| Sweden | 15.10 | 23.51 | 23.20 |
| United Kingdom | 21.98 | 30.87 | 19.21 |
| All other | 15.62 | 20.78 | 23.12 |
| Average | 15.31 | 21.74 | 20.70 |

1/ Calculated from the unrounded figures.

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

## Inventories

Reported yearend inventories of men's and boys' cotton T-shirts increased sharply from 1977 to 1978 and then fell in 1979, both in absolute terms and relative to producers' shipments, as shown in the following tabulation:

| Item | Yearend inventories 1/ | | | Ratio of inventories to shipments | | |
|---|---|---|---|---|---|---|
| | 1977 | 1978 | 1979 | 1977 | 1978 | 1979 |
| | ------1,000 dozen------- | | | --------Percent-------- | | |
| Underwear T-shirts | 2,245 | 2,294 | 2,383 | 19.5 | 20.7 | 22.3 |
| Outerwear T-shirts | 1,521 | 2,241 | 1,902 | 21.0 | 27.3 | 24.0 |
| Total or average | 3,766 | 4,535 | 4,285 | 20.1 | 23.5 | 23.0 |

1/ The reported value of the inventories totaled $36.4 million in 1977, $46.2 million in 1978, and $47.3 million in 1979.

## U.S. imports

Significance of the volume of imports or any increase in that volume.--U.S. imports of men's and boys' cotton T-shirts in 1979 amounted to 1.51 million dozen ($14.2 million), about 3 percent lower than the 1978 level of 1.55 million dozen ($14.0 million) but 23 percent higher than the 1977 level of 1.23 million dozen ($9.2 million), as shown in table 45. The largest source during 1977-79 was Pakistan, which supplied an average of 58 percent of the total quantity but only 34 percent of the total value of the imports. Moreover, the unit value of the Pakistani T-shirts averaged $5.11 a dozen, compared with $13.75 a dozen for T-shirts from all other foreign countries. Thus, price may be an important factor related to the large quantity of imports from Pakistan.

Rate of increase in subsidized exports to the United States and the availability of other export markets.--From 1977 to 1979, U.S. imports of men's and boys' cotton T-shirts from Pakistan increased at an average annual rate of 9.7 percent. Nevertheless, the 1979 level still remained well below the 1975 and 1976 annual level for Pakistan of slightly more than 1 million dozen.

## U.S. importers

According to information provided by the U.S. Customs Service for 1978, men's and boys' T-shirts were imported by roughly 500 firms. Only 28 of the firms, however, had imports totaling more than $100,000, and they accounted for more than half of the value of all T-shirt imports. Among the importers were about 70 retailers, which accounted for about 15 percent of the total value. The remainder of the firms were general importers and other nonretail firms.

Table 45.--Men's and boys' cotton T-shirts: U.S. imports for consumption, by principal sources, 1977-79

| Source | 1977 | 1978 | 1979 |
|---|---|---|---|
| | Quantity (1,000 dozen) | | |
| Pakistan 1/ | 752 | 824 | 905 |
| Poland 1/ | 136 | 192 | 197 |
| Romania | 3 | 110 | 75 |
| China | 10 | 32 | 64 |
| Mexico | 16 | 54 | 54 |
| Hong Kong | 130 | 99 | 51 |
| Philippines | 30 | 28 | 27 |
| Brazil | 12 | 20 | 22 |
| All other | 138 | 192 | 112 |
| Total | 1,227 | 1,551 | 1,507 |
| | Value (1,000 dollars) | | |
| Pakistan 1/ | 3,588 | 4,220 | 4,871 |
| Poland 1/ | 856 | 1,626 | 2,052 |
| Romania | 43 | 1,044 | 946 |
| China | 59 | 233 | 512 |
| Mexico | 216 | 1,482 | 2,073 |
| Hong Kong | 1,565 | 1,508 | 960 |
| Philippines | 251 | 278 | 316 |
| Brazil | 197 | 223 | 249 |
| All other | 2,443 | 3,419 | 2,255 |
| Total | 9,218 | 14,033 | 14,234 |
| | Unit value (per dozen) | | |
| Pakistan 1/ | $4.77 | $5.12 | $5.38 |
| Poland 1/ | 6.29 | 8.47 | 10.42 |
| Romania | 14.33 | 9.49 | 12.61 |
| China | 5.90 | 7.28 | 8.00 |
| Mexico | 13.50 | 27.44 | 38.39 |
| Hong Kong | 12.04 | 15.23 | 18.82 |
| Philippines | 8.37 | 9.93 | 11.70 |
| Brazil | 16.42 | 11.15 | 11.32 |
| All other | 17.70 | 17.81 | 20.13 |
| Average | 7.51 | 9.05 | 9.45 |

1/ Estimated to include certain T-shirts which, because of their capped sleeves, are classified as knit shirts "other" than T-shirts under TSUSA item 380.0652. The portions of the total quantity from Pakistan that are estimated are 58 percent in 1977, 41 percent in 1978, and 54 percent in 1979. For Poland, the corresponding figures are 26 percent, 25 percent, and 38 percent, respectively. Although such T-shirts may be imported from other countries under TSUSA item 380.0652, an inspection of the unit values indicates that their knit shirts are those with a collar and full or partial front opening (e.g., golf shirts).

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

Employment

Data received on employment indicate that production and related workers engaged in the manufacture of men's and boys' cotton T-shirts represented slightly less than one-third of total employment in establishments in which T-shirts were produced during the years 1977-79 (table 46).

Table 46.--Average number of employees, total and production and related workers, and hours worked by production and related workers in domestic establishments in which men's and boys' cotton T-shirts were produced, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Average number of employees: | | | |
| All persons | 33,436 | 35,209 | 35,736 |
| Production and related workers producing-- | | | |
| All products | 30,198 | 31,765 | 32,239 |
| Men's and boys' cotton T-shirts | 10,536 | 10,691 | 10,343 |
| Hours worked by production and related workers producing-- | | | |
| All products (thousands) | 52,073 | 58,285 | 55,246 |
| Men's and boys' cotton T-shirts do | 16,455 | 17,608 | 16,244 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Productivity.--Data from the producers indicate that the number of production workers and hours worked in the production of men's and boys' cotton T-shirts closely paralleled output, as shown in the following tabulation:

| Year | Production workers | Hours worked | Production | Worker productivity |
|---|---|---|---|---|
| | Number | 1,000 hours | 1,000 dozen | Dozens per hour |
| 1977 | 10,536 | 16,455 | 19,442 | 1.18 |
| 1978 | 10,691 | 17,608 | 21,067 | 1.20 |
| 1979 | 10,343 | 16,244 | 19,766 | 1.22 |

During 1977-79, the reported number of production workers and hours worked in the manufacture of T-shirts was at its lowest annual level in 1979. Steadily increasing productivity, however, kept 1979 output slightly above the 1977 level.

Wages.--Data reported by the producers concerning wages of workers employed in the manufacture of men's and boys' cotton T-shirts are shown in the following tabulation:

| | Wages (per hour) |
|---|---|
| 1977---------------------- | $3.81 |
| 1978---------------------- | 4.03 |
| 1979---------------------- | 4.22 |

The 11-percent increase in hourly wages of production workers between 1977 and 1979 more than offset the 3-percent growth in productivity, indicating that unit labor costs rose about 8 percent during the period.

Financial experience of U.S. producers

Profit-and-loss experience.--The Commission received usable profit-and-loss data from 13 domestic producers accounting for about 47 percent of total U.S. production of cotton T-shirts in 1979. Very few producers keep complete accounting records on a product-line basis. Consequently, the data submitted by the firms on the T-shirts are their best estimates compiled by various arbitrary allocation methods and, therefore, are limited in their use as a measure of profitability.

As shown in table 47, the value of aggregate net sales rose from $206 million in 1977 to $246 million in 1979, or by 19 percent. The rise in sales was due primarily to an increase in the average unit selling price. The volume of sales, however, fluctuated downward during 1977-79. The aggregate cost of goods sold as a percentage of net sales decreased from 82.0 percent in 1977 to 80.7 percent in 1978 and then increased to 82.8 percent in 1979. The ratio of general, selling, and administrative expenses to net sales increased continuously during the same period, from 11.4 percent to 13.2 percent.

Following the trend in unit sales, aggregate net operating profit rose 21 percent between 1977 and 1978 and then fell 41 percent in 1979 to $9.76 million, the lowest annual level during 1977-79. Similarly, the ratio of net operating profit to net sales rose modestly from 1977 to 1978 and then dropped sharply in 1979 to 4.0 percent, again the lowest annual level during 1977-79.

* * * * * * *

Table 47.--Profit-and-loss experience of U.S. producers on their men's and boys' cotton T-shirt operations, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Quantity sold-----------1,000 dozen-- | 17,727 | 18,248 | 17,459 |
| Net sales-------------1,000 dollars-- | 206,103 | 231,448 | 245,784 |
| Cost of goods sold-------------do---- | 168,940 | 186,862 | 203,488 |
| Gross profit-------------------do---- | 37,163 | 44,586 | 42,296 |
| General, selling, and administrative expenses 1,000 dollars-- | 23,555 | 28,138 | 32,541 |
| Net operating profit-----------do---- | 13,608 | 16,448 | 9,755 |
| Ratio of net operating profit to net sales-- | | | |
| For cotton T-shirts-------percent-- | 6.6 | 7.1 | 4.0 |
| For knit fabrics, outerwear, and underwear 1/--------percent-- | 6.0 | 6.8 | 4.6 |
| Number of firms reporting------------ | 13 | 13 | 13 |
| Number of firms reporting net operating losses------------------ | 3 | 4 | 6 |

1/ Compiled from 1979 Annual Statement Studies published by Robert Morris Associates for SIC Nos. 2253, 2254, 2257, and 2258.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, except as noted.

* * * * * * *

Return on investment.--To provide an additional measure of profitability, domestic producers were requested to supply information on the value of their total assets employed in the production of cotton T-shirts. Usable data were received from 11 of the 13 producers supplying profit-and-loss information, and are shown in table 48.

Table 48.--Assets and net sales and operating profit of U.S. producers of men's and boys' cotton T-shirts, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Assets: | | | |
| Current assets-------1,000 dollars--: | 83,036 | 94,391 | 96,500 |
| Book value of fixed assets----do----: | 50,506 | 62,727 | 65,092 |
| Total assets----------------do----: | 133,542 | 157,118 | 161,592 |
| Net sales----------------------------: | *** | *** | *** |
| Net operating profit------------------: | *** | *** | *** |
| Ratio of net operating profit to-- | | | |
| Net sales-----------------percent--: | *** | *** | *** |
| Book value of fixed assets----do----: | *** | *** | *** |
| Total assets-----------------do----: | *** | *** | *** |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

* * * * * * *

Actual and potential negative effects of subsidized merchandise on U.S. producers' cash flow, ability to raise capital, and investment.--Usable data on cash flow, which for purposes of this analysis is defined as net operating profit plus depreciation and amortization (before taxes), were received from 10 of the 13 producers supplying profit-and-loss information shown in table 47. The 10 firms accounted for about *** percent of total U.S. production of cotton T-shirts in 1979. The cash flow from operations rose 8 percent between 1977 and 1979 (table 49). The ratio of cash flow from operations (before taxes) to net sales remained relatively unchanged during 1977-79, at about 9 percent annually. * * *.

Generally, the ability of U.S. T-shirt producers to raise capital has not been adversely affected by reason of imports of T-shirts from Pakistan, according to 16 producers responding to the Commission's questionnaire. Twelve producers did not indicate any adverse effect; four producers did. However, these four producers indicated no loss of sales as a result of imports of T-shirts from Pakistan. * * *.

Capital expenditures.--Total capital expenditures for the production, warehousing, and marketing of men's and boys' cotton T-shirts reported by all producers responding to the Commission's questionnaire (not just those providing information on their cash flow) more than doubled between 1977 and 1979, from $8.6 million to $18.1 million. * * *.

Table 49.--Net sales and operating profit, cash flow from operations, and capital expenditures of U.S. producers of men's and boys' cotton T-shirts, 1977-79

| Item | 1977 | 1978 | 1979 |
|---|---|---|---|
| Net sales-------------1,000 dollars-- | *** | *** | *** |
| Net operating profit-----------do---- | *** | *** | *** |
| Cash flow from operations before taxes---------------1,000 dollars-- | *** | *** | *** |
| Capital expenditures: | | | |
| Plant and equipment----------do---- | *** | *** | *** |
| Land-------------------------do---- | *** | *** | *** |
| Total capital expenditures do---- | *** | *** | *** |
| Ratio of-- | | | |
| Capital expenditures to cash flow from operations----percent-- | 35.1 | 78.5 | 80.8 |
| Net operating profit to net sales------------------percent-- | 7.3 | 6.7 | 6.3 |
| Cash flow from operations (before taxes) to net sales percent-- | 9.4 | 9.1 | 9.1 |

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

## Consideration of the Causal Relationship Between Subsidized Imports and the Alleged Injury or Threat Thereof

### Market share and penetration

Apparent U.S. consumption of men's and boys' cotton T-shirts rose 3 percent between 1977 and 1978, from 37.8 million dozen to 39.1 million dozen, and then fell 5 percent in 1979 to 37.1 million dozen, the lowest annual level during 1977-79 (table 50). The ratio of imports to apparent consumption of such T-shirts increased steadily during the period, from 3.2 percent to 4.1 percent. More than half of the import market was supplied by Pakistan, whose total market share increased from 2.0 percent in 1977 to 2.4 percent in 1979.

The increase in producers' shipments and apparent consumption of T-shirts between 1977 and 1978 marked a continuation of the upward trend that started about 1972, when the "T-shirt craze" began, according to industry sources. They indicated that the decline in producers' shipments and consumption during 1979 was temporary, partly because of an oversupply in the market, and that consumer demand has rebounded sharply in 1980. Moreover, in a letter to counsel for the Government of Pakistan which was incorporated in the record of the June 27, 1980, hearing, Union Underwear Co., Inc., indicated that imports of Pakistani T-shirts have a minor impact on the domestic market and that the market has not been basically hurt by imports of Pakistani T-shirts. It stated that the market is currently oversold, that domestic producers are

Table 50.--Men's and boys' cotton T-shirts: U.S. producers' shipments, imports, total and from Pakistan, exports, and apparent consumption, by types, 1977-79

| Type and year | Producers' shipments 1/ | Imports 2/ | | Exports | Apparent consumption | Ratio of imports to consumption | |
|---|---|---|---|---|---|---|---|
| | | Total | From Pakistan | | | Total | From Pakistan |
| | 1,000 dozen | | | | | Percent | Percent |
| Total: | | | | | | | |
| 1977 | 37,100 | 1,227 | 752 | 497 | 37,830 | 3.2 | 2.0 |
| 1978 | 38,200 | 1,551 | 824 | 669 | 39,082 | 4.0 | 2.1 |
| 1979 | 36,800 | 1,507 | 905 | 1,189 | 37,118 | 4.1 | 2.4 |
| Underwear T-shirts: | | | | | | | |
| 1977 | 22,800 | 225 | 168 | 1/ 449 | 22,576 | 1.0 | .7 |
| 1978 | 22,000 | 166 | 100 | 1/ 547 | 21,619 | .8 | .5 |
| 1979 | 21,000 | 253 | 210 | 1/ 874 | 20,479 | 1.2 | 1.0 |
| Outerwear T-shirts: | | | | | | | |
| 1977 | 14,300 | 1,002 | 584 | 1/ 48 | 15,254 | 6.6 | 3.8 |
| 1978 | 16,200 | 1,385 | 724 | 1/ 122 | 17,463 | 7.9 | 4.1 |
| 1979 | 15,700 | 1,254 | 695 | 1/ 315 | 16,639 | 7.5 | 4.2 |

1/ Derived from data submitted in response to questionnaires of the U.S. International Trade Commission by producers accounting for 51 percent of 1979 U.S. T-shirt production, using official statistics of the U.S. Department of Commerce for 1978 as a benchmark.

2/ Estimated to include certain T-shirts from Pakistan and Poland which, because of their capped sleeves, are classified as knit shirts "other" than T-shirts under TSUSA item 380.0652. The total amounts estimated are 38 percent in 1977, 25 percent in 1978, and 37 percent in 1979. A sample of shipments entered under TSUSA item 380.0652 during part of 1979-80 showed that such T-shirts represented 93 percent of the imports from Pakistan and 57 percent of those from Poland. Accordingly, these percentages were applied to the countries' shipments under the TSUSA item for 1978 and 1979 and a modified percentage was applied to the previous TSUSA item, 380.0650, for 1977. Although such T-shirts may be imported from other countries under TSUSA item 380.0652, an inspection of the unit values indicates that theie knit shirts are those with a collar and full or partial front opening (e.g., golf shirts).

Data on imports, by underwear and outerwear T-shirts, were derived from statistics submitted in response to questionnaires of the U.S. International Trade Commission by importers accounting for 20 percent of U.S. imports of cotton T-shirts in 1979.

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

unable to supply their customers with sufficient quantities, and that the industry is "booming." The firm also stated that imports will increase, not because of imports from Pakistan, but because of imports from China. These views are shared in part by several other producers responding to the Commission's questionnaire.

Imports from all sources, particularly Pakistan, made their greatest penetration in the outerwear segment of the T-shirt market, where their market share averaged 7.5 percent in 1979, down modestly from 7.9 percent in 1978 but up sharply from 6.6 percent in 1977. Pakistan's share, in contrast, increased continuously between 1977 and 1979, from 3.8 to 4.2 percent. Pakistan's share of the outerwear T-shirt market continued to rise despite a decrease in shipments of 4 percent in 1979 from the 1978 level. This anomaly reflected an even greater decline in imports from other countries, combined with a small decline in U.S. producers' domestic shipments and a substantial increase in their export shipments.

As shown in table 50, imports and their share of the underwear T-shirt market continued to be negligible in 1977-79, partly because of the utility of the product as opposed to the fashion of the outerwear T-shirts. During the period, imports' market share, most of which was accounted for by Pakistan, averaged about 1 percent annually.

## Comparison of prices of domestic and foreign products

Data on sales of producers and importers at their lowest net selling prices (i.e., f.o.b. plant, after discounts, returns, and allowances, exclusive of freight charges and excise taxes) are shown in tables 51 and 52 for underwear and outerwear T-shirts. Because of the relatively small proportion of sales at the producers' and importers' lowest net selling prices, the price data may not be representative of overall domestic or imported shipments. For underwear T-shirts, the weighted average prices for 1978 were constructed from producers' sales representing approximately * * * percent of total domestic shipments and importers' sales representing 13 percent of Pakistani imports. Moreover, for the first and third quarters of 1978 and the first two quarters of 1979, the weighted average price for imported underwear T-shirts was based on * * * and, therefore, may not be representative of the average price of all imports. Similarly, the domestic prices shown for outerwear T-shirts were determined from the response of * * * total shipments accounted for * * * percent of total domestic shipments in 1978. For Pakistani outerwear T-shirts, import prices were determined from questionnaire data representing about * * * percent of total Pakistani imports in 1978.

Underwear T-shirts.--The average margin of underselling by Pakistani underwear T-shirts during 1977-79 ranged from just below 50 percent to nearly 60 percent, with an average price difference of about * * * a dozen. The highest margins of underselling are indicated for the quarters for which * * *. Overall, the substantial margins of underselling suggest that factors other than the 13.5-percent average subsidy granted to Pakistani producers weigh more heavily in the relatively low weighted average price of Pakistani underwear T-shirts. According to the U.S. Customs Service, importers

Table 51.--Men's and boys' cotton underwear T-shirts: Ranges and weighted averages of lowest net selling prices of U.S. producers and importers of Pakistani T-shirts and margins of underselling, by quarters, 1977-79

| Period | Producers' lowest net selling price | | Importers' lowest net selling price | | Margin of underselling by imported product | |
|---|---|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average | Value | Percent |
| | Per dozen | | | | | |
| 1977: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 50.7 |
| April-June | *** | *** | *** | *** | *** | 52.0 |
| July-September | *** | *** | *** | *** | *** | 50.1 |
| October-December | *** | *** | *** | *** | *** | 48.6 |
| 1978: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 59.1 |
| April-June | *** | *** | *** | *** | *** | 54.5 |
| July-September | *** | *** | *** | *** | *** | 58.5 |
| October-December | *** | *** | *** | *** | *** | 57.0 |
| 1979: | | | | | | |
| January-March | *** | *** | *** | *** | *** | 59.0 |
| April-June | *** | *** | *** | *** | *** | 58.8 |
| July-September | *** | *** | *** | *** | *** | 53.8 |
| October-December | *** | *** | *** | *** | *** | 52.2 |

1/ * * *.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Some of the entries are based on limited questionnaire response and, therefore, should be used with caution.

Table 52.--Men's and boys' cotton outerwear T-shirts: Ranges and weighted averages of lowest net selling prices of U.S. producers and importers of Pakistani T-shirts and margins of underselling, by quarters, 1977-79

| Period | Producers' lowest net selling price 1/ | | Importers' lowest net selling price | | Margin of underselling by imported product | |
|---|---|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average | Value | Percent |
| | Per dozen | | | | | |
| 1977: | | | | | | |
| January-March----- | *** | *** | *** | *** | *** | 30.9 |
| April-June-------- | *** | *** | *** | *** | *** | 31.0 |
| July-September---- | *** | *** | *** | *** | *** | 25.6 |
| October-December-- | *** | *** | *** | *** | *** | 19.8 |
| 1978: | | | | | | |
| January-March----- | *** | *** | *** | *** | *** | 27.7 |
| April-June-------- | *** | *** | *** | *** | *** | 28.7 |
| July-September---- | *** | *** | *** | *** | *** | 29.0 |
| October-December-- | *** | *** | *** | *** | *** | 22.9 |
| 1979: | | | | | | |
| January-March----- | *** | *** | *** | *** | *** | 32.2 |
| April-June-------- | *** | *** | *** | *** | *** | 32.2 |
| July-September---- | *** | *** | *** | *** | *** | 32.2 |
| October-December-- | *** | *** | *** | *** | *** | 27.8 |

1/ * * *.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Note.--Some of the entries are based on limited questionnaire response and, therefore, should be used with caution.

of Pakistani T-shirts, and witnesses at the Commission's hearing, the T-shirts from Pakistan are considerably lower in quality than domestically made T-shirts.

Outerwear T-shirts.--As mentioned previously, if the prices on outerwear T-shirts reported by * * * are considered representative of the prices of the domestic industry, then the calculated margin of underselling by Pakistani T-shirts of approximately 30 percent during 1977-79 is more than double the 13.5-percent subsidy provided to the Pakistani producers. Thus, other factors are involved in the margin of underselling, the most important apparently being quality. According to Customs, importers, and witnesses at the Commission's hearing, Pakistani T-shirts are considerably lower in quality then domestic T-shirts. Many of the Pakistani T-shirts are sold in markets, such as rock concert or carnival promotions, or used by companies to promote their product, where quality is not the important factor in the purchasing decision.

This margin of underselling may be considerably understated and the role of a subsidy in this margin is necessarily further reduced. It is evident in a comparison of the prices of imported underwear and outerwear T-shirts that the latter would typically be priced higher than the former because of its greater number of features. * * *.

## Loss of sales

The increase in imports of men's and boys' cotton T-shirts from Pakistan during 1977-79 suggests that some domestic production of such T-shirts may have been displaced by imports. However, the displacement was most likely small, since the market penetration of the T-shirts from Pakistan remained relatively unchanged during the period. Moreover, only one producer responding to the Commission's questionnaire indicated that it had experienced a loss of sales to imports of T-shirts from Pakistan. However, in telephone conversations with * * * the producer's customers, the staff found that the customers had switched to other domestic sources for knit shirts because * * *.

# APPENDIX A

## ADMINISTERING AUTHORITY'S LETTERS TO THE COMMISSION AND NOTICES ON PRELIMINARY AND FINAL COUNTER-VAILING DUTY DETERMINATIONS

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

Distr. Comm., Staff,

RECEIVED

'80 MAR 20 P 5: 06

OFFICE OF THE SECRETARY DOCKET/USITC

DOCKET NUMBER

#638

Office of the Secretary Int'l Trade Commission

20 MAR 1980

The Honorable
Catherine Bedell
Chairman, International
Trade Commission
Washington, D.C. 20436

Dear Madam Chairman:

In accordance with section 705(a)(1) of the Tariff Act of 1930, as amended ("the Act"), the Department of Commerce has determined that the Government of Japan has given subsidies to producers and exporters of malleable pipe fittings of cast iron and certain scales and weighing machinery. Furthermore, Commerce has preliminarily determined, in accordance with section 703(b) of the Act, that the Government of Pakistan has given subsidies to producers and exporters of certain textile products and men's and boys' apparel.

Pursuant to sections 705(c)(1) and 703(d)(3) of the Act, you are hereby formally advised of these determinations. The bases of these determinations are specified in the attached copies of the respective *Federal Register* notices.

The Commission will be given access to all nonconfidential information in our files regarding the above-cited investigations. In accordance with section 355.18(d)(2), Commerce Regulations (19 CFR 355.18(d)(2)), confidential information will be made available to the Commission only upon confirmation that the confidentiality of such information will be maintained and that it will not be disclosed, either publicly or under an administrative protective order, without the express, written consent of the Assistant Secretary for Trade Administration.

Sincerely,

Stanley J. Marcuss
Acting Assistant Secretary
for Trade Administration

Enclosures

Federal Register, March 26, 1980 (45 F.R. 19593)

## Certain Textiles and Textile Mill Products From Pakistan

**AGENCY:** International Trade Administration, U.S. Department of Commerce.

**ACTION:** Preliminary Countervailing Duty Determination.

**SUMMARY:** This notice is to inform the public that as a result of a determination on March 17, 1980, by the United States Trade Representative's Office that Pakistan is to be considered a country covered by the Agreement on Subsidies and Countervailing Measures, a preliminary determination is being issued that subsidies are being paid on the manufacture, production or exportation of men's and boys' apparel and textile mill products of cotton, wool and man-made fibers from Pakistan. A final determination is due no later than June 5, 1980, although it is anticipated that the final determination will be made well in advance of that date. The case is being referred to the United States International Trade Commission for a determination concerning injury to an industry in the United States.

**EFFECTIVE DATE:** March 17, 1980.

**FOR FURTHER INFORMATION CONTACT:** Donald W. Eiss, Office of Policy, Import Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, D.C. 20230; telephone (202-566-8256).

**SUPPLEMENTARY INFORMATION:** On July 20, 1979, a notice of "Initiation of Countervailing Duty Investigation and Preliminary Determination" was published in the Federal Register in this case. This action involved the re-opening of an earlier countervailing duty case with respect to certain Pakistani textile and textile mill products. That case was concluded on July 13, 1979, with the issuance of a final affirmative determination. The re-opening of that proceeding was necessary in order to permit an investigation of a program discovered too late in the original investigation to be included in the initial final determination. Given the size of the possible subsidy involved (7.5 percent–12.5 percent *ad valorem*) and the fact that the program was introduced specifically to promote Pakistani textile exports, a simultaneous preliminary affirmative determination was issued.

On January 1, 1980, section 103 of the Trade Agreements Act of 1979 (Pub. L. 96–39; 93 Stat. 144, 190) (hereinafter referred to as the "TAA"), amended section 303 of the Tariff Act of 1930 (19 U.S.C. 1303) (hereinafter referred to as "the Act") which section applies to all countries not a party to the Agreement on Subsidies and Countervailing Measures. Section 303(b), as amended by section 103 of the TAA, requires the suspension of liquidation of all entries and the deposit of a cash deposit, bond or other security in an amount equal to the estimated net subsidy at the time of a preliminary determination that a subsidy is being bestowed. Therefore, on February 27, 1980, a notice was published in the Federal Register suspending liquidation and requiring a bond on all entries of Pakistani men's and boys' apparel and textile mill products made on or after January 1, 1980, the effective date of Title I of the TAA.

For purposes of this notice, "textile mill products" include yarns, fabrics, household textiles, miscellaneous products of textile mills, and certified handloomed and folklore products, made of cotton, wool and man-made fibers as specified in U.S. bilateral textile agreements and described by the Tariff Schedules of the United States Annotated (TSUSA) set forth in the appendix to the Federal Register notice published on October 13, 1978 (43 FR 47340). "Men's and boys' apparel" includes those items described by TSUSA item numbers in the appendix to the above-cited Federal Register notice.

On March 17, 1980, the U.S. Trade Representative's Office informed the Commerce Department on behalf of the President that Pakistan had been determined to be a "country under the Agreement" as set out in section 701(b) of the Act (93 Stat. 151, 19 U.S.C. 1671(b)). Therefore the provisions of Title VII of the Tariff Act of 1930 become applicable to this pending countervailing duty investigation. Section 102 of the TAA (93 Stat. 189, 19 U.S.C. 1671 note) provides that upon the effective date of the application of Title VII of the Tariff Act of 1930 with respect to a country, any pending investigation under section 303 of the Act shall terminate. In investigations where a preliminary, but not a final, determination had been made under section 303, the matter is to be treated as if a preliminary determination under section 703 of the Tariff Act of 1930 (93 Stat. 152, 19 U.S.C. 1671(b)), had been made on the date of application of Title VII to that country.

In the instant case, therefore, the preliminary affirmative determination and suspension of liquidation effective January 1, 1980, under section 303(b), as amended, is terminated. As a result of the affirmative "Preliminary Countervailing Duty Determination" which is hereby published today and is effective as of March 17, 1980, the date upon which Pakistan was declared a "country under the Agreement" as defined in section 701(b) of Title VII of the Act (19 U.S.C. 1671), liquidation of entries will again be suspended effective March 17, 1980.

The suspension of liquidation, ordered in July 1979 will not serve to extend the period of potential liability for the payment of countervailing duties for benefits received under the export rebate program to a time earlier than the effective date of this preliminary determination; March 17, 1980.

Pursuant to section 703(d) of the Act (93 Stat. 153, 19 U.S.C. 1671(d)), the liquidation of entries of certain textiles and textile mill products from Pakistan will be suspended and, until further notice, a cash deposit, bond or other security, as deemed appropriate, in an amount equal to the estimated net subsidy as set out below shall be collected on all entries, or withdrawals from warehouse, for consumption of such merchandise which has been imported directly or indirectly from the country where manufactured or produced and has been determined preliminarily to receive subsidies. The estimated subsidies for purposes of this preliminary determination are as follows: (1) cotton yarn—7.5 percent; (2) grey cloth—10.0 percent; and (3) other cloth, thread, hosiery, towels, garments and made-ups—12.5 percent.

Pursuant to section 705(a) of the Act (93 Stat. 159, 19 U.S.C. 1671(d)), a final determination as to whether a subsidy is being provided with respect to certain textiles and textile mill products from Pakistan shall be made no later than June 9, 1980. However, in view of the present status of this investigation and the analysis already completed in this case, it is anticipated that a final determination will be issued significantly in advance of that date. The U.S. International Trade Commission is being notified of this action.

This notice is published pursuant to section 703(f) of the Act (93 Stat. 154, 19 U.S.C. 1781(b)(f)) and section 355.28, Commerce Regulations (19 CFR 355.28).

Stanley J. Marcuss,

*Acting Assistant Secretary for Trade Administration.*

March 17, 1980

[FR Doc. 80-9083 Filed 3-25-80; 8:45 am]

BILLING CODE 3510-22-M

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

MAY 30 1980

A-96

Dear Madam Chairman:

In accordance with section 705(a) of the Tariff Act of 1930, as amended (93 Stat. 159, 19 U.S.C. 1671d), the Department of Commerce on May 30, 1980, made an affirmative final determination that the Government of Pakistan provides subsidies for certain textiles and textile mill products imported into the United States. As required by section 705(d) of the Tariff Act I am notifying you of this determination and the reasons as set out in the attached notice which has been sent for publication to the Federal Register.

Sincerely,

Robert E. Herzstein

Enclosure

Honorable Catherine Bedell
Chairman, International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Federal Register, June 5, 1980 (45 F.R. 37873)

**DEPARTMENT OF COMMERCE**

**International Trade Administration**

**Certain Textiles and Textile Mill Products From Pakistan; Final Countervailing Duty Determination**

**AGENCY:** International Trade Administration, U.S. Department of Commerce.

**ACTION:** Final Countervailing Duty Determination.

**SUMMARY:** This notice is to inform the public that the Department of Commerce has determined that the Government of Pakistan has given benefits which constitute subsidies within the meaning of the countervailing duty law on the manufacture, production, or exportation of certain textile and textile mill products. The Department is notifying the U.S. International Trade Commission of this action so that it may complete its investigation of whether there is injury or likelihood of injury to a domestic industry. This notice is published pursuant to section 705(d) of the Act (19 U.S.C. 1671d) and § 355.33, Commerce Regulations, (19 CFR 355.33).

**EFFECTIVE DATE:** June 5, 1980.

**FOR FURTHER INFORMATION CONTACT:** Donald W. Eiss, Office of Policy, Import Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW, Washington, D.C. 20230; telephone (202-377-4412).

**SUPPLEMENTARY INFORMATION:** *Procedural Background:* On July 20, 1979, the Treasury Department published in the Federal Register a notice of "Initiation of Countervailing Duty Investigation and Preliminary Determination" in this case. By this action Treasury reopened an earlier countervailing duty investigation of certain Pakistani textile and textile mill products which had been concluded on July 13, 1979 with the issuance of a final affirmative countervailing duty determination. The reopening of that proceeding was necessary to permit investigation of a program discovered too late in the original investigation to be included in the initial final determination. Given the size of the possible subsidy involved (7.5 percent—12.5 percent *ad valorem*), and the fact that the program was introduced specifically to promote Pakistani textile exports, a simultaneous preliminary affirmative determination was issued.

On January 1, 1980, the Trade Agreements Act of 1979 (Pub. L. 96-39; 93 Stat. 144, 190) (the "TAA") amended section 303 of the Tariff Act of 1930 (19 U.S.C. 1303) ("the Act"). Section 303 applies to countervailing duty investigations involving all countries not party to the Agreement on Subsidies and Countervailing Measures. Pakistan was not a party to the Agreement at that time. Section 303(b), as amended by section 103 of the TAA, requires the suspension of liquidation of all entries and the posting of a cash deposit, bond or other security in an amount equal to the estimated net subsidy at the time of a preliminary determination. Accordingly, on February 27, 1980, the Commerce Department published a notice in the Federal Register suspending liquidation and requiring a bond on all entries of Pakistani men's and boys' apparel and textile mill products of cotton made on or after January 1, 1980, the effective date of the TAA.

On March 17, 1980, the U.S. Trade Representative's Office informed the Commerce Department on behalf of the President that Pakistan had become a "country under the Agreement" as defined in section 701(b) of the Act (93 Stat. 151, 19 U.S.C. 1671(b)). Therefore, the provisions of Title VII of the Tariff Act of 1930 became applicable to this pending countervailing duty investigation. Section 102 of the TAA (93 Stat. 189, 19 U.S.C. 1671 note) provides that upon the effective date of the application of Title VII of the Tariff Act of 1930 with respect to a country, any pending investigation under section 303 of the Act shall terminate. In investigations where a preliminary, but not a final determination was made under section 303, the matter is to be treated as if a preliminary determination under section 703 of the Tariff Act of 1930 (93 Stat. 152, 19 U.S.C. 1671b), had been made on the date of application of Title VII to that country.

In the instant case, therefore, the preliminary affirmative determination and the suspension of liquidation under section 303(b) were terminated and this Department pubished an affirmative "Preliminary Countervailing Duty Determination" in the Federal Register on March 26, 1980 (45 FR 19593), with liquidation of entries suspended effective March 17, 1980. We simultaneously referred the case to the U.S. International Trade Commission for an injury determination.

*The Subsidy Program for Textiles and Textile Mill Products:* For purposes of this notice, "textiles and textile mill products" include yarns, fabrics, household textiles, miscellaneous products of textile mills, and certified handloomed and folklore products, made of cotton, wool and man-made fibers as specified in U.S. bilateral textile agreements and described by the Tariff Schedules of the United States Annotated (TSUSA) set forth in the appendix to the Federal Register notice published on October 13, 1978 (43 FR 47340). "Men's and boys' apparel" includes those items described by TSUSA item numbers in the appendix to the same Federal Register notice. Because Pakistan only exports cotton textile products to the U.S., this determination applies only to merchandise under consideration made of cotton.

The program under investigation involves cash rebates paid by the Government of Pakistan on the exportation of textile products. The export cash rebate varies from 7.5 percent to 12.5 percent of the f.o.b. value of the export, depending on the product. The Government of Pakistan has argued that the program is not an export subsidy because it is designed mainly to offset indirect taxes and other imposts that are levied on the final product and the physical inputs to those products which are not otherwise rebated upon export. In the course of the investigation the U.S. Government did verify from Pakistani documents the rebate levels for the products under investigation.

The non-excessive refund of indirect taxes levied on exported products and their components is not a subsidy. The legislative history of the Trade Agreements Act of 1979 indicates that Congress was concerned about the Treasury Department practice of offsetting the amount of any non-rebated indirect taxes paid by the exporter from any gross subsidy for exported products (S. Rep. No. 96-249, July 17, 1979, at 86). To limit this practice, the TAA added section 771(6) of the Tariff Act of 1930, which set forth the items that could be offset against gross subsidies. The purpose was, in part, to reverse the practice of allowing as offsets the amount of indirect taxes which could have been, but were not, rebated. However, the Senate Report at 84-5 explains 771(6) and states quite clearly that the limitations on offsets,

Federal Register, June 5, 1980
(45 F.R. 37873)--Continued

"contained in section 771(6) of the Act are not intended to prohibit the administering authority from determining that export payments are not subsidies, if those payments are reasonably calculated, are specifically provided as non-excessive rebates of indirect taxes within the meaning of Annex A of the Agreement and are directly related to the merchandise exported."

The Department has published administrative guidelines (19 CFR 355 Annex 1, para. 2, 45 FR 4949) for determining when the payment of a lump sum calculated and identified as a non-excessive rebate of an indirect tax on an exported product or its components is not a subsidy. The guidelines state that the foreign government must reasonably have calculated and documented the actual indirect tax incidence borne by the product under investigation and have demonstrated a clear link between the export payment and the tax incidence. *Ex post facto* rationalizations of export payment programs will not be accepted. The foreign government must present information that demonstrates to the Department's satisfaction (a) that indirect taxes paid have served as the official basis upon which the export rebate was calculated and (b) that there is, in fact, the requisite link between the export payment and the indirect tax incidence.

In this case, the Government of Pakistan has not submitted information demonstrating the necessary link between the export payment and the tax incidence. Therefore, we have determined that the export cash rebate program of the Government of Pakistan does constitute a subsidy within the meaning of section 771(5) of the Act (19 U.S.C. 1677). The subsidy amounts are: (1) cotton yarn—7.5 percent; (2) grey cloth—10.0 percent; and (3) other cloth, thread, hosiery, towels, garments and made-ups—12.5 percent. We are notifying the U.S. International Trade Commission of this action.

**Robert Herzstein,**
*Under Secretary for International Trade.*
May 30, 1980.

[FR Doc. 80-17062 Filed 6-4-80; 8:45 am]
BILLING CODE 3510-22-M

# APPENDIX B

# U.S. INTERNATIONAL TRADE COMMISSION NOTICES

Federal Register, April 16, 1980 (45 F.R. 25977)

[Investigation No. 701-TA-62 (Final)]

## Textiles and Textile Products of Cotton From Pakistan; Institution of Final Countervailing Duty Investigation and Scheduling of Hearing

AGENCY: United States International Trade Commission.

ACTION: Institution of a final countervailing duty investigation.

SUMMARY: As a result of the afirmative preliminary determination on March 17, 1980, by the International Trade Administration, United States Department of Commerce, that subsidies are being paid on textiles and textile products from Pakistan provided for in item numbers of the Tariff Schedules of the United States (TSUS) set forth in attachment A, the United States International Trade Commission (hereinafter "the Commission") hereby gives notice of the institution of investigation No. 701-TA-62 (Final) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such articles.

EFFECTIVE DATE: April 8, 1980.

FOR FURTHER INFORMATION CONTACT: Ms. Vera Libeau, Senior Supervisory Investigator, Office of Operations, U.S. International Trade Commission, Room 339, 701 E Street NW., Washington, D.C. 20436; telephone (202) 523-0368.

SUPPLEMENTARY INFORMATION: The provisions of the Trade Agreements Act of 1979 (Pub. L. 96-39, 93 Stat. 144) amending the Tariff Act of 1930 (19 U.S.C. 1303) (hereinafter "the Act") became effective on January 1, 1980. Section 705(b)(1) of the Act requires the Commission to make a final injury determination where the administering authority, the Department of Commerce, has made an affirmative final determination as to whether a subsidy is being provided with respect to the merchandise which is the subject of its investigation.

This investigation will be conducted according to the provisions of Part 207 of the Commission's Rules of Practice and Procedure (19 CFR 207, 44 FR 76457), Subpart C, effective Janaury 1, 1980.

WRITTEN SUBMISSIONS: Any person may submit a written statement of information pertinent to the subject matter of this investigation. A signed original and nineteen (19) true copies of each submission must be filed at the Office of the Secretary, U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436, on or before June 30, 1980. All written submissions, except for confidential business data, will be available for inspection by interested persons at the Office of the Secretary and in the Commission's New York Office, 6 World Trade Center, New York, N.Y. 10048. Any submission of business information for which confidential treatment is desired shall be submitted separately from other documents. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidentail submissions must conform with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6).

A staff report containing preliminary findings of fact will be available to all interested parties on June 3, 1980.

HEARING: The Commission will hold a hearing in connection with this investigation on June 25, 1980. It will be held in the Hearing Room of the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436, and will begin at 10:00 a.m., e.d.t. Parties wishing to participate should notify the Office of the Secretary not later than five (5) days prior to the date of the hearing. In addition, all parties desiring to appear at the hearing and make oral presentations must submit prehearing statements. Such statements must be filed on or before June 17, 1980. For further information concerning the conduct of the investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 207, Subpart C (19 CFR 207), and Part 201, Subparts A through E (19 CFR 201).

This notice is published pursuant to section 207.20 of the Commission's Rules of Practice and Procedure (19 CFR 207.20, 44 FR 76458).

TEXTILES AND TEXTILE PRODUCTS OF COTTON FROM PAKISTAN

Inv. No. 701-TA-62 (Final)

Attachment A—TSUS Nos.

Yarn and thread: 300.60, 301—, 302—, 303.10, 303.20.

Cordage: 315.05, 315.10, 315.15.

Woven fabric: 319.21, 319.23, 319.25, 319.27, 319.29, 320.—, 321.—, 322.—, 323.—, 324.—, 325.—, 326.—, 327.—, 328.—, 329.—, 330.—, 331.—, 332.10, 332.40.

Knit, pile, tufted and narrow fabrics; braids, and elastic fabrics: 345.10(a), 345.35(a), 346.05, 346.10, 346.15, 346.20, 346.22, 326.24, 346.30, 346.32, 346.35, 346.40, 346.45, 346.50(a), 346.56(a), 346.70, 347.10, 347.15, 347.26, 347.33, 348.05(a), 349.10(a), 349.15, 349.30(a).

Lace, netting and ornamented fabrics: 351.05, 351.25(a), 351.40(a), 351.46(a), 351.50(a), 351.60(a), 351.60(a), 351.90(a), 352.10(a), 352.50, 352.80(a), 353.10(a), 353.50(a).

Other fabrics of special construction and articles thereof: 355.02, 355.35, 355.50, 357.05(a), 357.70(a), 357.80(a), 358.05(a), 359.10.

Floor coverings: 360.20, 360.25, 360.30, 360.76, 360.81, 361.05(a), 361.18(a), 361.50, 361.54(a), 361.56(a).

Bedding: 363.01, 363.05(a), 363.30, 363.40(a), 363.45(a), 363.50(a), 363.51(a), 363.55(a), 363.60(a).

Tapestries, linens and other furnishings: 364.07, 364.13, 364.16(a), 365.00, 365.40(a), 365.50(a), 365.75(a), 365.77, 365.78, 366.03, 366.06, 366.09, 366.15(a), 366.18, 366.21, 366.24, 366.27, 366.42, 366.45, 366.46, 366.47, 366.57(a), 366.60, 366.63, 366.65, 366.69, 366.75, 366.77, 366.79, 727.82.

Handkerchiefs: 370.04(b), 370.08(b), 370.16(b), 370.24(b), 370.28(b), 370.32(b), 370.36(b), 370.40(b), 370.44(b), 370.48(b), 370.52(b), 370.56(b), 370.60(b), 370.64(b), 370.68(b).

Mufflers, scarves, shawls, and veils; and neckties: 372.04(b), 372.08(b), 372.10(a)(b), 372.15(b), 373.05, 373.10(a).

Other wearing apparel and accessories: 376.04(a)(b), 376.54(b), 378.05(a)(b), 378.10(a)(b), 378.15(a)(b), 378.20(b), 378.25(b), 380.00, 380.05(a), 380.06, 380.09, 380.12, 380.15, 380.18, 380.21, 380.24, 380.27, 380.30, 380.33, 380.36, 380.39, 380.45(a), 380.51(a), 380.72(a), 380.75(a), 380.90(a).

Miscellaneous textile products: 385.25, 385.30, 385.40, 385.55(a), 385.60(a), 385.75(a), 385.80(a), 386.04, 386.50.

Headwear, gloves, luggage, and handbags: 702.06(b), 702.12(b), 704.05(a)(b), 704.10(a)(b), 704.15(a)(b), 704.40(a)(b), 704.45(a)(b), 704.50(a)(b), 706.20(a)(b), 706.22(b), 706.24(a)(b).

(a) Cotton articles classified under this TSUS No. are covered by this notice if they are included in the textile category system used by the United States to monitor and administer the U.S. textile trade agreements made pursuant to the Arrangement Regarding International Trade in Textiles, done Dec. 20, 1973, 25 U.S.T. 1001, TIAS 7840.

(b) If the item is for men and boys, it is included in this notice. The term "men and boys" should be interpreted in accordance with the applicable headnotes to the schedule, part, and subpart in which the TSUS number falls. Where the phrase is not covered by such headnotes, items classified under the TSUS No. which can be used by either sex are covered by this notice. Items under TSUS Nos. identifiable as being intended exclusively for women are not covered by this notice.

By order of the Commission.

Issued: April 10, 1980.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 80-11559 Filed 4-15-80; 8:45 am]

BILLING CODE 7020-02-M

Federal Register, May 14, 1980 (45 F.R. 31834)

[Investigation No. 701-TA-63 (Final)]

**Textiles and Textile Products of Cotton From Pakistan; Institution of Final Countervailing Duty Investigation and Scheduling of Hearing**

AGENCY: United States International Trade Commission.

ACTION: Institution of a Final Countervailing Duty Investigation.

SUMMARY: As a result of a request by the Government of Pakistan for review of an outstanding countervailing duty order issued by the United States Department of Commerce, that subsidies are being paid on certain textiles and textile products from Pakistan described hereinafter, the Commission hereby gives notice of the institution of investigation No. 701-TA-63 (Final) to determine whether an industry in the United States would be materially injured, or would be threatened with material injury, or the establishment of an industry in the United States would be materially retarded, by reason of imports of the merchandise covered by the countervailing duty order announced on July 13, 1979, (44 FR 40884) if that order were revoked. The textiles and textile products which are the subject of this investigation are the same as those covered by the Federal Register notice of April 16, 1980 (45 FR 25977) instituting inv. No. 701-TA-62 (Final), except for cotton towels provided for in items 366.18, 366.21, 366.24, and 366.27 of the Tariff Schedules of the United States which are not covered by the Commerce Department's outstanding countervailing duty order and therefore are not included in this investigation.

EFFECTIVE DATE: May 2, 1980.

FOR ADDITIONAL INFORMATION, CONTACT:
Ms. Vera Libeau, Senior Investigator, Office of Operations, U.S. International Trade Commission, Room 339, 701 E Street, NW., Washington, D.C. 20436; telephone (202) 523-0368.

SUPPLEMENTARY INFORMATION: The provisions of the Trade Agreements Act of 1979 (Pub. L. 96-39, 93 Stat. 144) amending the Tariff Act of 1930 (19 U.S.C. 1303) (hereinafter "the Act") became effective on January 1, 1980. The provisions of sections 104(b) (1) and (2) provide that in the case of a countervailing duty order issued under section 303 of the Act—

(A) Which is not a countervailing duty order to which subsection (a) applies,

(B) Which applies to merchandise which is the product of a country under the Agreement, and

(C) Which is in effect on January 1, 1980, or which is issued pursuant to court order in an action brought under section 516(d) of that Act before that date, upon the request of the government of such a country or of exporters accounting for a significant proportion of exports to the United States of merchandise which is covered by the order, submitted within 3 years after the effective date of title VII of the Act, the Commission shall commence an investigation to determine whether—

(A) An industry in the United States—
(i) Would be materially injured, or
(ii) Would be threatened with material injury, or

(B) The estabishment of an industry in the United States would be materially retarded,

by reason of imports of the merchandise covered by the countervailing duty order if the order were to be revoked.

Section 104(b)(3) required that the determination shall be made not later than three (3) years after the commencement date of the investigation. However, pursuant to § 207.32 of the Commission's rules of practice and procedure (19 CFR 207.32) this investigation shall be conducted in accordance with the procedures and time limitations prescribed by part 207, Subpart C (19 CFR Part 207) applying to final investigations as to whether injury to domestic industries results from subsidized exports to the United States. Inasmuch as the products covered by this investigation are the same as those covered in investigation No. 701-TA-62 (Final), Textiles and textile products of cotton from Pakistan, except as specified above, the two investigations will be conducted concurrently.

WRITTEN SUBMISSIONS: Any person may submit a written statement of information pertinent to the subject matter of this investigation. A signed original and nineteen (19) true copies of each submission must be filed at the Office of the Secretary, U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436, on or before June 30, 1980.

All written submissions, except for confidential business data, will be available for inspection by interested persons at the Office of the Secretary and in the Commission's New York Office, 6 World Trade Center, New York, N.Y. 10048. Any submission of business information for which confidential treatment is desired shall be submitted separately from other documents. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules of practice and procedure (19 CFR 201.6).

A staff report containing preliminary findings of fact will be available to all interested parties on June 3, 1980.

HEARING: The Commission will hold a hearing in connection with this investigation on June 25, 1980. It will be held in the Hearing Room of the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436, and will begin at 10:00 a.m., e.d.t. Parties wishing to participate should notify the Office of the Secretary not later than five (5) days prior to the date of the hearing. In addition, all parties desiring to appear at the hearing and make oral presentations must submit prehearing statements. Such statements must be filed on or before June 17, 1980. For further information concerning the conduct of the investigation, hearing procedures, and rules of general application, consult the Commission's rules of practice and procedure, Part 207, Subpart C (19 CFR 207), and Part 201, Subparts A through E (19 CFR 201).

This notice is published pursuant to § 207.20 of the Commission's rules of practice and procedure (19 CFR 207.20, 44 FR 76458).

Issued: May 6, 1980.

By order of the Commission.

Kenneth R. Mason,
*Secretary.*

[FR Doc. 80-14814 Filed 5-13-80; 8:45 am]

BILLING CODE 7020-02-M

Federal Register, June 5, 1980 (45 F.R. 37913)

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-62 (Final) and 701-TA-63 (Final)]

Textiles and Textile Products of Cotton from Pakistan; Scheduling of Hearing

AGENCY: International Trade Commission.

ACTION: Notice is hereby given that:

(a) Public hearing date changed to 10 a.m., e.d.t., Friday, June 27, 1980, in the Commission's Hearing Room, 701 E Street NW., Washington, D.C.,

(b) Prehearing staff report will be available to the parties on Thursday, June 5, 1980, and

(c) Prehearing statements are due from parties by Thursday, June 19, 1980.

FOR FURTHER INFORMATION CONTACT: Vera Libeau, the Senior Investigator assigned by the Commission to this investigation, telephone (202) 523-0368.

SUPPLEMENTARY INFORMATION: The Commission instituted investigation No. 701-TA-62 (Final) effective April 8, 1980 (45 FR 25977, April 16, 1980) and instituted investigation No. 701-TA-63 (Final) effective May 2, 1980 (45 FR 31834, May 14, 1980), pursuant to section 705(b)(1) of the Tariff Act of 1930. Those notices incorporated a tentative hearing date of June 25, 1980, which has been changed at the request of the parties to June 27, 1980.

By order of the Commission.

Issued: June 3, 1980.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 80-17259 Filed 6-4-80; 8:45 am]

BILLING CODE 7020-02-M

# APPENDIX C

## LETTER TO THE COMMISSION ON BEHALF OF THE GOVERNMENT OF PAKISTAN REQUESTING REVIEW OF OUTSTANDING COUNTERVAILING DUTY ORDER OF JULY 13, 1979

A-104

KIRKWOOD, KAPLAN, RUSSIN & VECCHI

LAW OFFICES

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CABLE KIRKWOOD TAIPEI
TELEX 23775 KIRKWOOD


March 31, 1980

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Investigations for action

BY HAND

Mr. Kenneth R. Mason
Secretary
United States International Trade Commission
701 E Street, N.W.
Washington, D.C.

Mr. John Greenwald
Deputy Assistant Secretary for Import Administration
Commerce Department
14th Street & Constitution Avenue - Room 2800
Washington, D.C. 20230

Re: Certain Textiles and Textile Products from Pakistan/Request for USITC Investigation

Gentlemen:

We are counsel to the Export Promotion Bureau, Government of Pakistan, in the above-captioned matter. This request is filed on behalf of the Export Promotion Bureau pursuant to Section 104 of the Trade Agreements Act of 1979 (Pub. L. 96-39, July 26, 1979); to 19 CFR §207.30(d); and to other applicable laws and regulations.

On March 17, 1980, the International Trade Administration, Department of Commerce, made a preliminary countervailing duty determination (45 FR 19593) that "subsidies are being paid on the manufacture, production, or exportation" of certain textiles and textile products from Pakistan. The notice of that determination, dated March 26, 1980, indicates that, as a result of Pakistan's having become a "country under the Agreement on Subsidies and Countervailing Measures", "the case is being referred to the United States International Trade Commission for a determination concerning injury to an industry in the United States."

In addition to the above-mentioned preliminary determination, there is at present an outstanding final determination dated July 13, 1979 (see 44 FR 40884) involving different Government of Pakistan programs from those subject to the March 17, 1980, order but concerning the very same merchandise. (A copy of the July 13, 1979, determination is enclosed.) On behalf of the Export Promotion Bureau, Government of Pakistan, we hereby request that the Commission commence an investigation to determine whether there would be injury by reason of imports of the merchandise covered by the countervailing duty order announced on July 13, 1979, if that order were revoked (see 19 CFR §207.30 and Publ. L. 96-39, §104(b)). We further request that such investigation be consolidated with the investigation to be commenced as a result of the preliminary determination dated March 17, 1980. Consolidation will avoid needless cost and inconvenience to all parties concerned.

It should be noted that additional information regarding the programs found to constitute bounties and grants in 1979 has been submitted to the International Trade Administration. We believe this information will show that the benefits derived are de minimis. Such a finding will, of course, mean that no review by the Commission of the March 17, 1979, determination will be required. However, since the March 17, 1979, decision is still outstanding and since the International Trade Administration may not act before the Commission commences its investigation, we request that the two investigations be consolidated pending a determination as to whether the benefits are de minimis.

Respectfully submitted,

KIRKWOOD, KAPLAN, RUSSIN & VECCHI
Counsel for the Export Promotion
Bureau, Government of Pakistan

By ______________________
Dennis James, Jr.

DJ/fa

Enclosure
cc: Donald Eiss
Minister I.S. Haq
Sher Khan, Commercial Counselor

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Counsel, Civil Aeronautics Board, 1825 Connecticut Avenue, N.W., Washington, D.C., 20428; 202-673-5442.

SUPPLEMENTARY INFORMATION: ER-1127 (44 FR 33054; June 8, 1979) amends 14 CFR Part 208 to eliminate the requirement that charter airlines file tariffs. Before adoption of this amendment, § 208.31b consisted of two paragraphs, the first of which contained seven subparagraphs. ER-1127 revoked the second paragraph without redesignating the subparagraphs of the first one. Accordingly, the amendment of § 208.31b (item #4 in the right column at 44 FR 33054) is corrected to read:

4. In § 208.31b, *Written contract with charterers,* paragraph (b) is revoked and paragraphs (a)(1) through (a)(7) are redesignated as paragraphs (a) through (g).

Dated: July 9, 1979.

Phyllis T. Kaylor,

*Secretary.*

[FR Doc. 79-21762 Filed 7-12-79; 8:45 am]

BILLING CODE 6320-01-M

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DEPARTMENT OF THE TREASURY

Customs Service

19 CFR Part 159

[T.D. 79-188]

## Countervailing Duties—Certain Textiles and Textile Products From Pakistan; Countervailing Duties To Be Imposed by Reason of the Payment or Bestowal of a Bounty or Grant Upon the Manufacture, Production, or Exportation

AGENCY: U.S. Customs Service, Treasury Department.

ACTION: Final Affirmative Countervailing Duty Determination and Suspension of Liquidation.

SUMMARY: This notice is to advise the public that a countervailing duty investigation has resulted in a final determination that the Government of Pakistan has given benefits considered to be bounties or grants within the meaning of the countervailing duty law on the manufacture, production or exportation of certain men's and boys' apparel and textile mill products.

EFFECTIVE DATE: July 13, 1979.

FOR FURTHER INFORMATION CONTACT: Holly A. Kuga, Duty Assessment Division, U.S. Customs Service, 1301 Constitution Avenue, NW., Washington, D.C. 20229 (566-5492).

SUPPLEMENTARY INFORMATION: On January 12, 1979, an affirmative "Preliminary Countervailing Duty Determination" was published in the Federal Register (44 FR 2746). That notice stated that it had been preliminarily determined that benefits had been bestowed by the Government of Pakistan (GOP) to manufacturers/exporters of men's and boys' apparel and textile mill products of cotton, wool and man-made fibers which may constitute bounties or grants within the meaning of section 303 of the Tariff Act of 1930, as amended (19 U.S.C. 1303) (hereinafter referred to as "the Act").

For purposes of this notice, "textile mill products" include yarns, fabrics, household textiles, miscellaneous products of textile mills, and certified handloom and folklore products, made of cotton, wool and man-made fibers, as specified in U.S. bilateral textile agreements, and as described by the Tariff Schedules of the United States Annotated (TSUSA) item numbers set forth in the Appendix to the Federal Register notice published on October 13, 1978 (43 FR 47340). "Men's and boys' apparel" includes those items described by TSUSA item numbers in the Appendix to the above-cited Federal Register notice.

It has been determined that Pakistan only exports men's and boys' apparel and textile mill products of cotton and, therefore, this determination is limited to the merchandise under consideration made from cotton.

In the preliminary affirmative determination cited above, the following programs were found not to constitute bounties or grants within the meaning of section 303 of the Act:

(1) Advantageous depreciation allowances for new plants and equipment and for machinery used for extra shifts.

(2) Preferential credit terms for industries that produce for export through government entities such as the Pakistan Industrial Credit and Investment Corporation, the Industrial Development Bank of Pakistan, the Investment Corporation of Pakistan and the Pakistan Industrial Development Corporation.

A number of other programs were preliminarily determined as not applicable, or utilized by, Pakistani textile and textile product manufacturers subject to this investigation. They include the following:

(1) Tax credit schemes to encourage investment in designated areas of the country.

(2) Reduced corporate income taxes for companies established in specified areas of the country between July 1, 1975 and June 30, 1981.

In addition, two programs contained in the petition were described in the Notice of Initiation and the Preliminary Determination as *prima facie* not constituting the bestowal of a bounty or grant. Those programs are:

(1) Exemptions from sales tax on exports and on raw materials used in production for exports of manufactured goods.

(2) Relief from import duties on goods used in the production of exported merchandise.

The above-cited notice stated 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 and received by the Commissioner of Customs not later than February 11, 1979. Based upon an analysis of the information submitted subsequent to the preliminary determination, no change in the Treasury Department's position with respect to these programs is warranted.

Two programs were identified in the preliminary determination as bestowing benefits constituting "bounties or grants" within the meaning of the Act. Although there was some evidence at the time of the preliminary determinations that the benefits received under the two programs were *de minimis*, an affirmative determination was made pending a more detailed analysis of the utilization of each program by manufacturers of the various textile products. The information, and the results of subsequent analyses, are discussed below.

1. Reductions in total income tax liability of firms which export. The reduction is set at 50 percent of the total income tax liability, applied to the percentage of total sales by a firm accounted for by export sales. Benefits from the law cannot be carried forward or back.

Based upon data submitted by the GOP since the preliminary determination, with regard to the utilization of this program by firms manufacturing the products covered by this investigation, the following *ad valorem* benefits have been calculated: (1) cotton thread, cotton yarn, cotton cloth—0.09 percent; (2) cotton towels—0.013 percent; (3) cotton hosiery—0.27 percent; (4) cotton garments and other made-ups—data not submitted in sufficient time to be analyzed prior to this determination.

2. Short term export financing at preferential rates for up to 90 days. The

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GOP permits short term export financing to be provided at rates considerably lower than those otherwise charged on short term money in Pakistan. At present, the preferential export financing rate is 3 percent while the prevailing commercial rate for short term money is 14 percent. Companies on the average utilize this facility for 60 days. The interest saved over that 60-day period represents the benefit bestowed to any company using the program.

Based upon data submitted, the following *ad valorem* benefits have been calculated with regard to the utilization of this program: (1) cotton thread, cotton yarn, cotton cloth—0.33 percent; (2) cotton towels—0.08 percent; (3) cotton hosiery—0.05 percent; (4) garments and other made-ups—data recently supplied and will be analyzed subsequently.

As a result of the utilization of the two programs described above, total *ad valorem* benefits for each product are: (1) cotton thread, cotton yarn, cotton cloth—0.42 percent; cotton towels—0.093 percent; (3) cotton hosiery—0.32 percent; (4) cotton garments and other made-ups—data recently supplied and will be analyzed subsequently.

On the basis of information presented, it is hereby determined that benefits have been paid by the government of Pakistan on the manufacture/exportation of men's and boys' apparel and certain textile mill products made of cotton in the form of preferential export financing and income tax relief for exporters. It has further been determined that the aggregate amount of benefits to the cotton towel sector of the textile industry, 0.093 percent is considered to be *de minimis* in size. Therefore 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 towels of cotton from Pakistan.

Accordingly, notice is hereby given that men's and boys' apparel and certain textile mill products of cotton, except towels, which are imported directly or indirectly from Pakistan, if entered or withdrawn from warehouse, for consumption on or after the date of publication of this notice in the Federal Register will be subject to the payment of countervailing duties equal to the net amount of the bounty or grant determined or estimated to have been paid or bestowed.

The *ad valorem* benefits found to apply to cotton hosiery and cotton thread, cotton yarn and cotton cloth are acknowledged by the Treasury to be small and within the range of amounts which the Treasury under certain circumstances considers to be *de minimis*. However, the data upon which that benefit was calculated is 2 years old and there is evidence which indicates the possibility of increased utilization of these benefits since the time for which that data was compiled. Pending the receipt of information regarding the more recent utilization of these programs, which the GOP has indicated will be supplied shortly, the liquidation of all entries for consumption or withdrawals from warehouse for consumption of such cotton hosiery, cotton thread, cotton yarn and cotton cloth which are subject to this order shall be suspended. A deposit of estimated countervailing duties in the following amounts will be required at the time of entry, or withdrawal from warehouse, for consumption; (1) cotton hosiery—0.6 percent; (2) cotton thread, cotton yarn, cotton cloth—0.8 percent.

Although information has been supplied with respect to the extent of utilization of these two programs by manufacturers/exporters of cotton garments or other made-ups, it was not supplied in sufficient time prior to this determination to be analyzed. Pending completion of that analysis, the net amount of bounty or grant is estimated to be 1.0 percent *ad valorem* and liquidation will be suspended in the interim on these products. A deposit of the 1.0 percent estimated countervailing duty will be required at the time of entry, or withdrawal from warehouse, for consumption of garments and other made-ups.

Effective on or after the date of publication of this notice in the Federal Register and until further notice, upon the entry, or withdrawal from warehouse, for consumption of the subject merchandise from Pakistan which benefits 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 estimated in accordance with the above declaration pending later determination and declaration of the net bounties or grants.

Any merchandise subject to the terms of this order shall be deemed to have benefited from a bounty or grant if such bounty or grant has been or will be credited or bestowed, directly or indirectly, upon the manufacture, production or exportation of men's and boys' apparel and textile mill products of cotton from Pakistan.

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

This final determination is published pursuant to section 303(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1303(a)).

Pursuant to Reorganization Plan No. 26 of 1950 and Treasury Department Order No. 101-5, May 16, 1979, the provisions of Treasury Department Order No. 165, Revised, November 2, 1954, and section 154.47 of the Customs Regulations (19 CFR 159.47), insofar as they pertain to the issuance of a final countervailing duty determination by the Commissioner of Customs, are hereby waived.

(R.S. 251, as amended, secs. 303, as amended, 624, 46 Stat. 687, as amended, 759 (19 U.S.C. 66, 1303, 1624).)

Robert H. Mundheim,
*General Counsel of the Treasury.*
July 6, 1979.

[FR Doc. 79-21758 Filed 7-12-79; 8:45 am]
BILLING CODE 4810-22-M

## DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

## Food and Drug Administration

## 21 CFR Parts 175 and 177

[Docket No. 78F-0210]

## Indirect Food Additives: Adhesive Coatings and Components and Polymers; 2-Sulfoethyl Methacrylate, Sodium Salt

**AGENCY:** Food and Drug Administration.

**ACTION:** Final rule.

**SUMMARY:** This document amends the food additive regulations to provide for the use of 2-sulfoethyl methacrylate, sodium salt as a component of food-contact coatings on metal and polyester film. The Morton Chemical Co. petitioned for the amendment.

**DATES:** Effective July 13, 1979; objections by August 13, 1979.

**ADDRESS:** Written objections to the Hearing Clerk (HFA-305), Food and Drug Administration, Rm. 4-65, 5600 Fishers Lane, Rockville, MD 20357.

**FOR FURTHER INFORMATION CONTACT:** John J. McAuliffe, Bureau of Foods (HFF-334), Food and Drug Administration, Department of Health,