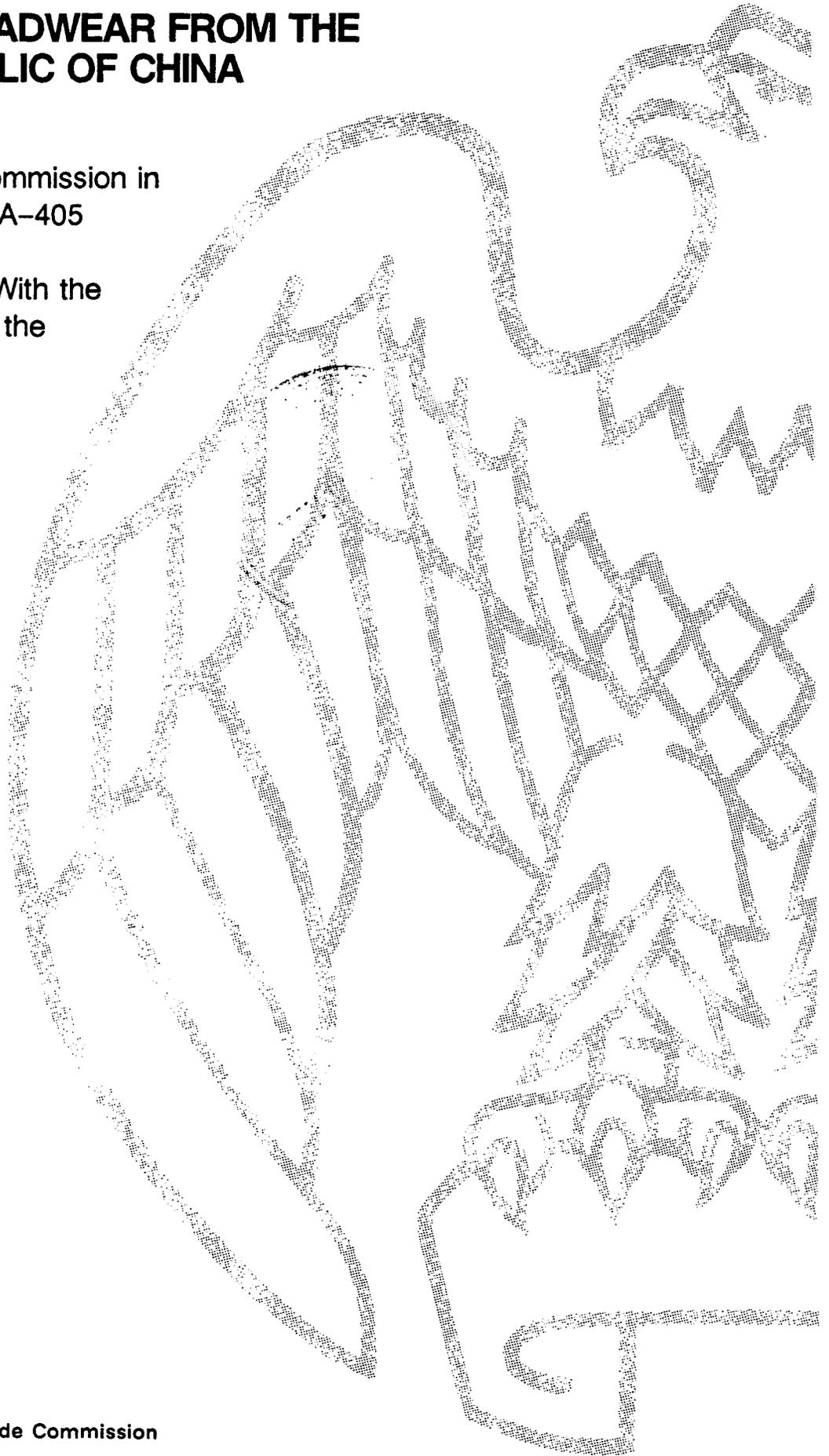


# SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

Determination of the Commission in  
Investigation No. 731-TA-405  
(Final) Under the Tariff  
Act of 1930, Together With the  
Information Obtained in the  
Investigation



USITC PUBLICATION 2183

MAY 1989

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

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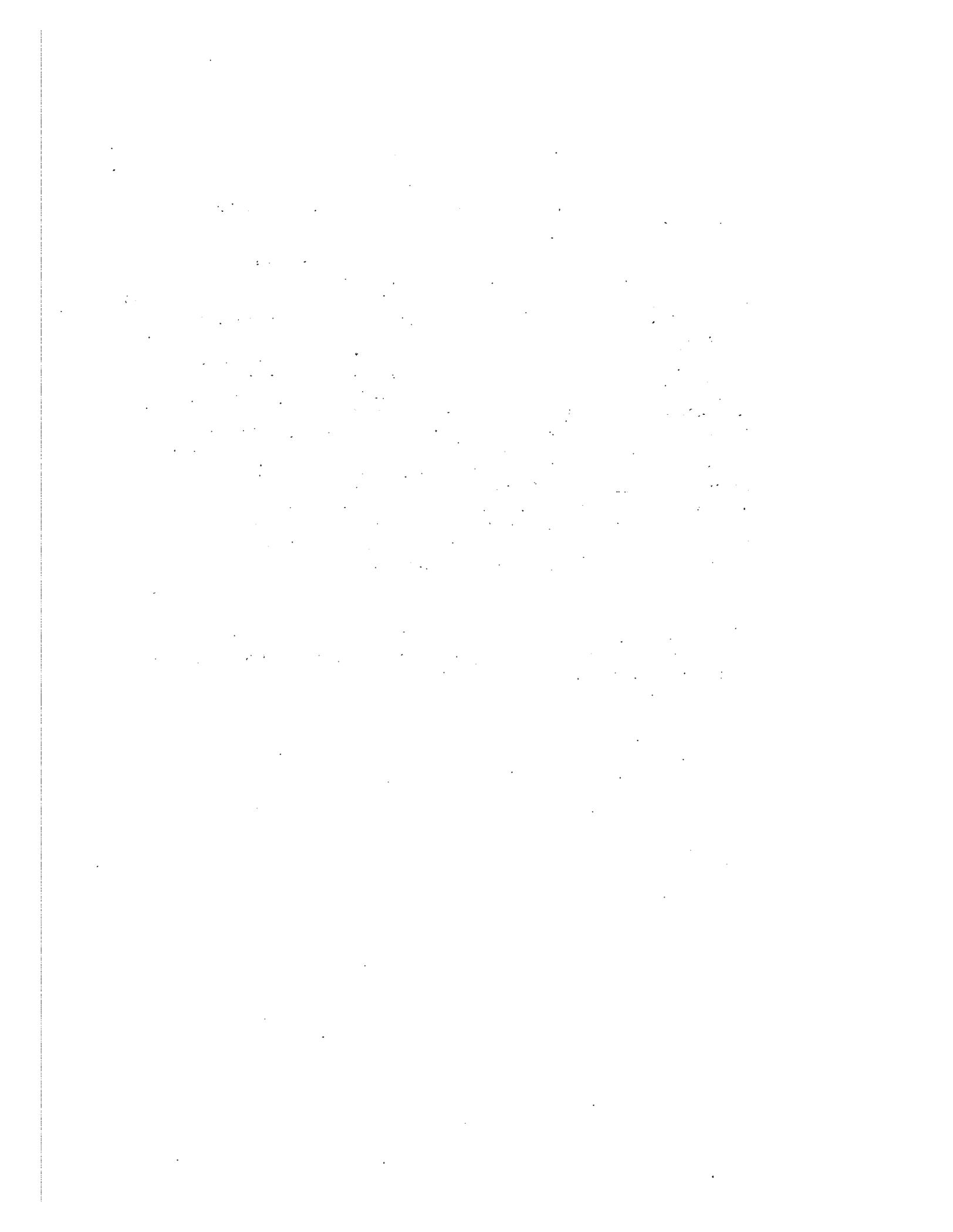
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Note.--Information that would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.



UNITED STATES INTERNATIONAL TRADE COMMISSION

Investigation No. 731-TA-405 (Final)

SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission unanimously determines, pursuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) (the Act), that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of imports from the People's Republic of China of sewn cloth headwear, 2/ provided for in subheadings 6114.20.00, 6114.30.30, 6204.23.00, 6204.29.20, 6204.29.40, 6209.90.30, 6209.90.40, 6211.32.00, 6211.33.00, 6211.42.00, 6211.43, 6211.49.00, 6502.00.20-6502.00.90, inclusive; 6504.00.30-6504.00.90, inclusive; and 6505.90 (except 6505.90.30 and 6505.90.40) of the Harmonized Tariff Schedule of the United States (HTS), that have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV).

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

2/ The headwear subject to this investigation includes hats, caps, visors, and other headwear, all the foregoing made from knitted or woven fabrics of vegetable fibers (including cotton, flax, and ramie), or manmade fibers, and/or of blends thereof, and assembled from two or more cut pieces of fabric and then sewed. The subject headwear was formerly provided for in items 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, 702.3200, 703.0540, 703.0550, 703.0560, 703.1000, 703.1640, 703.1650, and under various items in part 6F of schedule 3 of the Tariff Schedules of the United States Annotated (TSUSA).

### Background

The Commission instituted this investigation effective November 8, 1988, following a preliminary determination by the Department of Commerce that imports of sewn cloth headwear from the People's Republic of China were being sold at LTFV within the meaning of section 731 of the Act (19 U.S.C. § 1673). Notice of the institution of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of December 6, 1988 (53 FR 49247). The hearing was held in Washington, DC, on March 29, 1989, and all persons who requested the opportunity were permitted to appear in person or by counsel.

## VIEWS OF THE COMMISSION

We unanimously determine that an industry in the United States is not materially injured or threatened with material injury by reason of imports of sewn cloth headwear from the People's Republic of China (P.R.C. or China) that are sold at less than fair value. 1/

I. Like Product and Domestic Industry

To make its determinations in a Title VII investigation, the Commission must first define the relevant domestic industry producing the like product. Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" as "the 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 . . . ." 2/ Correspondingly, "like product" is defined 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 . . . ." 3/

The product subject to this investigation is sewn cloth headwear from China. The Department of Commerce has defined this product as follows:

Imports covered by this investigation are caps, hats, and visors made from knitted or woven cloth of vegetable fibers including cotton, flax, and ramie, of man-made fibers, and/or blends thereof, and which are cut and sewn. The subject headwear may be adorned with braid, embroidery, or other applied, printed or sewn decoration or may be plain. This investigation does not include headwear of straw, felt or wool. 4/

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1/ Material retardation is not an issue in this investigation and will not be discussed further.

2/ 19 U.S.C. § 1677(4)(A).

3/ 19 U.S.C. § 1677(10).

4/ 54 Fed. Reg. 11983 (March 23, 1988).

The Commission's decision regarding the appropriate like product or products in an investigation is essentially a factual determination, and the Commission has applied the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis. 5/ In analyzing like product issues, the Commission generally considers a number of factors including: (1) physical characteristics; (2) end uses; (3) interchangeability of the products; (4) channels of distribution; (5) production processes; (6) customer or producer perceptions of the products; (7) the use of common manufacturing facilities and production employees; and (8) price. The Commission has found minor product variations to be an insufficient basis for a separate like product analysis, and instead, has looked for clear dividing lines among products. 6/

In our preliminary determination, we determined that there was a single like product consisting of all cut and sewn cloth headwear, including caps, hats and visors, 7/ made from any combination of vegetable (e.g., cotton) or man-made fibers. 8/ The Commission also indicated that in the final investigation we would scrutinize more closely alternative like product

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5/ Asociacion Columbiana de Exportadores de Flores, et al. v. United States ("ASOCOFLORES"), 693 F.Supp. 1165, 1169 (CIT 1988).

6/ See, e.g., ASOCOFLORES, 693 F.Supp. at 1168-69; S. Rep. No. 249, 96th Cong., 1st Sess, 90-91 (1978); Operators for Jalousie and Awning Windows from El Salvador, Inv. Nos. 701-TA-272 and 731-TA-319 (Final), USITC Pub. No. 1934 January 1987) at 4, n.4.

7/ A "hat" is defined as headwear with a brim around the entire body. An example would be floppy tennis hat. A "cap" is defined as headwear without a brim, but with a shade or visor in the front. An example would be a baseball cap. A "visor" is an item of headwear which generally has the shape of a cap, but does not have a complete crown.

8/ Sewn Cloth Headwear from the People's Republic of China, Inv. No. 731-TA-405 (Preliminary), USITC Pub. 2096 at 6.

definitions. 9/ Based on the record in this final investigation, we find no reason to change our definition of the like product as all sewn cloth headwear.

In this final investigation, respondents China National Light Industrial Products Import & Export Corporation and China National Arts & Crafts Import & Export Corporation argued that headwear for children and infants is a separate like product from adults' headwear. 10/ In support of this position, respondents urged that adults' and children's headwear differ in style and size, and are sold to different end users at different prices through different channels of distribution. Respondents also maintained that almost all infants' and children's headwear is ornamented or decorated, and that few manufacturers in the United States manufacture headwear for infants and children. As a size cutoff, respondents proposed that the Commission treat adults' headwear as any headwear larger than 6-7/8 inches in diameter.

Generally, the Commission has declined to make like product distinctions solely based on product size, absent other evidence of clear dividing lines such as differences in production processes and channels of distribution. 11/

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9/ Id. at 6, n.9.

10/ Prehearing brief of the China National Light Industrial Products Import & Export Corporation and the China National Arts & Crafts Import & Export Corporation (PRC respondents) at 2; posthearing brief of PRC respondents at 2; Transcript of the hearing (Tr.) at 96.

11/ See, e.g., Textiles and Textile Products of Cotton from Pakistan, Invs. Nos. 701-TA-62 and 63 (Final), USITC Pub. 1086 (July 1980) at 9, 31-32, 46-47; Antifriction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof From the Federal Republic of Germany, France, Italy, Japan, Rumania, Singapore, Sweden, Thailand, and the United Kingdom, Inv. Nos. 303-TA-19 and 20 (Preliminary), USITC Pub. 2083 (May 1988), at 19-20. See also ASOCOFLORES, 693 F. Supp. at 1170.

We have found no such evidence of clear dividing lines here that would justify finding separate like products.

The production of children's sewn cloth headwear entails the same cut-and-sew process as that used to produce adults' sewn cloth headwear. Regardless of size, sewn cloth headwear is made of the same material, and generally is produced with the same equipment and workers, using the same manufacturing process and inputs. Both adults' and children's headwear can be decorated, and both are worn on the head as apparel or promotional items. 12/ Indeed, the size demarcation suggested by respondents would place headwear that fits many adults in the children's category. 13/

Accordingly, we find that there is one like product consisting of all sewn cloth headwear. Concomitantly, we define the domestic industry to be the domestic producers of sewn cloth headwear.

## II. Condition of the Domestic Industry

In assessing the condition of the domestic industry, the Commission considers, among other factors, domestic consumption, production, capacity, capacity utilization, shipments, inventories, employment, and financial performance. 14/ For the purposes of this investigation, the Commission collected data bearing on the condition of the domestic industry for the period 1985 through 1988. The data collected and analyzed in the investigation show that the principal economic indicators for the domestic industry either improved or remained relatively stable over the period of investigation.

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12/ See, e.g., Tr. 23.

13/ Tr. 133, 183.

14/ 19 U.S.C. § 1677(7)(C)(iii).

Apparent U.S. consumption of sewn cloth headwear, both in terms of quantity and value, increased markedly over the period of investigation. 15/ By quantity, there was an overall increase of 16 percent, rising from 19.2 million dozen in 1985 to 22.6 million dozen in 1987, and declining slightly to 22.3 million dozen in 1988. By value, the total surged throughout the period, showing an overall increase of 23 percent, with the largest rise occurring between 1987 and 1988, when apparent consumption by value jumped 9 percent.

The domestic industry's capacity to manufacture sewn cloth headwear increased annually from 8.8 million dozen in 1985 to 9.1 million dozen in 1987, but then decreased slightly, to 9.0 million dozen in 1988. 16/ Capacity utilization declined from 70 percent in 1985 to 65 percent in 1986, then rose slightly to 67 percent in 1987, where it remained in 1988. 17/

Domestic production of sewn cloth headwear was relatively stable and showed no particular trend. Production fell from 6.2 million dozen units in 1985 to 5.9 million dozen in 1986, then rose back to 6.1 million dozen in 1987, and fell in 1988 to 6.0 million dozen. 18/ The fluctuations in these figures are minor and do not extend beyond the range of statistical confidence.

Domestic shipments of sewn cloth headwear, by quantity, declined slightly during the period of investigation, starting at 6.2 million dozen

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15/ A-13-16.

16/ Report at A-25,26.

17/ Id.

18/ Id. at A-26.

in 1985, and ending at 6.1 million dozen in 1988. 19/ However, when measured in terms of value, domestic shipments increased steadily throughout the period of investigation, resulting in a total increase of 13 percent. 20/ Unit values of shipments increased from \$26.20 per dozen in 1985 to \$30.23 per dozen in 1988. 21/

The data on U.S. producers' inventories are not particularly probative of the condition of the domestic industry. Because most U.S. sewn cloth headwear producers manufacture to order, inventories generally were low throughout the period of investigation. 22/ Further, the data include inventories of sewn cloth headwear purchased from other sources as well as sewn cloth headwear produced by the firm itself. As a share of domestic shipments, these data show a slight decline, from 17 percent in 1985 to 14 percent in 1987, before rising back to 16 percent by the end of 1988. 23/

Employment indicators for U.S. producers were positive. Following a slight dip from 1985 to 1986, the number of production and related workers and the hours worked rose to levels in 1988 that were above the 1985 levels. The largest increases occurred from 1987 to 1988, with the number of workers increasing 5 percent, and the hours worked increasing 5.7 percent. Hourly compensation rose steadily throughout the period, and

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19/ Id. at A-29-30.

20/ Id.

21/ Id. at A-30.

22/ Id. at A-32.

23/ Id. at A-32-33.

total compensation, after a slight decline in 1986, rose a total of 11 percent during the period of investigation. 24/

Finally, the overall financial experience of the U.S. producers was favorable. 25/ U.S. producers' net sales on operations producing sewn cloth headwear increased steadily, from \$154.9 million in 1985 to \$162.2 in 1986, and to \$174.0 in 1987. A comparison of net sales for the interim period ending on September 30, 1987 (\$102.7 million) with the net sales for the interim period ending on September 30, 1988 (\$108.4 million) showed a 5.6 percent increase. Operating income fell from \$12.7 million in 1985 to \$8.8 million in 1986, then rebounded to \$12.2 million in 1987. Operating income was \$8.9 million for interim 1988 as compared to \$7.6 million for interim 1987. Operating income margins, as a percentage of sales, declined

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24/ Id. at A-34-37.

25/ Id. at A-41-45. Some larger producers accounted for a major part of the overall industry profitability, while smaller companies showed less favorable financial performance. The statute directs the Commission to examine the condition of the entire domestic industry as a whole. 19 U.S.C. § 1677(4)(A); National Association of Mirror Manufacturers v. United States (NAMM), 12 CIT \_\_\_, 696 F.Supp. 642, 647 (1988); Copperweld Corp. v. United States, 12 CIT \_\_\_, 682 F.Supp. 552, 569 (1988). The Commission is not directed to make a disaggregated analysis of material injury or to weight its analysis to account for the influence that one or two giants in an industry may have on the aggregate industry data.

Nor can the Commission, as petitioner suggested (Tr. 40), postulate what the data would have shown had the Commission received financial information from firms that have closed. The response rate in this investigation was not overwhelming, see Report at A-21. Numerous firms did not respond to the Commission's questionnaire, and in fact the Commission was forced to resort to use of subpoenas to elicit responses from several producers of substantial size. The Commission cannot second guess whether a more complete data base would have changed the overall industry picture. The Commission must base its determination on the best information available. 19 U.S.C. § 1677e(b).

from 8.2 in 1985 to 5.4 in 1986, and then rose to 7.0 in 1987. The margin for interim 1988 was 9.2 as compared to 9.1 for interim 1987. 26/

In sum, the economic indicators show an industry that has maintained relatively stable production, capacity and capacity utilization, while employment and profitability rose. 27/ Based on our examination of these factors, we do not believe the domestic industry producing sewn cloth headwear is experiencing material injury. 28/ 29/ Accordingly, we find it unnecessary to make a determination with respect to whether any present material injury is by reason of the LTFV imports. 30/

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26/ Id. at A-44.

27/ We have examined the information regarding plant closings. See Report at A-27, 41. We do not believe the nature and extent of these closings indicate that the industry as a whole is suffering. Based on the record evidence concerning these closings, as well as the evidence about plant openings, we find that the reported openings and closings are not out of line with what one would expect in an apparel industry or in any labor-intensive industry. Most of the plants that closed were fairly small, and many were owned by closely held firms. There is no indication that the closings were due to anything other than normal competitive conditions.

28/ Commissioners Eckes, Rohr and Newquist caution against reading into this determination any general proclamation that material injury may never be indicated by a domestic industry's failure to participate in the growth of an expanding market. Instead, this determination finds no material injury under the specific conditions of this industry, an industry with wide product differentiation (e.g., headwear ranging from inexpensive baseball caps used for promotional purposes to high-quality golf and tennis hats) and diversity among the domestic producers in terms of size, technologies, and market segment served.

29/ Chairman Brunsdale and Vice-Chairman Cass do not reach a separate legal conclusion based on the condition of the domestic industry. They believe that the discussion of the domestic industry is accurate and relevant to their decisions regarding whether the domestic industry is materially injured by reason of the LTFV imports. For their discussions of causation, see their additional views, infra.

30/ American Spring Wire Corp. v. United States, 8 CIT 20, 590 F.Supp. 1273 (1984), aff'd sub nom., Armco, Inc. v. United States, 760 F.2d 249 (Fed. Cir. 1985); NAMM, 696 F.Supp. at 647, 649.

### III. No Threat of Material Injury by Reason of LTFV Imports

In making a determination as to whether a domestic industry is threatened with material injury by reason of LTFV imports, the Commission is required to consider, among other factors:

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- (II) the ability and likelihood of the foreign producers to increase the level of exports to the United States due to an increased production capacity or unused capacity;
- (III) any rapid increase in penetration of the U.S. market by imports and the likelihood the penetration will increase to injurious levels;
- (IV) the probability that imports of the merchandise will enter the U.S. at prices that will have a depressing or suppressing effect on domestic prices of the merchandise;
- (V) any substantial increases in inventories of imported merchandise in the United States;
- (VI) underutilized capacity for producing the merchandise in the exporting country;
- (VII) any other demonstrable adverse trends that indicate the probability that importation of the merchandise will be the cause of actual injury; and
- (VIII) the potential for product-shifting. 31/

Any threat must be real and any actual injury imminent. A finding of threat of material injury must not be made on the basis of mere conjecture or supposition. 32/

The evidence in the record confirms the absence of any real and imminent threat to the domestic producers of sewn cloth headwear by reason of LTFV imports from China. Imports of sewn cloth headwear from China are

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31/ 19 U.S.C. § 1677(7)(F). No single threat factor is necessarily dispositive in an antidumping investigation. S. Rep. 249, 96th Cong., 1st Sess. at 88 (1979).

32/ Id.

subject to restraint under the Multifiber Arrangement (MFA). The current agreement with China, effective January 1, 1988, controls China's shipments to the United States of sewn cloth headwear (as well as other MFA-covered products) for four years, with an optional extension for a fifth year. It sets a specific quota on China's shipments to the U.S. of man-made fiber (MMF) headwear. That quota was met in 1988. 33/

Petitioner argues that once the quota for MMF headwear is met, Chinese headwear production can easily shift to cotton headwear. However, cotton headwear is also subject to a quota, albeit a different type of quota from that set for MMF headwear. This headwear falls under a "basket" category that sets a quantitative ceiling on exports of all Chinese cotton apparel. The ceiling was reached in 1988, but cotton headwear accounted for less than 10 percent of exports in this basket category. 34/ There is no evidence in the record indicating a likelihood that China will significantly increase the percentage of the cotton basket category allocated to headwear. 35/

Similarly, the record does not show a likelihood that future Chinese imports will enter the United States at prices that will have a depressing or suppressing effect on domestic prices. The data in the record indicate that, even in the face of increasing low-priced imports during the period

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33/ Report at A-9, 12.

34/ Report at A-10.

35/ Respondents' witnesses testified that headwear exports in the basket category actually have been cut back by 30 percent this year to allow for shipments of larger quantities of products, such as down jackets, with higher unit values. Tr. at 107, 170.

of investigation, domestic prices were rising. 36/ Given the absence of adverse price effects when penetration by Chinese imports was highest and Chinese prices lowest, it is highly improbable that Chinese imports will suddenly have an adverse effect at a time when imports are leveling off.

The data in the record indicate that there have been substantial increases in U.S. importers' inventories of Chinese headwear. 37/ The headwear that is included in these inventories, however, is still counted against the MFA quotas. Moreover, the data show that the ratio of importers' inventories of Chinese headwear to shipments of Chinese headwear actually declined markedly during the period of investigation. 38/

Finally, we recognize that the labor-intensive nature of sewn cloth headwear production suggests that there is significant ability to expand production in China. However, there is no evidence of any incentive to expand production of sewn cloth headwear for the U.S. market, given the quota restrictions. In addition, the data show that the United States' share of Chinese sewn cloth headwear exports is on the decline, and that China is developing other markets for this product. 39/

Accordingly, we conclude that the domestic industry producing sewn cloth headwear is not threatened with material injury by reason of LTFV imports of sewn cloth headwear from China.

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36/ Report at A-80-89 (Tables 37-46).

37/ Id. at A-50-53.

38/ Id. at A-52.

39/ Id. at A-55-56.



## ADDITIONAL VIEWS OF CHAIRMAN ANNE E. BRUNSDALE

Sewn Cloth Headwear from the People's Republic of China  
Inv. No. 731-TA-405 (Final)

May 1, 1989

I agree with the majority's conclusions regarding like product and the domestic industry, their characterization of the condition of the domestic industry, and their discussion of threat factors in this investigation. I also agree with their conclusion that the domestic industry producing sewn cloth headwear is not materially injured or threatened with material injury by reason of unfair imports from the People's Republic of China (China). I reach this conclusion, however, through an analysis that is different from theirs. These additional views explain my approach to causation in this case.

Volume of Imports, Market Penetration, and Dumping Margins

The value of Chinese headwear imports increased dramatically over the period of investigation, although the rate of increase slowed between 1987 and 1988. The value of Chinese imports was \$24 million in 1985 and \$26 million in 1986, jumped to \$45 million in 1987 and then increased at a slower rate to \$51 million in 1988.<sup>1/</sup> Measured by volume, Chinese

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<sup>1/</sup> See Report at A-57 (Table 22).

imports totalled 2.9 million dozen in 1985 and 3.6 million dozen in 1986, surged to 6.2 million dozen in 1987, and leveled off to 6.5 million dozen in 1988.<sup>2/</sup> The market share of Chinese imports also increased during the period of investigation, especially between 1986 and 1987. Chinese import market share, measured by value, increased from 8.0 percent in 1985 and 8.2 percent in 1986 to 13.4 percent in 1987 and 14.0 percent in 1988.<sup>3/</sup> Measured by volume, their market share was 15.2 percent in 1985 and 17.0 percent in 1986, and it increased to 27.5 percent in 1987 and 29.3 percent in 1988.<sup>4/</sup>

The dumping margins in this case were moderate. They ranged from 5.3 percent to 32.06 percent, with a weighted average margin of 21.37 percent.<sup>5/</sup>

#### Elasticity Information in This Case

In each investigation, Commission staff gathers a great deal of data about the workings of the market. This information, collected from producers and consumers, assists the Commission in understanding how the manufacturers and consumers of the product in question respond to changes in

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2/ Id.

3/ See Report at A-64 (Table 28).

4/ Id.

5/ See Final Determination of Sales at Less Than Fair Value; Certain Headwear From the People's Republic of China, 54 Fed. Reg. 11,983 (March 23, 1989).

the product's price. This information is useful for two reasons: it gives us a better understanding of both the market for the product and the role that imports play in that market, and it gives us a better idea of the effect the unfair imports have on domestic sales because of the price advantage due to dumping.<sup>6/</sup>

Elasticity of Supply. In this investigation, staff estimates that the domestic supply of sewn cloth headwear is moderately elastic, most likely in the range of 3 to 5.<sup>7/</sup> Petitioners argue that domestic supply is highly elastic, falling in a range between 5 and 7.<sup>8/</sup> Consideration of several factors relating to domestic supply convinces me that supply is only moderately elastic.

Capacity utilization has been steady and relatively high throughout the investigation. Capacity utilization was 70

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<sup>6/</sup> As I have explained in previous opinions, these data permit an economically meaningful assessment of the impact of dumped imports on the domestic industry. For a more complete discussion of the usefulness of elasticities, see Color Picture Tubes from Canada, Japan, the Republic of Korea, and Singapore, Inv. No. 731-TA-367-370 (Final), USITC Pub. 2046, at 23-32 (December 1987) (Additional Views of Vice Chairman Anne E. Brunsdale). The Court of International Trade has also discussed with approval the use of elasticities. See Copperweld Corp. v. United States, No. 88-23, slip op. at 45-48 (Ct. Int'l Trade Feb. 24, 1988).

<sup>7/</sup> See Memorandum from the Director, Office of Economics, on Sewn Cloth Headwear from the People's Republic of China, Memorandum EC-M-134, at 12 (April 20, 1989).

<sup>8/</sup> See Petitioner's Posthearing Brief, Appendix VI, at 5-6. Respondents did not discuss the elasticity of domestic supply in their posthearing brief.

percent in 1985, 65 percent in 1986, and 67 percent in 1987 and 1988.<sup>9/</sup> These figures may be somewhat understated due to the large number of recent plant closings; however, it is unclear to what extent these closed facilities represent capacity that can be restarted.<sup>10/</sup> Therefore, I am persuaded that these capacity utilization figures are reasonably accurate.

A shortage of labor limits the ability of domestic manufacturers to increase production. Workers in this industry generally earn low wages and staff was able to confirm labor shortages at a number of facilities.<sup>11/</sup> Tight labor supplies limit the ability of domestic manufacturers to increase their production.

The manufacturing process does not impose any limits on production increases by the domestic industry.<sup>12/</sup> In addition, the equipment used to produce headwear may, in some instances, be used to produce other sewn cloth apparel.<sup>13/</sup>

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<sup>9/</sup> Report at A-26 (Table 8).

<sup>10/</sup> See Report at A-27.

<sup>11/</sup> See Memorandum EC-M-134, supra note 7, at 8 n.1.

<sup>12/</sup> That is, there are no bottlenecks in the production process which would automatically preclude the domestic industry from increasing supply. See Memorandum EC-M-134, supra note 7, at 6.

<sup>13/</sup> Id. at 10. This is not universally true, and some facilities are limited even as to the kind of headwear they produce.

Finally, U.S. producers do not supply export markets with substantial amounts of sewn cloth headwear, and thus could not shift a large amount of production from these markets to the domestic market in response to price increases.<sup>14/</sup>

While U.S. firms certainly have some ability to respond to increased prices by increasing production, I am convinced that this ability is moderated by a lack of export markets, fairly high capacity utilization, and limits on labor availability. Therefore, I agree with the staff conclusion that domestic supply is moderately elastic.

Elasticity of Domestic Demand. Overall demand for headwear is based on a number of factors, due to the nature of the product as both a consumer and a promotional item. As a consumer item, caps are a discretionary purchase often linked to participatory or spectator sports or identifying some organization, place, or product, and tend to be an impulse purchase.<sup>15/</sup> As a promotional item, headwear is very popular in institutional advertising.<sup>16/</sup> In all cases, headwear is a

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<sup>14/</sup> See id. at 10-11.

<sup>15/</sup> Staff indicates that some uses of headwear spring from necessity; namely, protection from the sun and weather. However, I believe that most uses are discretionary.

<sup>16/</sup> While a number of products are used as promotional items, including towels, gym bags, pennants, t-shirts, and sweatshirts, all parties to the investigation seemed to agree that there was no good substitute for headwear as an

(continued...)

relatively inexpensive purchase, and is offered in a wide range of styles, price ranges, and colors.<sup>17/</sup> Finally, there are few substitutes for sewn cloth headwear.<sup>18/</sup>

For these reasons, staff concludes that aggregate demand for sewn cloth headwear is fairly insensitive to price changes. They estimate that the range falls between 0.5 and 1.5.<sup>19/</sup> Petitioner agrees with the staff analysis of domestic demand, but limit the numeric range to 0.5 to 1.0.<sup>20/</sup> Because I agree with the staff analysis, I accept the estimate of 0.5 to 1.5 for the domestic demand elasticity in this case.

Elasticity of Substitution. Sewn cloth headwear from China is similar in many ways to that produced in the United States. The quality of the two products appears to be similar.<sup>21/</sup> Both distribute their products through the

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<sup>16/</sup>(...continued)  
advertising premium item. Memorandum EC-M-134, supra note 7, at 23. In addition, headwear is more popular because of its visibility. Unlike other articles of clothing, headwear is not normally covered by other clothing.

<sup>17/</sup> Id. at 23-24.

<sup>18/</sup> Other types of hats, such as cowboy hats, fedoras, and straw hats, serve as substitutes, but do not appear to be close substitutes for sewn cloth headwear.

<sup>19/</sup> See Memorandum EC-M-134, supra note 7, at 24.

<sup>20/</sup> See Petitioner's Posthearing Brief, Appendix VI, at 9 (April 4, 1989). Respondents had no comments on staff's analysis of domestic demand.

<sup>21/</sup> Id. at 18.

channels that serve all three segments of this market: promotional, ad specialty distributor, and retail.<sup>22/</sup> Finally, there is some bid competition between U.S. and Chinese producers for premium and mass merchandise headwear.<sup>23/</sup>

Despite these similarities, there are a number of distinctions between U.S. and Chinese headwear. The most significant difference is price: Chinese headwear is, on average, only about one-third the cost of U.S. headwear.<sup>24/</sup> Staff determined that, in specific price comparisons, the Chinese product most often had a lower nominal price than the U.S. product.<sup>25/</sup> The fact that purchasers are willing to pay significantly higher prices for the U.S. product leads me to conclude that the substitutability for these products is, at best, moderate.

Staff agrees that the elasticity of substitution is moderate, falling in a range of 1 to 3.<sup>26/</sup> Petitioner argues that the products are "completely substitutable," and that

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<sup>22/</sup> Id.

<sup>23/</sup> Id.

<sup>24/</sup> See Report at A-30 (Table 9), A-57 (Table 22).

<sup>25/</sup> See Report at A-79 - A-89 (Tables 36 through 46). The value of these tables is limited; however, they do seem to indicate that nominal prices are persistently lower for Chinese headwear. I believe this persistent price gap indicates that the products are not highly substitutable, because a high degree of substitution would seem to preclude the existence of a prolonged price gap.

<sup>26/</sup> See Memorandum EC-M-134, supra note 7, at 22.

the elasticity of substitution is greater than 4.<sup>27/</sup> Respondents contend that the elasticity of substitution is low, primarily because of the difference in price between Chinese and U.S. headwear.<sup>28/</sup> I believe that staff's characterization is accurate, and I am persuaded that the elasticity of substitution is moderate in this case.

No Material Injury by Reason of Dumped Headwear

In this market, with a generally healthy domestic industry,<sup>29/</sup> it is clear that the domestic headwear industry is not being materially injured by reason of unfair imports. First, the imported and the domestic product are only moderately substitutable, limiting the effect that Chinese imports have on domestic sales and prices. Second, the dumping margins in this case are moderate, averaging 21 percent. Because of the moderate degree of substitutability, any price advantage resulting from dumping would not have had a strong effect on domestic sales or prices. Third, while domestic supply is not inelastic, there are limitations on the ability of the domestic industry to respond to changes in price. Finally, it appears that the value and volume of

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<sup>27/</sup> See Petitioner's Posthearing Brief, Appendix VI, at 8 (April 4, 1989).

<sup>28/</sup> See Respondent's Posthearing Brief, Exhibit 4, at 3 (April 4, 1989).

<sup>29/</sup> See Commission opinion on Condition of the Domestic Industry, supra.

imports have leveled off in the last two years while domestic production has also remained stable, indicating that imports are not causing material injury to the domestic industry.

Therefore, I agree with my colleagues that the statutory criteria are not met and that no antidumping duties should be imposed in this case.



ADDITIONAL VIEWS OF VICE CHAIRMAN RONALD A. CASS

Sewn Cloth Headwear from the  
People's Republic of China  
Inv. No. 731-TA-405  
(Final)

I concur with the Commission's negative determination in this investigation and join the Commission's discussion of the industry definition and condition and of the threat of injury to the domestic industry. However, my views on the analysis appropriate to determining whether the domestic industry has been materially injured by reason of less than fair value imports differ from those offered in the Commission's opinion. These Additional Views explain how I have analyzed that question in this investigation.

I. MATERIAL INJURY BY REASON OF LTFV IMPORTS:  
THE "UNITARY" OR "COMPARATIVE" APPROACH

In Title VII cases, in determining whether imports sold at less than fair value have caused material injury to a domestic industry, I have employed an approach that is often referred to as the "unitary" or "comparative" approach. This approach is "comparative" in that it compares the domestic industry's actual performance with what the industry's performance would have been had there been no less than fair value ("LTFV") imports.<sup>1/</sup> The

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<sup>1/</sup> See, e.g., Internal Combustion Forklift Trucks from Japan, USITC Pub. 2082, Inv. No. 731-TA-377 (Final) 113-118 (May 1988) (Additional Views of Commissioner Cass); Certain Telephone Systems and Subassemblies Thereof from Japan, Korea and Taiwan, USITC Pub. 2156, Inv. Nos. 731-TA-426-428 (Preliminary) 64-67 (Feb. 1989) (Additional Views of Commissioner Cass).

approach is "unitary" because it does not conduct an independent inquiry into the existence of "material injury" defined simply as a change in the condition of the domestic industry, divorced from the effects of LTFV imports.

As I have stated in other opinions, I believe that a unitary approach is preferable to the bifurcated approach that has been employed by other Commissioners.<sup>2/</sup> The bifurcated approach asks first whether the domestic industry has suffered some adversity, however measured, that may be viewed as "material injury". Only if this question is answered in the affirmative is an attempt made to ascertain whether unfairly traded imports caused such injury. I have explained at length elsewhere why I believe that this approach is less faithful to the language and purpose of Title VII than the unitary approach.<sup>3/</sup> I also have explained why the unitary approach is consistent with a considerable body of prior Commission practice and judicial precedent.<sup>4/</sup> Those previous discussions provide the reasons for my conclusion that, even if it might be permissible for us to impose a threshold requirement that the domestic industry be in financial "ill

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<sup>2/</sup> See, e.g., Digital Readout Systems and Subassemblies Thereof from Japan, USITC Pub. 2150, Inv. No. 731-TA-390 (Final) 95-117 (Jan. 1989) (Concurring and Dissenting Views of Commissioner Cass) ("Digital Readout Systems"); 3.5" Microdisks and Media Therefor from Japan, USITC Pub. 2076, Inv. No. 731-TA-389 (Preliminary) 59-74 (April 1988) (Additional Views of Commissioner Cass) ("Microdisks Preliminary").

<sup>3/</sup> See id.

<sup>4/</sup> Digital Readout Systems, supra, at 108-117; Microdisks Preliminary, supra, at 64-70.

health", that certainly is not the preferable interpretation of our governing statute and does not comport well with the judicial decisions invoked as support.<sup>5/</sup>

I will not repeat here my earlier discussion of this issue. I will, however, add two brief observations. First, nothing in the language of the statute or in its legislative history even remotely approaches an explicit statement that the Commission is to deny relief to domestic industry solely because we deem the industry sufficiently healthy. There are indications that supporters of the statute were especially concerned with industries whose fortunes are declining, but no indication that these were the sole concern to which Title VII was directed. Second, the recently enacted Omnibus Trade and Competitiveness Act of 1988 underscores Congressional and executive concerns that disposition of our Title VII investigations not be guided by simplistic analysis of industry trends. The legislation pointedly requires the Commission to take account of business cycles and other effects on industry performance before reaching conclusions on the effect of LTFV imports. This instruction cannot be made compatible with a restriction of relief to industries whose fortunes are in decline; what would that mean for industries on the "upswing" of their business cycle? All this suggests that it is incumbent upon us -- in this case as in

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<sup>5/</sup> See American Spring Wire Corp. v. United States, 590 F. Supp. 1273 (Ct. Int'l Trade, 1984), aff'd sub nom., Armco, Inc. v. United States, 760 F.2d 249 (Fed. Cir. 1985).

every other case -- to determine whether the unfairly traded imports that are the subject of our investigation have left the domestic industry in a materially worse position than it would have been in if the unfairly traded imports had not occurred.

In analyzing that question in this investigation, I have conducted the three-part inquiry suggested by the governing statute. Title VII directs the Commission, in assessing the causation of injury by dumped imports, to

"consider, among other factors --

(i) the volume of imports of the merchandise which is the subject of the investigation,

(ii) the effect of imports of that merchandise on prices in the United States for like products, and

(iii) the impact of imports of such merchandise on domestic producers of like products . . . ."6/

The statute goes on to spell out these three factors with greater particularity.

Although the statutory text does not identify, and does not purport to identify,<sup>7/</sup> all of the factors relevant to an assessment of whether dumped imports have materially injured a domestic industry, the factors that are listed in the statute and the order in which they are listed offer important guidance concerning the nature of the inquiry that must be carried out. Specifically, the statute suggests that Congress contemplated that the Commission would consider three related questions in

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<sup>6/</sup> See 19 U.S.C. § 1677(7)(B).

<sup>7/</sup> The statute contemplates that the Commission will consider relevant economic factors in addition to those identified explicitly in the statute. See 19 U.S.C. § 1677(7)(C).

evaluating the possible existence of injury by reason of LTFV imports. First, we are to examine the volumes of imports of the merchandise under investigation; the absolute volumes of imports, their magnitude relative to domestic sales of the competing "like product", and the extent to which import volumes changed as a result of dumping are relevant to evaluation of the effect of dumped imports on the domestic industry. The change in import volumes brought about by dumping will be closely related to, and in large part a function of, changes in the prices of the imports that occurred as a result of dumping. Second, we must attempt to determine how the subject imports affected prices, and concomitantly sales, of the domestic like product. Finally, we must evaluate the extent to which these changes in demand for the domestic like product caused by LTFV imports affected such factors as return on investment and the level of employment and employment compensation in the domestic industry.<sup>8/</sup>

Title VII, as amended by the Omnibus Trade and Competitiveness Act of 1988, has further directed that the Commission explicitly consider and state its conclusions on the factors that form the basis for each of these three inquiries.<sup>9/</sup>

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<sup>8/</sup> Of course, the Commission must also evaluate whether these effects are "material" within the meaning of the statute. This assessment is, in some sense, a fourth part of our inquiry. See *Digital Readout Systems*, *supra*, at 117-19.

<sup>9/</sup> See Pub. L. No. 100-418, § 1328(1), 102 Stat. 1107, 1205 (to be codified as 19 U.S.C. § 1677(7)(B)(ii)).

I have explained in detail in other opinions how the three-part inquiry that I employ considers the specific factors listed

Moreover, as noted above, the statute as amended instructs the Commission, in making these inquiries, to consider the particular dynamics of the industries and markets.<sup>10/</sup> The three inquiries outlined above are undertaken in light of these directions in the following sections of these Views.

II. MATERIAL INJURY BY REASON OF LTFV IMPORTS: SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

A. Volumes and Prices of LTFV Imports

Over the period covered by our investigation, the volume of imports of sewn cloth headwear from the People's Republic of China ("PRC") increased substantially. In 1985, they amounted to 2,913,000 dozen; during 1987 and 1988, periods during which Commerce determined that dumping was occurring, they amounted to 6,207,000 dozen and 6,539,000 dozen, respectively.<sup>11/</sup> The value of these imports also grew significantly, from about \$23.8 million in 1985 to approximately \$45 million in 1987 and \$51.5 million in 1988.<sup>12/</sup>

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in the statute as well as certain other economic factors relevant to an assessment of the impact of unfairly traded imports on the domestic industry producing the like product. See, e.g., New Steel Rails from Canada, USITC Pub. 2135, Inv. Nos. 731-TA-422 and 701-TA-297 (Preliminary) 35-37 (Nov. 1988) (Additional Views of Commissioner Cass); Generic Cephalixin Capsules from Canada, USITC Pub. 2142, Inv. No. 731-TA-423 (Preliminary) 56-58 (Dec. 1988) (Dissenting Views of Commissioner Cass).

<sup>10/</sup> See new Section 771(C)(iii)(IV) of the statute (to be codified at 19 U.S.C. § 1677(C)(iii)(IV)). See also S. Rep. No. 71, 100th Cong., 1st Sess. 117 (1987).

<sup>11/</sup> Report at A-57, Table 22.

<sup>12/</sup> Id.

The record evidence indicates that dumping caused the prices of the subject imports to decline by a significant percentage. The Commerce Department calculated dumping margins for the various PRC producers and exporters of the subject imports ranging from 5.3% to as high as 32.06%, with an average margin of about 21%.<sup>13/</sup>

In cases where dumping margins reflect a finding by Commerce that the subject foreign producers/exporters have charged a lower price for their product in the United States than the price that they have charged in their home market (or another foreign market used as the surrogate for the home market), the actual decrease in the U.S. price of the subject imports that occurred consequent to dumping will be only a fractional percentage of the dumping margin. This percentage, in turn, will be in large measure a function of the proportion of the total sales of the subject foreign producer(s) in the U.S. and the exporter's home market that is accounted for by sales in the home market.<sup>14/15/</sup>

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<sup>13/</sup> See Report at A-13.

<sup>14/</sup> See, e.g., Certain All-Terrain Vehicles from Japan, USITC Pub. 2163, Inv. No. 731-TA-388 (Final) 58-60 (March 1989) (Additional Views of Commissioner Cass); Granular Polytetrafluoroethylene Resin from Japan and the Netherlands, USITC Pub. 2112, Inv. Nos. 731-TA-385 and 386 (Final) 74 (Aug. 1988) (Additional Views of Commissioner Cass); Certain Bimetallic Cylinders from Japan, USITC Pub. 2080, Inv. No. 731-TA-383 (Final) 44 (May 1988) (Additional Views of Commissioner Cass).

In reality, an estimate of the decrease in the price of the dumped product that is derived in this fashion will be somewhat overstated as it represents an approximate upper bound of that decrease. For a thorough explication of this subject, see R. Boltuck, Office of Economics, Assessing the Effects on the

However, this is not a case where Commerce based its dumping determination on the difference between prices charged by foreign producers/exporters for sales to the U.S. market and prices charged for sales to their home (or other foreign) market. Rather, the dumping determination was the result of Commerce's finding that the prices that were charged for the subject sewn cloth headwear in the United States were lower than the constructed value of that merchandise.<sup>16/</sup> This constructed value, in turn, was, with one exception, calculated by valuing the factors of production employed by PRC manufacturers of sewn cloth headwear using factor cost information supplied by a Philippines producer of such headwear.<sup>17/</sup>

Because the dumping margins are the product of a constructed value calculation, I have used the full dumping margin as the measure of the amount by which the PRC imports declined as a result of dumping. This well may overstate the maximum effect

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Domestic Industry of Price Dumping, USITC Memorandum EC-L-149 at 1, n. 1, 13, 19-21 (May 10, 1988). A more accurate statement of the effects of dumping on import prices also may require some adjustment to reflect the fact that dumping margins are calculated on an ex-factory, rather than final sales price, basis.

<sup>15/</sup> As previously noted, under certain circumstances, Commerce will use another foreign market as the surrogate for the foreign producer's home market.

<sup>16/</sup> See International Trade Administration's Final Determination of Sales at Less Than Fair Value; Certain Headwear from the People's Republic of China ("Commerce Determination"), 54 Fed. Reg. 11983, 11985 (March 23, 1989).

<sup>17/</sup> Id. The cotton content of the headwear was based upon the customs value of U.S. imports of cotton from Egypt. Id.

that dumping may have had on prices of the subject imports. Dumping margins based upon constructed value -- particularly constructed value calculated by using the value of factors of production from a country other than the one in which the subject imports were actually produced -- raise serious analytical questions if we are to use such margins to evaluate the effects of LTFV sales on imports' prices. These questions deserve special attention by the Commission. Because any treatment of these margins in evaluating evidence respecting imports' prices -- even that most favorable to Petitioner -- will not affect the outcome of this case, I will reserve for another time further discussion of my views on that subject.

Using the maximum possible price effects derived by using the full amount of the dumping margins as the measure of the extent to which the prices of the subject imports declined consequent to dumping, the evidence before us indicates that dumping produced moderate increases in the amount of PRC sewn cloth headwear imported into the United States. However, for reasons discussed, infra, the fact that dumping was associated with increased volumes of the subject imports does not necessarily mean that dumping caused a significant decline in prices or sales of the domestic like product.

B. Prices and Sales of the Domestic Like Product

During the period covered by our investigation, the subject imports accounted for a sizable percentage of the total volume and value of sewn cloth headwear sold in the United States. In

1985, the subject imports accounted for 15.2% of domestic consumption of such products.<sup>18/</sup> Quantity-measured market penetration by the PRC product increased during the succeeding years to 29.3% in 1988.<sup>19/</sup> Measured by value, however, PRC market penetration was significantly and consistently lower, ranging from a low of 8.0% in 1985 to a high of 14.0% in 1988.<sup>20/</sup>

Notwithstanding the imports' market shares during the period when dumping occurred, the record evidence before us does not, in my view, indicate that sales of dumped PRC imports materially affected either prices or sales of the domestic like product. Among the circumstances in addition to the level of subject import market penetration that affect the extent to which dumped imports affect prices and sales of the domestic like product, two are of special importance: the degree to which consumers see the imported and domestic like products as similar (the substitutability of the subject imports and the domestic like product) and the degree to which domestic consumers change their purchasing decisions for these products based on variations in the prices of those products. Taken together, the evidence on these two issues in this investigation indicates that the subject imports had, at most, a quite modest effect on domestic prices and sales.

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<sup>18/</sup> Report at A-64, Table 28.

<sup>19/</sup> Id.

<sup>20/</sup> Id.

In this investigation, the Commission was presented with a significant amount of anecdotal evidence that might, at first blush, suggest that the subject imports and the domestic like product are close substitutes for one another. For example, Petitioner argued that domestic producers of sewn cloth headwear compete with the PRC imports in every segment of the market.<sup>21/</sup> Petitioner also asserted that the majority of purchasers of sewn cloth headwear surveyed by the Commission stated that there are no differences in quality between the imported and domestic product or that any such differences are not a significant factor in purchasing decisions.<sup>22/</sup> These assertions are, in fact, largely borne out by the record evidence.

Upon closer inspection, however, the evidence cited by Petitioner is not as compelling as it might first appear. For instance, although the domestic like product and the subject imports are sold in each of the market segments where sewn cloth headwear is purchased, there are notable disparities in the proportions of the domestic and imported PRC products that are sold in these disparate market segments. For example, 60% of domestic production is sold to "premium" account end users,<sup>23/</sup>

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<sup>21/</sup> Petitioner's Posthearing Brief at 2-3, 5-6.

<sup>22/</sup> Petitioner's Prehearing Brief at 11; Petitioner's Posthearing Brief at Appendix III at 9.

<sup>23/</sup> Premium account end users are large volume purchasers and include entities such as baseball teams, universities, and theme parks that license headwear producers to use their logo, and either authorize the producers to sell such headwear, or purchase such headwear from the producers and distribute it themselves.

whereas only 7% of the subject imports are sold in that market.<sup>24/</sup> Similarly, 58% of the PRC imports are sold to advertising specialty distributors,<sup>25/</sup> as compared to only 23% of domestic production.<sup>26/</sup> Similar disparities are evident in the retail segment of the market: 35% of the subject imports are sold to retail purchasers versus only 18% of the domestic like product.<sup>27/</sup> These data support the inference, otherwise suggested by the record evidence, that domestic and PRC producers have successfully marketed their products to different market "niches"; some of those niches in which domestic caps are sold, such as the premium market, are, to some degree, insulated from import competition.<sup>28/</sup>

The market penetration data compiled by the Commission also suggest that there are significant differences in the quality of the domestic like product and the PRC product, notwithstanding the previously-discussed anecdotal evidence to the contrary. As I noted earlier, the value-measured market share of the PRC producers/exporters is substantially lower than their quantity-measured market share. Thus, the domestic like product, heavily

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Report at A-19.

<sup>24/</sup> Id. at A-20.

<sup>25/</sup> Advertising specialty distributors market a diverse array of promotional items. Id. at A-19.

<sup>26/</sup> Id. at A-20.

<sup>27/</sup> Id.

<sup>28/</sup> Id. at A-20.

concentrated in the "premium" end of the market, is, on average, far more expensive than the PRC product; indeed, both the concentration in more price-sensitive uses and the difference in price are much greater for the PRC imports than for headwear from other principal foreign sources of U.S. supply. Respondents argue that this evidence supports their contention that the PRC product and the domestic like product are not close substitutes.<sup>29/</sup> I find Respondents' argument persuasive, particularly when coupled with the evidence adduced by Respondents' indicating that the prices of the PRC product and the domestic like product have not moved together in any systematic way.<sup>30/</sup> Far from it, increases in PRC imports and decreases in PRC prices have occurred while both shipments and prices of the domestic like product have increased. While we should be cautious about drawing inferences from trend data that reflect many different influences, plainly if the domestic and PRC products were close substitutes, one would expect their prices to move in tandem to a far greater extent than is evident in the evidence compiled by the Commission. I believe the expert testimony offered by Respondents accurately characterized the inferences on this issue that are most in keeping with the facts of record. In short, then, although the record evidence suggests

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<sup>29/</sup> See Respondents' Prehearing Brief at 16-17; Respondents' Posthearing Brief at Exhibit; Transcript of 3/29/89 Hearing ("Tr.") at 118-19.

<sup>30/</sup> Respondents' Posthearing Brief at Exhibit 4.

that the PRC product and the domestic like product are moderately substitutable for each other, the record as a whole does not support Petitioner's claim that they are close substitutes.<sup>31/</sup>

The other evidence consistent with an inference that dumping had a very modest effect on prices and sales of the domestic like product relates to the degree to which domestic consumers of sewn cloth headwear respond to changes in the price of these products. The general effects of this evidence are described by the Commission's Office of Economics in a memorandum made available to all parties of record prior to the hearing that was held before the Commission. When consumer demand for all of these products as a group is highly responsive to changes in price, the effects of dumping on prices and sales of the domestic like product is attenuated, for in that case the lower prices resulting from dumping will stimulate significantly increased domestic demand for the lower priced product. Much greater effects will be felt by U.S. producers when consumers perceive no difference between the imported and domestic product other than price but their overall purchases of these products are relatively unresponsive to price changes. In the latter case,

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<sup>31/</sup> My ultimate conclusion on this issue in this investigation is therefore essentially consistent with the one reached by the Commission's Office of Economics. See USITC Memorandum EC-M-134 (April 20, 1989) from the Office of Economics ("OE Posthearing Memorandum") at 22. However, my analysis of the record evidence on that issue departs from that of the Office of Economics in certain important respects. In particular, as the foregoing discussion indicates, I believe that the evidence adduced by Respondents on the issue is entitled to significantly greater weight than the Office of Economics has suggested.

consumers will simply switch their purchases from U.S.-made to lower-priced imported products, imposing a quite detrimental impact on both the U.S. products' prices and their sales.

In this investigation, I believe that domestic demand for sewn cloth headwear is at least reasonably, if not highly, responsive to changes in the price of that product. We have been presented with abundant evidence that domestic consumption of sewn cloth headwear has increased over the period covered by our investigation in large part because of the increased popularity of baseball caps as a promotional item.<sup>32/</sup> A large number of other items, such as pens, coffee cups, T-shirts, banners, etc., serve the same promotional purposes; these items are made by, inter alia, some of the domestic major producers of sewn cloth headwear.<sup>33/</sup> In my view, the availability of these items enhances significantly the responsiveness of domestic demand for sewn cloth headwear to changes in the price of that product.<sup>34/</sup>

#### C. Investment and Employment

As my colleagues have pointed out in their discussion of the "condition of the domestic industry",<sup>35/</sup> the principal economic

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<sup>32/</sup> See Report at A-15.

<sup>33/</sup> Id. at A-22.

<sup>34/</sup> In that respect, I have a different view of the record evidence than the Commission's Office of Economics, which has attached greater weight than I have to testimony offered by Petitioner to the effect that no other promotional item is an adequate substitute for headwear. See OE Posthearing Memorandum at 23-24.

<sup>35/</sup> See Views of the Commission at 6-10.

indicators for the domestic industry "either improved or remained relatively stable over the period of investigation".<sup>36/</sup> Domestic production of sewn cloth headwear has remained at roughly the same level, but the value of domestic shipments increased steadily.<sup>37/</sup> Operating income fell from \$12.7 million in 1985 to \$8.8 million in 1986, but rebounded to \$12.2 million in 1987, and improved again in interim 1988, when operating income was \$8.9 million compared to \$7.7 million during the same period in 1987.<sup>38/</sup> Each of the key employment indicators -- the number of production and related workers, hours worked, and hourly employment compensation -- registered improvements over the period covered by the Commission's investigation. In short, an examination of the various investment and employment measures of the domestic industry's performance reveals nothing that of itself would suggest a conclusion at odds with the inference drawn from facts respecting LTFV imports' effects on domestic prices and sales; that is, the financial and employment data respecting the domestic industry do not indicate any basis for belief that dumping caused material injury to the domestic industry.

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<sup>36/</sup> Id.

<sup>37/</sup> See Report at A-25, A-29-A-30.

<sup>38/</sup> Id. at A-41-A-43.

D. Application of the CADIC Model

In assessing the impact of the subject imports on the domestic industry, in addition to the evidence previously discussed, I considered information that was presented to us by the parties and by Commission staff relating to the use of the computable market-simulation "Comparative Analysis of the Domestic Industry's Condition Lotus Template System", otherwise known as the "CADIC model".<sup>39/</sup> The CADIC model is used to derive estimates of changes in the prices and quantities sold of a domestic industry's like product that occurred, given certain specified data relating to import volumes, dumping margins, and the markets for the imports and the domestic like product. The CADIC model has been fully described in publicly available documents,<sup>40/</sup> and copies of the computer program have been available for some time to interested members of the public, including the parties to this investigation.

The CADIC model is not intended to, and does not, obviate the need for Commissioners to evaluate evidence respecting the variety of factual issues relevant to our determination. Rather,

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<sup>39/</sup> The analytical framework underlying the CADIC model is explained in detail in R. Boltuck, Office of Economics, Assessing the Effects on the Domestic Industry of Price Dumping, USITC Memorandum EC-L-149 (May 10 & 18, 1988). The results of the Commission staff's use of the model in this case are set forth in USITC Memorandum EC-M-137 (April 21, 1989) from the Office of Economics.

<sup>40/</sup> See R. Boltuck, Office of Economics, Assessing the Effects on the Domestic Industry of Price Dumping, USITC Memorandum EC-L-149 (May 10 & 18, 1988).

the CADIC model is designed to provide information that can assist the Commission in assessing the significance of different judgments respecting issues that critically affect our assessment of injury causation under the criteria set forth in Title VII, such as the substitutability of imported and domestic products and consumers' reactions to changes in prices of the relevant products. Needless to say, each commissioner must ultimately decide what factual inferences should be drawn from the record in a given investigation respecting these and other relevant issues, and each commissioner must also decide what weight to give to the estimates generated through application of the model. When I do not believe that the information generated by the model is useful -- that is, when I find that the assumptions upon which the model is based are unrealistic in light of the other evidence of record in a particular investigation or that the information necessary to employ the model cannot be reliably inferred from the other evidence of record -- I do not give weight to the estimates that the model produces.<sup>41/</sup>

In this case, I believe that the model yields useful information when that information is carefully considered in light of the factual context of this case. This case is unlike most Title VII cases that come before us in that the country in which the subject imports are produced has an economy that is, to

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<sup>41/</sup> See, e.g., Certain Granite from Italy and Spain, USITC Pub. 2110, Inv. Nos. 701-TA-289 and 731-TA-381 and 382 (Final) (Aug. 1988).

a significant extent, state-controlled.<sup>42/</sup> As both Petitioner and Respondents recognized, this means that it is important to carefully consider the manner in which the model is used to derive estimates of the extent to which dumping affected the volume and prices of the subject imports. In order to use the CADIC model's "partial pass-through" estimates of these effects -- that is, estimates that are premised on the notion that only a portion of the dumping margin is "passed through" to domestic consumers in the form of a decrease in the price of the subject imports -- the facts must be consistent with the assumption that the foreign producer/exporter is a profit-maximizing entity.<sup>43/</sup> Because the PRC economy is, to a large extent, state-controlled, such an assumption would be at odds with the record before us.

Accordingly, it is necessary to use a different mode of analysis in assessing the effects that dumping had on the volume and prices of the subject imports. For the reasons previously indicated, in this case I believe that it is appropriate to use the full amount of the dumping margin as the rough measure of the extent to which dumping affected prices (and therefore volumes) of the subject imports.<sup>44/</sup> The "full pass-through" estimates

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<sup>42/</sup> Commerce Determination, supra, 54 Fed. Reg. 11984-85.

<sup>43/</sup> See R. Boltuck, Office of Economics, Assessing the Effects on the Domestic Industry of Price Dumping, Part I, USITC Memorandum EC-L-149 (May 10, 1988) at 5, n. 8, 14-17.

<sup>44/</sup> Even where our investigations relate to state-controlled economies, some adjustment of this figure may be appropriate to provide a more realistic estimate of actual price effects. In this investigation, however, no evidentiary basis for such an

derived from use of the CADIC model are quite relevant to such an analysis. These estimates in no way require that the imports be produced by profit-seeking firms nor do they depend on any other assumption inconsistent with the facts of record in this investigation. Both Petitioner and Respondents in this investigation acknowledged that the model, if used in this manner, can produce useful information.<sup>45/</sup> The information provided by use of the CADIC model under various possible inferences from the record here supports other evidence suggesting that the effects of the subject imports on domestic products' prices and sales were not significant and, consequently, that the imports had no material effects on the domestic industry.

#### CONCLUSION

For all of the foregoing reasons, I have concluded that the domestic industry has not been materially injured by reason of LTFV imports of sewn cloth headwear from the People's Republic of China.

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adjustment was provided.

<sup>45/</sup> See Tr. 68-69, 138. Petitioner argued that the model suffers from certain disabilities because it asks how much the domestic industry would benefit from an antidumping duty, not how much the industry was injured by dumping. See Petitioner's Prehearing Brief at Appendix VI at 3. In reality, however, the model does not concern itself in any way with the potential effects of an antidumping order; its sole purpose is to assess the impact of dumping on the domestic industry at the time that dumping occurred.

## INFORMATION OBTAINED IN THE INVESTIGATION

## Introduction

Following a preliminary determination by the U.S. Department of Commerce (Commerce) that imports of sewn cloth headwear 1/ from the People's Republic of China (China) are being, or are likely to be, sold in the United States at less than fair value (LTFV), the U.S. International Trade Commission (Commission), effective November 8, 1988, instituted investigation No. 731-TA-405 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1673d(b)) to determine whether an industry in the United States is materially injured or threatened with material injury by reason of such imports. 2/ Notice of the institution of the Commission's final investigation and of the public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of December 6, 1988 (53 F.R. 49247). 3/ The public hearing was held in Washington, DC, on March 29, 1989. 4/

In its final determination, 5/ published in the Federal Register on March 23, 1989 (54 F.R. 11983), Commerce determined that imports of sewn cloth headwear from China are being, or are likely to be, sold in the United States at LTFV. The applicable statute directs that the Commission make its final injury determination by May 1, 1989. The Commission voted on this investigation on April 26, 1989.

## Background

This investigation results from a petition filed on May 26, 1988, by counsel on behalf of the Headwear Institute of America ("the HIA"), alleging that an industry in the United States is materially injured and threatened with material injury by reason of LTFV imports of sewn cloth headwear from China. In response to that petition, the Commission instituted investigation No. 731-TA-405 (Preliminary) under section 733 of the Tariff Act of 1930

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- 1/ The headwear subject to this investigation includes hats, caps, visors, and other headwear, all the foregoing made from knitted or woven fabrics of vegetable fibers (including cotton, flax, and ramie), or manmade fibers, and/or of blends thereof and assembled from two or more cut pieces of fabric and then sewn. The subject headwear was formerly provided for in items 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, 702.3200, 703.0540, 703.0550, 703.0560, 703.1000, 703.1640, and 703.1650 and under various items in part 6F of schedule 3 of the Tariff Schedules of the United States Annotated (TSUSA). Such headwear is now provided for in subheadings 6114.20.00, 6114.30.30, 6204.23.00, 6204.29.20, 6204.29.40, 6209.90.30, 6209.90.40, 6211.32.00, 6211.33.00, 6211.42.00, 6211.43, and 6211.49.00; 6502.00.20-6502.00.90, inclusive; 6504.00.30-6504.00.90, inclusive; and 6505.90 (except 6505.90.30 and 6505.90.40) of the Harmonized Tariff Schedule of the United States (USITC Publication 2030, as supplemented).
- 2/ Material retardation is not at issue in this investigation.
- 3/ A copy of the Commission's notice of institution of the final antidumping investigation is presented in app. A.
- 4/ A list of the participants in the hearing is presented in app. B.
- 5/ A copy of Commerce's notice is attached as app. C.

(19 U.S.C § 1673b(a)) and, on July 11, 1988, determined that there was a reasonable indication of material injury by reason of such imports (53 F.R. 27409).

#### Previous Investigations Concerning Sewn Cloth Headwear

On February 8, 1977, a petition for import relief, under section 201(a)(1) of the Trade Act of 1974, was filed with the Commission by the Empire State Cloth Hat and Cap Manufacturers Association and the United Hatters, Cap and Millinery Workers International Union. On February 18, 1977, the Commission received an amendment to the petition and on February 22, 1977, instituted an investigation to determine whether certain headwear was being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. In August 1977, the Commission determined that certain headwear was not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing articles like or directly competitive with the imported articles. 1/

In May 1985, the Commission conducted investigation No. 332-190 on certain headwear, under section 332 of the Tariff Act of 1930, and issued a statistical report on the industry to the United States Trade Representative. 2/

#### The Products

##### Description and uses

The imported articles under investigation consist of caps, hats, and visors, cut and sewn from woven or knit fabrics of vegetable or manmade fibers or blends of these fibers (hereinafter "sewn cloth headwear"). Cotton is the principal natural fiber, and polyester is the major manmade fiber used in the manufacture of fabric for sewn cloth headwear. The use of vegetable fibers such as flax (linen) or ramie is believed to be very small.

Sewn cloth headwear is designed primarily for men and boys, although many styles are worn by either sex. It is worn as casual wear, for sports activities, or for promotional and advertising purposes. A small portion of the sewn cloth headwear imports consists of infants' and children's caps and hats, made primarily of cotton and containing decorative features. 3/

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1/ Certain Headwear. Report to the President on Investigation No. TA-201-23 Under Section 201 of the Trade Act of 1974, USITC Publication 829, August 1977.

2/ Certain Headwear Statistical Report. Report to the United States Trade Representative on Investigation No. 332-190, Under Section 332 of the Tariff Act of 1930, USITC Publication 1697, May 1985.

3/ Respondents argued at the hearing and in their briefs that children's sewn cloth headwear is sufficiently different from adults' sewn cloth headwear that it should be considered as a separate like product. Respondents suggested defining this product as headwear sized 6-7/8 inches in diameter and under, based on informal surveys conducted by them indicating that less than one

The majority of the sewn cloth headwear imported from China consists of baseball-type caps. These caps usually have a solid seamless cloth front piece and nylon mesh sides and back but may be made entirely of solid cloth. They come in a variety of colors and may be plain or have designs or promotional messages printed, embroidered, or otherwise affixed to the cap. The caps may or may not contain braid.

The imported articles are generally comparable in style to and substitutable for domestic articles. Both types are produced by similar manufacturing processes, use similar fabrics, and compete in the same market. <sup>1/</sup> Excluded from the scope of this investigation are headwear of other textile fibers, such as wool and silk; straw and other unspun fibrous vegetable materials; fur; leather; horsehair; rubber or plastics; and felt. These varieties are not substitutable for the subject articles in terms of price, method of manufacture, and the markets served. <sup>2/</sup> The manufacture of caps and hats of wool and silk, however, uses cutting and sewing processes similar to those involved in the manufacture of sewn cloth headwear.

Based on responses to Commission questionnaires, caps account for the majority of the imports under investigation. Caps differ from hats in that they have no brims but do have peaks that project from the front of the articles. The majority of the imported caps are baseball-type caps made of 100-percent polyester or cotton/polyester blends. These baseball-type caps contain a one-piece seamless front on which logos are printed, embroidered, or otherwise affixed in the United States, and usually have a plastic snap adjuster at the back to fit all sizes. These caps are generally sold to premium and promotional markets in the United States. Other types of caps include painter, bicycle, golf, fishing, Ivy League/Gatsby, and camouflage (hunting) caps, generally made of denim, corduroy, or twill. These caps are comparable in style and other physical attributes to domestically produced caps and are marketed through the same distribution channels.

Hats represent a relatively small portion of the imported headwear covered by this investigation. Hats are made with a crown and brim. They are sold in a variety of styles and colors in all price segments of the market.

Visors are essentially unisex articles, except for certain colors and designs. <sup>3/</sup> They generally have the shape of caps but are without a complete crown. They have foam-padded cloth headbands measuring about 2 to 3 inches in width and a peak and are secured to the head by elastic bands or adjustable straps. Visors are generally sold for use in spring and summer and are typically worn in casual or sport activities.

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quarter of the adult population have head sizes less than 6-7/8 inches, and that smaller hats could not be marketed effectively as adults' hats; this suggestion was disputed by petitioner. Transcript, p. 97 to 98, 183; respondent's posthearing brief, Exhibits 3 and 6; letter from Ken Schwartz, Universal Industries, to Kenneth R. Mason, Mar. 31, 1989.

<sup>1/</sup> Transcript of the hearing in investigation No. 731-TA-405 (Final) (Transcript), pp. 21 to 24.

<sup>2/</sup> Transcript of the preliminary conference, pp. 61 to 62, 66 to 68, and 87; petitioner's postconference brief, pp. 17 to 20. In the final investigation, respondent did not claim, as it had at the preliminary stage, that headwear manufactured from these materials should be included within the like product definition.

<sup>3/</sup> Transcript of the preliminary conference, pp. 154-155.

The caps, hats, and visors covered by this investigation are imported in different styles and colors and in fabrics ranging from those of 100-percent polyester knit fabric to woven fabric such as cotton twill, corduroy, and denim. All these products are said to be substitutable to a certain degree as they all can be used to convey the same promotional message.

#### Manufacturing processes

The production of headwear is more labor intensive than that of most other apparel products. Direct labor costs account for 50 percent of the total value added by manufacture for headwear, compared with about 40 percent for the apparel industry as a whole. Consequently, unit labor costs in the headwear industry are relatively high. In 1986, the direct labor costs accounted for 26 percent of the total value of industry shipments, compared with 20 percent for the overall apparel industry. <sup>1/</sup>

Products under investigation.--Cap manufacturing involves several steps. First, the fabric and the nylon mesh are cut into required shapes either by hand, by die-cutting machines, or by automated cutting machines. An automated cutting machine is computer controlled and cuts several layers of fabric panels at one stroke with minimal fabric waste. These panels are then sewn together, the seams are taped, a sweatband and sizing strip are sewn to the bottom edge along with the peak, and the adjustable tabs are applied to the back panels. The cap is then blocked, a process that uses steam to shape the assembled headwear. Finally, the cap is packed in a box for shipment.

Cut-and-sewn hat and visor production requires steps similar to cap production and generally uses the same machinery and equipment. Only minor adjustments are needed for producing special kinds of caps and hats, such as Ivy League/Gatsby caps and hats and those made of wool. Shifting production from one product to another does not significantly affect overall productivity.

Other headwear.--Headwear of straw, other unspun fibrous vegetable materials, and felt is produced almost exclusively in different manufacturing facilities using different machinery and equipment. Most felt headwear is made of wool or fur. The manufacture of felt headwear begins with producing hat bodies through the felting process. The finished hat bodies are then blocked using steam-dies and are subsequently trimmed or otherwise finished.

Straw hat bodies used in producing straw hats, for the most part, are imported, principally from China. The extremely low labor costs in China and an abundant supply of straw provide the Chinese industry with significant competitive advantages against other countries in this highly labor-intensive product. The straw hat bodies are produced either by sewing straw braids on a special sewing machine in a circular or spiral fashion beginning from the crown or by weaving or plaiting by hand or by machine a set of fibers or strips radiating from the center of the crown. The bodies are then blocked, shaped, trimmed, and finished in much the same manner as the felt hats.

The level of technology in the headwear industry of the major Asian suppliers, especially China, is alleged to be significantly less advanced than that of the U.S. headwear industry. The U.S. industry has automated or semi-

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<sup>1/</sup> Based on official statistics of the U.S. Departments of Commerce and Labor.

automated machinery and equipment, whereas most of the plants in the Far East --especially in China-- do not. 1/ Because the region has low-cost labor, manufacturers there are not apt to invest heavily in automated machinery.

#### U.S. tariff treatment

The hats and caps under investigation, along with all other merchandise imported into the United States, are now classified for tariff purposes in provisions of the Harmonized Tariff Schedule of the United States (HTS). Effective January 1, 1989, the HTS replaced the Tariff Schedules of the United States (TSUS). The hats and caps are classified as headwear in chapter 65 of the HTS, and the visors, because of their open crowns, are classified as wearing apparel in chapters 61 (knit apparel) and 62 (not knit apparel).

The tariff classification of the hats and caps under the TSUS depended upon (1) the fiber in chief value; (2) whether the fabric was knit or not knit; and (3) for manmade-fiber articles, the presence or absence of braid. Tariff distinctions were not made on the basis of gender or product type (e.g., baseball caps). Except as noted below, these criteria continue to be used under the HTS.

The classification of the visors under the TSUS depended upon (1) the presence or absence of ornamentation; (2) the fiber in chief value; (3) whether the fabric was knit or not knit; and (4) whether, in the case of visors of miscellaneous vegetable fibers, such visors were subject to restraint. Visors and other apparel considered to be unisex articles were classified under provisions for women's, girls', and infants' apparel.

The weighted-average duty on sewn cloth headwear, based on trade with China in 1988, amounted to 8 percent ad valorem for the hats and caps and 10.5 percent ad valorem for the visors, as shown in table 1. About 83 percent of the total value of sewn cloth headwear imports from China in 1988 entered under TSUS item 702.12, woven cotton hats and caps, and item 703.05, knit or woven manmade-fiber hats and caps with braid. Under the HTS, the woven cotton headwear continues to be dutiable at a column 1-general, or most-favored-nation (MFN) rate of 8 percent ad valorem and the braided manmade-fiber headwear is still dutiable at 7.2 percent, as they were under the TSUS. 2/ Manmade-fiber hats and caps, unlike other hats and caps, are distinguished for tariff purposes in the TSUS and the HTS by the presence or

1/ Various headwear producers and importers have indicated to staff, however, that the Chinese industry is beginning to obtain automated, state-of-the-art machinery, particularly with regard to the decoration stage of the manufacturing process.

2/ The MFN rates, in general, represent the final stage of the reductions granted in the Tokyo Round of Multilateral Trade Negotiations. Such rates are assessed on imports from all countries except those Communist countries and areas enumerated in general note 3(b) of the HTS, whose products are assessed the rates set forth in col. 2. The only Communist countries eligible for MFN treatment, as of December 1988, are China, Hungary, Poland, and Yugoslavia. Among articles dutiable at MFN rates, particular products of enumerated countries may be eligible for preferential treatment under one or more programs, set forth in the "special" rates subcolumn of col. 1.

Table 1  
Sewn cloth headwear: U.S. imports from China and rates of duty, by TSUS  
items, 1988

TSUS item No.	Description	1988 imports 1,000 dollars	1988 tariff rate Percent ad valorem
	Cloth hats and caps:		
	Of vegetable fibers:		
	Cotton or flax:		
	Knit:		
702.06	Cotton-----	2,820	8.4
702.08	Flax-----	4	8.4
	Not knit:		
702.12	Cotton-----	17,988	8
702.14	Flax-----	21	8
702.20	Other caps-----	17	5
702.32	Other hats-----	152	7.2 1/
	Of manmade fibers:		
703.05	With braid-----	18,410	7.2
	Without braid:		
703.10	Knit-----	1,176	17.1 2/
703.16	Not knit-----	1,008	9.2 3/
	Total or average-----	41,596	8.0
	Cloth visors:		
	Of cotton:		
	Ornamented:		
384.04	Knit-----	6	14
384.09	Not knit-----	128	14
	Not ornamented:		
384.34	Knit-----	82	8
384.52	Not knit-----	1,394	8
	Of vegetable fibers, except cotton:		
384.27	Ornamented-----	4/	8
	Not ornamented:		
	Knit:		
384.53	Not subject to cotton, wool, or man-made fiber restraints-----	4/	5
384.54	Other-----	4/	5
	Not knit:		
384.55	Subject to cotton or wool restraints-----	4/	3
384.56	Other-----	4/	3
	Of manmade fibers:		
	Ornamented:		
384.22	Knit-----	0	22.7
384.26	Not knit-----	8	22.7
	Not ornamented:		
384.86	Knit-----	392	17
384.94	Not knit-----	68	17
	Total or average-----	2,078	10.5

1/ Represents the ad valorem equivalent, based on 1988 trade, of 30¢ per dozen plus 5.2 percent ad valorem.

2/ Represents the ad valorem equivalent, based on 1988 trade, of 18¢ per dozen plus 14.1 percent ad valorem.

3/ Represents the ad valorem equivalent, based on 1988 trade, of 10¢ per dozen plus 8 percent ad valorem.

4/ Data are not available on imports of visors of noncotton vegetable fibers. Imports from China of such visors, however, are believed to be nil or negligible.

Source: Official statistics of the U.S. Department of Commerce.

absence of braid. The rate of duty on the braided articles is lower than that on those without braid. 1/ Most of the TSUS rates of duty on apparel that contains braid or other ornamentation were lower than those for the unornamented articles; the distinction between ornamented and unornamented apparel was eliminated in almost all cases with the implementation of the HTS.

In general, the tariff treatment of sewn cloth headwear under the HTS is similar to that previously in effect under the TSUS. The major exceptions are that (1) the principal fiber determination is now based on weight rather than value, and (2) for cloth visors, the distinction between ornamented and nonornamented articles is eliminated. Cloth hats and caps are classified as headwear under several provisions of HTS subheading 6505.90; cloth visors are classified as wearing apparel under heading 6114, if of knit fabric, or heading 6211, if not of knit fabric (essentially woven). The rates of duty for sewn cloth headwear under the HTS are given in table 2.

#### Eligibility for preferential tariff treatment

U.S. imports of cotton and manmade-fiber sewn cloth headwear are not eligible for any preferential tariff treatment unless they are products of Israel and Canada, which are small suppliers. 2/ Preferential rates are also granted to Israel and Canada on sewn cloth headwear of noncotton vegetable fibers, such as linen and ramie. Imports of some of the noncotton vegetable fiber headwear are also eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act (CBERA). 3/

A small portion of the imported headwear covered by this investigation enters under HTS subheading 9802.00.80. Products imported under this provision are assembled wholly or partly with components fabricated in the United States. The duty is assessed on the total value of the product less

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1/ Importations of braided caps do not generally result from specific requests by cap purchasers, but rather are made solely to obtain the lower duty. Frequently, the braid is removed after importation and the merchandise is sold as plain caps.

2/ Preferential rates of duty in the special rates subcolumn followed by the code "I" or "IL" are applicable to products of Israel under the United States-Israel Free Trade Area Implementation Act of 1985, as provided in general note 3(c)(vi) of the HTS. Where no preferential rate is provided for products of Israel, the col. 1 rate applies. Preferential duty rates in the special rates subcolumn followed by the code "CA" are applicable to products of Canada under the Canada-United States Free-Trade Agreement, as provided in general note 3(c)(vii) of the HTS. This agreement calls for elimination of all bilateral tariffs by Jan. 1, 1998.

3/ The CBERA affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67 and implemented by Presidential Proclamation 5133 of Nov. 30, 1983, applies to merchandise entered, or withdrawn from warehouse, for consumption on or after Jan. 1, 1984. It is scheduled to remain in effect until Sept. 30, 1995. Indicated by the symbol "E" or "E\*" in the special rates subcolumn, the CBERA provides duty-free entry to eligible articles, the product of and imported directly from designated basin countries.

Table 2  
Sewn cloth headwear: HTS classification and U.S. rates of duty, 1989

Heading/ Subheading	Description	Rates of duty		
		General	Special	Col. 2
<u>Cloth hats and caps:</u>				
Of cotton, flax, or both:				
6505.90.15	Knitted.....	8.4%	Free(E*) 3.4%(IL) 7.5%(CA)	45%
Not knitted:				
6505.90.20	Certified handloomed and folklore articles; headwear of cotton	8%	Free(E*) 3.2%(IL) 7.2%(CA)	37.5%
6505.90.25	Other.....	8%	Free(E*) 3.2%(IL) 7.2%(CA)	37.5%
Of man-made fibers, knitted:				
6505.90.50	Wholly or in part of braid.....	7.2%	2.9%(IL) 6.4%(CA)	90%
6505.90.60	Without braid.....	39.7¢/kg +14.1%	15.9¢/kg+5.6%(IL) 35.7¢/kg+12.6%(CA)	99.2¢/kg +65%
Of manmade fibers, not knitted:				
6505.90.70	Wholly or in part of braid.....	7.2%	2.9%(IL) 6.4%(CA)	90%
6505.90.80	Without braid.....	22¢/kg+8%	8.8¢/kg+3.2%(IL) 19.8¢/kg+7.2%(CA)	99.2¢/kg +65%
6505.90.90	Of other textile materials.....	22¢/kg+8%	Free(E*) 8.8¢/kg+3.2%(IL) 19.8¢/kg+7.2%(CA)	99.2¢/kg +65%
<u>Cloth visors:</u>				
Knitted or crocheted:				
6114.20.00	Of cotton.....	11.5%	Free(IL) 10.3%(CA)	90%
6114.30.30	Of manmade fibers.....	16.1%	Free(IL) 14.4%(CA)	90%
6114.90.00	Of other textile materials....	6%	Free(E*) 2.4%(IL) 5.4%(CA)	60%
Not knitted or crocheted:				
6211.42.00	Of cotton.....	8.6%	Free(IL) 7.7%(CA)	90%
6211.43.00	Of manmade fibers.....	17%	Free(IL) 15.3%(CA)	90%
6211.49.00	Of other textile materials....	7.8%	Free(E*,IL) 7%(CA)	35%

Source: Harmonized Tariff Schedule (HTS) of the United States, 1989.

the value of the U.S.-fabricated components, or essentially on the value added abroad. Most of the sewn cloth headwear imports entered under that subheading come from Mexico and from Caribbean countries. 1/

### Quota restrictions

U.S. imports of sewn cloth headwear are subject to restraint under the Multifiber Arrangement (MFA). 2/ The MFA covers trade in textiles and apparel of cotton, wool, manmade fibers, and, since August 1, 1986, other vegetable fibers, such as linen, ramie and silk blends. The MFA provides the framework for the negotiation of bilateral agreements between importing and exporting countries, or for unilateral action by importing countries in the absence of an agreement, to control textile and apparel trade among its signatories and prevent market disruption. As of January 1, 1989, the United States had such agreements with 40 countries, including China.

The current agreement with China, effective January 1, 1988, controls China's shipments of MFA-covered products to the United States for 4 years, through 1991. 3/ It sets a specific limit, or quota, on China's shipments of manmade-fiber headwear, classified for quota purposes under category 659-H, of 4.65 million pounds for 1988. 4/ No specific limit was set on cotton headwear, classified under category 359-O.

Products not covered by specific limits, under the "consultation mechanism" contained in the agreement, may be brought under restraint when the United States determines that market disruption has occurred. Unlike the 5-year agreement that expired at the end of 1987, the new one also sets aggregate limits for groups of products not covered by specific limits to control the growth in China's overall shipments. The products are divided into four broad groups, as follows:

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1/ The Administration in 1986 implemented a "special access program" for Caribbean-produced apparel and made-up textiles under HTS subheading 9802.00.80 (former TSUS item 807.00), in which eligible Caribbean countries are guaranteed greater access to the U.S. market for their products assembled with fabric that has been both produced and cut in the United States. A similar program, known as the "special regime," was implemented with Mexico, effective Jan. 1, 1989, for certain apparel and made-up textiles under subheading 9802.00.80, but cloth headwear imports are currently not covered by the regime.

2/ The MFA, formally known as the Arrangement Regarding International Trade in Textiles, is an international agreement negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT). The MFA was implemented in 1974 and was extended in 1986, for a third time, through July 1991.

3/ The agreement may be extended by mutual consent for a fifth year, or through 1992.

4/ Category 659 is a "basket" category comprising miscellaneous apparel articles of manmade fibers. The suffix "H" indicates that headwear in the category is subject to a limit.

- Group I. Products subject to specific limits;  
 Group II. Apparel of cotton, wool, or manmade fibers not subject to specific limits;  
 Group III. Textiles of cotton, wool, or manmade fibers not subject to specific limits; and  
 Group IV. Apparel of new MFA fibers not subject to specific limits. 1/

Products in Groups II, III, and IV are subject not to specific restraints, but instead to aggregate, group limits. Category 659-H is included in Group I, and category 359-0 is included in Group II. On the basis of 1988 trade with China, cotton headwear accounted for less than 10 percent of the Group II limit for 1988. The 1988 group limits and annual percentage of growth permitted during the remainder of the agreement period are shown in the following tabulation:

<u>Group</u>	<u>Limit 1,000 sq. yd. (SYEs) <u>1/</u></u>	<u>1989 growth (percent)</u>	<u>1990/91 growth (percent)</u>
II.....	121,800	0.5	5.5
III.....	330,750	0.2	5.2
IV.....	24,000	6.0	6.0

1/ In thousands of square yard equivalents (SYEs).

Respondents testified at the hearing that the Government of China is voluntarily restraining its exports of Group II products to the United States, including cotton headwear under category 359-0. Counsel for respondents testified that China is restraining exports under category 359-0 to avoid having restrictions (i.e., a specific limit) being placed by the United States on the subcategory. 2/ China's exports to the United States under the bilateral textile agreement require a visa, an endorsement in the form of a stamp on an invoice that is executed by the Government of China and that enables it to allocate quota. 3/ Thus, the Government of China, through this export licensing system, can control export levels of individual products subject to the Group II aggregate limit. Approximately 17 apparel categories are subject to the Group II limit, ranging from relatively low-unit-valued

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1/ The new MFA fiber products are those of silk blends and of miscellaneous vegetable fibers, such as linen and ramie. They were added to the MFA effective Aug. 1, 1986.

2/ Transcript, pp. 104, 105, 107, 109, 110; respondents' posthearing brief, p. 9. Petitioner states that the restraints referred to by respondents are a broad ceiling on Group II products. Transcript, p. 181. U.S. general imports from China under category 359-0 during 1988 rose by 68 percent, to 19.8 million pounds, over those in 1987 (roughly 91.2 million SYEs).

3/ A visa system is provided in par. 15 of the bilateral textile agreement between the United States and China, dated Feb. 2, 1988. A visa system is used with China and a number of other countries to control the exportation of textiles and apparel to the United States, with a goal of ensuring that both the U.S. and foreign governments count merchandise and charge quotas in the same way to avoid overshipments, incorrect quota charges, and embargoes.

items such as cotton headwear and handkerchiefs to relatively high-unit-valued items such as down-filled coats and jackets. <sup>1/</sup> Nevertheless, China's textile and apparel exports to the United States are subject to controls applied by the U.S. Customs Service.

China's shipments of sewn cloth headwear have been subject to restraint since September 30, 1985. Following a request for consultations (i.e., a "call") with China to negotiate a limit on its cotton and manmade-fiber headwear, the United States set a limit of 1.35 million pounds on such goods for the 90-day negotiating period. Unable to agree mutually on a limit, the United States unilaterally imposed a limit of 4.44 million pounds on headwear under categories 359 and 659 for the 12-month period beginning December 29, 1985. About 1 year later, or in January 1987, the two countries agreed to a limit for category 659-H only, of 4.30 million pounds, retroactive to 1986. This base level was later adjusted through the use of "flexibility" to 2.96 million pounds, of which 90.4 percent was filled. The limit for 1987 was increased by 4 percent over the 1986 base level, to 4.47 million pounds, and later adjusted to almost 4.70 million pounds, all of which was filled.

The limit on category 659-H under the new agreement was increased by another 4 percent for 1988, to 4.65 million pounds. Annual growth of 4 percent is permitted during the remainder of the agreement period. The limit may be adjusted under the flexibility provisions of the agreement. <sup>2/</sup> The 1988 limit was adjusted upward using the flexibility provisions, to 4.88 million pounds.

The only other countries whose exports of sewn cloth headwear to the United States are subject to specific limits are Taiwan, Korea, and the Philippines, which along with China accounted for two-thirds of the total value of sewn cloth headwear imports in 1988. <sup>3/</sup> Limits have been set on Taiwan's cotton and manmade-fiber headwear; Korea's cotton, manmade-fiber, and woven wool headwear; and the Philippines' manmade-fiber headwear. The quota performance of these suppliers during 1987 and 1988 is shown in the following tabulation:

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<sup>1/</sup> Transcript, pp. 130 to 131.

<sup>2/</sup> Flexibility includes (1) "swing," or shifting unused quota from one category to another, (2) "carryover" of unused quota for the same category of the previous year, and (3) "carryforward" or borrowing quota from the next year's limit for the same category. A specific limit may be increased by not more than 5 percent with swing. Carryover is not available for 1988 and, thereafter, is limited to 2 percent of the receiving year's limit. Carryforward is limited to 3 percent of the receiving year's limit, except in 1988, when an additional 2 percent is available. No carryforward is available in the final agreement year. The combination of carryover and carryforward is limited to 3 percent of the receiving year's limit, except in 1988, when it is limited to 5 percent.

<sup>3/</sup> Imports of manmade-fiber headwear from Mexico were subject to a designated consultation level (DCL) of 350,000 pounds in 1988. A DCL is a more flexible import control than specific limits. DCLs are usually somewhat above existing trade levels and once reached cannot be exceeded unless the United States agrees to further shipments. DCLs normally apply to categories in which trade is not as great as those for which specific limits are set.

<u>Country/item</u>	<u>Final adjusted level</u>		<u>Percentage filled</u>	
	<u>(pounds)</u>		<u>1987</u>	<u>1988 1/</u>
	<u>1987</u>	<u>1988</u>		
China:				
Manmade-fiber headwear--	4,695,600	4,883,424	100.0	99.9
Taiwan:				
Cotton headwear-----	4,201,449	4,350,639	73.9	54.5
Manmade-fiber headwear--	5,283,419	5,412,209	91.5	96.5
Korea:				
Cotton headwear-----	4,360,094	4,469,096	82.1	90.3
Wool headwear 2/-----	185,893	193,036	94.8	94.6
Manmade-fiber headwear--	2,474,530	2,629,373	99.6	99.2
Philippines:				
Manmade-fiber headwear--	1,200,000	1,272,000	69.8	81.4

1/ Customs data as of Mar. 19, 1989. Quotas are based on the date of export and, therefore, goods shipped from the foreign port during 1988 but entered in 1989 will be charged to the quota for 1988.

2/ Not covered by the scope of this investigation.

#### Nature and Extent of Sales at LTFV

On March 23, 1989, Commerce published in the Federal Register its final determination that sewn cloth headwear from China is being, or is likely to be, sold in the United States at LTFV. Commerce's determination was based on an examination of sales of sewn cloth headwear from China during the period December 1, 1987, through May 31, 1988. The weighted-average margins are presented in the following tabulation (in percent):

<u>Producer/exporter</u>	<u>LTFV margins</u>
China National Light Industrial Products Import/Export Corp., Guangdong Branch, Travelling Goods Co.....	5.30
Guangdong Stationery and Sporting Products Import and Export Corp....	7.09
China National Light Industrial Products Import/Export Corp., Guangzhou Branch Footwear and Headgear Co.....	32.06
Guangdong Arts & Crafts Imports and Exports Corp.....	7.00
Jiangsu Arts & Crafts Imports and Exports Corp.....	27.71
Shanghai Arts & Crafts Imports and Exports Corp.....	16.27
Shanghai Stationery and Sporting Goods Import/Export Corp.....	28.60
Zhejiang Arts & Crafts Import & Export Co.....	22.20
All others.....	21.37

Commerce used purchase price to represent United States price of sewn cloth headwear because the merchandise was sold to unrelated purchasers prior to importation into the United States. Because Commerce determined that, for purposes of its investigation, China was a state-controlled economy country, it based foreign market value on the constructed value of such or similar merchandise in a non-state-controlled economy country at a level of economic development comparable to that of China. 1/ Accordingly, U.S. sales prices were compared to foreign market value constructed by valuing the factors of production used by the Chinese manufacturers based on factor cost information provided by the Philippines, the only non-state-controlled economy country to respond to Commerce's questionnaire. 2/

Sales by the producer/exporter combinations listed in the above tabulation examined by Commerce for the period December 1, 1987, through May 31, 1988, totaled \* \* \* dozen units, valued at \* \* \*. 3/ Commerce estimated that such sales accounted for approximately \* \* \* percent of all Chinese exports of sewn cloth headwear to the United States during the period

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1/ Although it generally prefers to do so, Commerce did not use home-market prices of such or similar merchandise because the merchandise sold in the non-state-controlled economy country was insufficiently similar to be used as a basis for comparison.

2/ This methodology was used both for "outright sales" and for sales where a processing fee was charged by the Chinese factories.

3/ Conversation with Robin Gray, Commerce case handler, Apr. 12, 1989.

of investigation. Commerce found \* \* \* percent of those sales (by quantity) to have been made at LTFV, consisting of \* \* \* dozen units, valued at \$\* \* \*. 1/

In issuing its final determination, Commerce also found that critical circumstances do not exist with respect to imports of sewn cloth headwear from China. Further details concerning the methodologies used by Commerce in calculating margins, along with a thorough discussion of the issue of state control, are presented in its Federal Register notice, a copy of which appears in appendix C.

### The U.S. Market

#### Apparent U.S. consumption

Data on apparent U.S. consumption of sewn cloth headwear were compiled from information submitted in response to questionnaires of the U.S. International Trade Commission and from official import statistics. The former data consist of reported shipments of U.S.-produced sewn cloth headwear and reported shipments of imports from China, Taiwan, the Republic of Korea (Korea), and all other sources.

Reported 1987 U.S.-produced domestic shipments are believed to account for in excess of 70 percent of actual 1987 domestic shipments of sewn cloth headwear. 2/ By contrast, reported imports in 1987 represent 56 percent by quantity and 46 percent by value of official U.S. import statistics for sewn cloth headwear. In turn, reported imports from China represent 58 percent by quantity and 55 percent by value of 1987 U.S. official import statistics on imports from China. Accordingly, apparent U.S. consumption of sewn cloth headwear has been calculated using official import statistics. 3/ An alternative calculation of apparent consumption of sewn cloth headwear, using questionnaire data, is presented in appendix D.

Apparent U.S. consumption of sewn cloth headwear rose from about 19.2 million dozen in 1985 to over 22.6 million dozen in 1987, before falling off slightly in 1988 to just over 22.3 million dozen, for an overall increase

1/ This amount represents only the value of processing fees charged by the Chinese factories. Conversation with Robin Gray, Apr. 17, 1989.

2/ There is no reliable public source of data regarding U.S. consumption of sewn cloth headwear. According to estimates by the petitioner, reported 1987 U.S.-produced domestic shipments account for 97 percent of actual 1987 domestic shipments of sewn cloth headwear. Petition, app. 28. As that estimate is limited to shipments by firms then known by the petitioner to produce sewn cloth headwear, it is believed to be understated because staff subsequently identified numerous firms producing sewn cloth headwear during the course of the investigation who are not on that list. Inasmuch as producer responses to Commission questionnaires do include, however, responses by Paramount Cap Manufacturing Co., Inc. (Paramount), and K-Products, Inc. (K-Products), by far the largest U.S. producers of sewn cloth headwear, in addition to a significant number of medium-size producers, staff believes coverage of shipments to be in excess of 70 percent.

3/ Apparent U.S. consumption of separate styles of sewn cloth headwear (i.e., hats, caps, visors, and other types of sewn cloth headwear) has been calculated using questionnaire data because official statistics do not provide a clear breakdown by these styles.

of 16 percent (table 3). In terms of value, the total surged throughout the period, showing an overall increase of 23 percent, with the largest rise occurring between 1987 and 1988, when apparent consumption jumped 9 percent.

Consumption of sport and casual hats (hats) rose throughout 1985-87, then dropped off in 1988, by just over 9 percent in quantity terms (table 4). Consumption of sport and casual caps (caps) also increased in 1985-87, but continued its climb in 1988, for an overall rise of 34 percent (table 5). At least in terms of quantity, visor consumption mirrored the pattern for hats (table 6); in value terms, however, consumption rose throughout the period of investigation. Consumption of other types of sewn cloth headwear declined overall, by \* \* \* percent in quantity terms, with a particularly steep drop between 1987 and 1988 (table 7).

Estimates of apparent consumption of other types of headwear, specifically wool, felt, fur, and straw headwear, are presented in appendix E.

Anecdotal data from various sources also indicate a general upward trend in U.S. consumption of sewn cloth headwear, fueled particularly by the increased popularity of the baseball cap as a promotional item and as casual apparel. 1/ As indicated *infra*, domestic producers are present in all markets but tend to concentrate in the premium promotional area, whereas importers primarily service the retail and ad specialty markets. 2/ There is no indication of any significant regional variations in the growth of consumption, although producers and importers in the Sun Belt regions report consistently strong business over the period of investigation.

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1/ See, e.g., HIA press release of May 4, 1988 (exhibit D of respondent's post-conference brief), and conversation with Mark D'Angelo, Twins Enterprises, Jan. 17, 1989. Norman Rubenstein, president of Paramount, although he did not project any specific rate of growth, also commented at the hearing that the industry projection for consumer demand is "upward," because of the public's increased use of leisure time, among other factors. Transcript, pp. 47 to 48. Moreover, Quentin Hatfield, vice president-marketing of K-Products, Inc., estimated the entire ad specialty and premium promotional business at \$24.7 billion, a considerable portion of which consists of headwear. Transcript, p. 68.

2/ Several importers reported strong sales to the resort trade; i.e., retail stores associated with theme parks such as \* \* \*; \* \* \*.

Table 3

Sewn cloth headwear: U.S.-produced domestic shipments, imports, and apparent U.S. consumption, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments.....	6,192	6,279	6,306	6,081
Imports.....	12,999	14,663	16,298	16,230
Apparent U.S. consumption.....	19,191	20,942	22,604	22,311
	Value (1,000 dollars)			
U.S.-produced domestic shipments.....	162,223	166,303	172,064	183,791
Imports.....	135,638	148,340	165,031	182,990
Apparent U.S. consumption.....	297,861	314,643	337,095	366,781

Source: U.S.-produced domestic shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports compiled from official statistics of the U.S. Department of Commerce.

Table 4

Sport and casual hats: U.S.-produced domestic shipments, shipments of imports, and apparent U.S. consumption, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments.....	***	***	334	325
Shipments of imports.....	468	558	661	580
Apparent U.S. consumption.....	***	***	995	905
	Value (1,000 dollars)			
U.S.-produced domestic shipments.....	***	***	8,266	8,569
Shipments of imports.....	7,082	7,874	9,270	8,039
Apparent U.S. consumption.....	***	***	17,536	16,608

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

Table 5

Sport and casual caps: U.S.-produced domestic shipments, shipments of imports, and apparent U.S. consumption, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments.....	4,694	4,715	4,768	4,733
Shipments of imports.....	4,690	5,154	6,750	7,878
Apparent U.S. consumption.....	9,384	9,869	11,518	12,611
	Value (1,000 dollars)			
U.S.-produced domestic shipments.....	133,499	136,393	140,453	149,768
Shipments of imports.....	61,318	71,479	98,014	112,770
Apparent U.S. consumption.....	194,817	207,872	238,437	262,538

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

Table 6

Visors: U.S.-produced domestic shipments, shipments of imports, and apparent U.S. consumption, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments.....	144	***	222	233
Shipments of imports.....	478	***	673	619
Apparent U.S. consumption.....	622	***	895	852
	Value (1,000 dollars)			
U.S.-produced domestic shipments.....	5,200	***	6,214	6,992
Shipments of imports.....	4,193	***	6,175	5,937
Apparent U.S. consumption.....	9,393	***	12,389	12,929

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

Table 7

Other sewn cloth headwear: 1/ U.S.-produced domestic shipments, shipments of imports, and apparent U.S. consumption, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments.....	***	***	982	790
Shipments of imports.....	317	236	272	263
Apparent U.S. consumption.....	***	***	1,254	1,053
	Value (1,000 dollars)			
U.S.-produced domestic shipments.....	***	***	17,132	18,462
Shipments of imports.....	2,499	2,060	2,046	2,090
Apparent U.S. consumption.....	***	***	19,178	20,552

1/ Includes primarily painters' caps and uniform caps.

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

The world market for sewn cloth headwear is dominated by Far Eastern producers. Moreover, such producers are the only major global exporters; North American and European producers tend to concentrate on local markets. 1/ Prior to 1987, the world market was dominated by producers from Korea and Taiwan, such as Young An Headwear and Yu Poong Headwear of Seoul, Korea, and San Sun Headwear and Apollo Headwear of Taipei, Taiwan. 2/ Most prominent among these firms is Young An Headwear, generally agreed to be the highest quality world producer of sewn cloth headwear, and estimated to ship over 2 million dozen units annually. 3/ Young An is one of the few truly multinational headwear producers, with operations in \* \* \*, among other locations. Young An also plans to \* \* \*. 4/ Young An has also reportedly signed a letter of intent to produce headwear in China under a joint venture. 5/ The Taiwanese producers are considerably smaller than Young An, with shipments estimated at between \* \* \* dozen annually, but are still larger than most U.S. producers. 6/

The United States is by far the largest consumer market for cloth headwear, particularly for baseball-type caps. Other countries, such as Japan, however, are showing appreciably greater interest in cloth headwear. 7/

1/ See section on shipments, *infra*.

2/ Transcript, p. 49. Petitioner's witnesses commented that prior to 1970, Japan was a major factor in the U.S. market, although not to the same extent as the subsequent shipments from Korea and Taiwan.

3/ Conversation with \* \* \*, Feb. 27, 1989.

4/ Transcript, p. 104.

5/ Transcript, p. 173.

6/ Conversation with \* \* \*, Feb. 27, 1989.

7/ Interview with \* \* \*, Jan. 6, 1989.

### Channels of distribution

The U.S. sewn cloth headwear market consists primarily of the promotional market and the retail market. The promotional market includes large corporate premium account end users such as Coca-Cola, John Deere, Budweiser, etc., as well as ad specialty distributors and im printers. Ad specialty firms market a diverse array of promotional items including baseball caps, tennis and golf hats, and other headwear; T-shirts; promotional travel and tote bags; watches; radios; and many other items. These firms specialize in decorating their promotional items to order for their customers. <sup>1/</sup>

Decorations on sewn cloth headwear such as baseball caps can be logos advertising a product, an event, an identity, a location or can be messages designed to promote some product, firm, or place or to celebrate some occasion. The promotional decoration on headwear can be embroidered, imprinted, silk screened, puff-printed, or can be a sewn-on emblem. Im printers that serve the headwear market buy direct and decorate to order. Most silk screen im printers, however, act as subcontractors to ad specialty firms that do not have in-house capability.

Large premium account end users such as Pepsi-Co, Coors, theme parks such as Disneyland, professional sports teams, and universities license domestic producers and importers to use their logos on baseball caps and then market the decorated caps through such suppliers and/or distribute them as premiums through their own organizations. These high-volume corporate accounts require a large license fee "up-front" against a royalty for each cap sold by the supplier. Baseball caps with licensed logos can be promotional items that are given away to the ultimate end users or are marketed at retail price by dealers of the specific product, sold through catalogues, or sold by concessionaires at sports events. Up-front fees are as much as \$200,000 for the major-league baseball team logo licenses. Per-cap royalties range from 7 to 10 percent of the producer's or importer's selling price. These premium account end users are large-volume purchasers that buy in quantity.

The ad specialty dimension of the baseball cap market is large in overall volume but not at the individual-distributor order level. Ad specialty distributors generally do not purchase baseball caps in single-order volume quantities. Average order size by customers of ad specialty distributors generally is less than 12 dozen baseball caps per customer; the distributors, in turn, place their orders to the specifications of each particular customer. Ad specialty distributors typically have a customer clientele of several hundred purchasers who buy in small quantities.

The retail channel of distribution includes mass merchandisers who buy in large volume, sporting goods stores, resort shops, university bookstores, clothing stores, and various other retail outlets. According to importers and domestic producers, the retail market is the most competitive market and is characterized by narrower margins for suppliers, whether domestic or foreign. Large retail chains, such as K-Mart, Wal-Mart, and Woolworth, import or buy direct for their own account, whereas the smaller chains and individual retailers buy direct from domestic producers or importers, or from ad specialty distributors. Some domestic producers, in a move to compete against

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<sup>1/</sup> Some of the larger domestic sewn cloth headwear producers also do their own custom decoration.

imports, have reduced the minimum order size they will accept to as low an amount as 6 dozen caps.

Testimony by respondents' counsel at the preliminary conference indicated that some domestic producers serve niche markets that prefer high quality headwear, or will only purchase headwear with the "made in the U.S.A." label and are willing to pay a premium for such headwear. Petitioners, in rebuttal, pointed out in their postconference brief that the corduroy cap made in China and supplied by respondents at the conference as a sample would compete in the alleged premium market and that the imported Chinese baseball cap with an American flag on its label would compete in the alleged "made in the U.S.A." market. Producers visited or contacted by the staff during the final investigation indicated that they do seek out niche markets in an effort to limit the competition from cheaper imported headwear.

Several domestic producers on the west coast said they serve a fashion niche of the market and believe this insulates their operations from import competition. They noted that importers cannot react fast enough to the changes in fashion that characterize the fashion headwear market. More than a few domestic producers, however, supply both domestic headwear and headwear imported from China and other foreign sources. They offer a full line of headwear by producing the higher price-line products and supplementing their domestic line with lower priced imports.

Import competition in certain of the premium end-user market segments, for example the licensed pro-sports cap market, has caused some domestic producers to exit those markets. Several factors, apart from imports, however, have contributed to this pattern. In response to the strong growth in premium account end-user demand for such headwear, the license fee has increased sharply, and the number of licenses issued for a particular pro-sport logo has increased. Importers visited by the staff during the final investigation noted that the extra margin created by purchasing imported caps at lower prices provides a stronger competitive position for importers holding such licenses.

Domestic producers and importers serve all three markets, but to varying degrees. Based on questionnaire responses from 14 domestic producers and 21 importers, these competitors, in terms of aggregate volume, supply somewhat different channels of distribution. Almost 60 percent of aggregate domestic supply goes to premium-account end users. Not quite 7 percent of importers' total volume flows to such purchasers. Importers sell 58 percent of their headwear to ad specialty distributors, whereas domestic producers ship not quite 23 percent of their volume to that market. Slightly more than 35 percent of importers' sales are to retailers; in contrast, domestic producers sell only 18 percent of their total volume to retailers. Within the aggregate picture, however, a very different pattern can be discerned. Three domestic producers sell all of their volume in the ad specialty distributor market. Two other domestic producers sell only to the retail market. One large domestic producer sells only to the premium account end-user market. On the importer side, three sell only to ad specialty distributors, six sell only to retailers, and one small importer ships only to the premium account end-user market.

U.S. producers

There is no definitive published listing of U.S. headwear manufacturers. In selecting a list of firms to receive the Commission's producer questionnaire, staff relied upon a listing of members of the HIA, listings of nonmembers producing sewn cloth headwear, and various business publications. In this manner, 120 firms were identified and were sent questionnaires. This group included firms known to produce or suspected of producing wool, fur, felt, or straw headwear, as well as sewn cloth headwear.

Responses from member companies of the petitioner.--The petitioner in this investigation, HIA, consists of 53 member companies, only 22 of which produce sewn cloth headwear. Fourteen other HIA members, who were believed to produce other types of headwear, were also sent questionnaires. 1/

Of the 36 members of HIA who were sent questionnaires, the Commission received responses from 24 companies, including 9 of the 22 companies known to produce sewn cloth headwear. 2/ 3/ Responding HIA producers accounted for 50 percent, by quantity, of reported 1988 domestic shipments of sewn cloth headwear. Seventy-two percent of the responding HIA members who provided data stated support for the petition, and 28 percent would not respond to the question.

Responses from nonmember companies.--In addition, the Commission sent questionnaires to 84 suspected producers of headwear, who are not members of the petitioner. In this group, 30 firms did not respond or provided incomplete responses to the Commission's questionnaire. 4/ Of the 54 who did respond, 25 reported production of either sewn cloth, wool, felt, fur, or straw headwear. 5/ Of the 25 nonmember firms who provided data in response to the Commission's questionnaire, 6 stated support for the petition, 3 indicated opposition, and 8 declined to take a position. 6/

For the most part, U.S. producers of sewn cloth headwear are spread evenly throughout the country. Most of the larger baseball-type cap manufacturers are centered, however, in the Iowa-Missouri-Kansas area of the Midwest, with more diversified firms operating generally on the east and west coasts. There is also a large concentration of headwear-producing firms in

1/ The remaining petitioner members were not sent producer questionnaires because, based in part on information gathered in the preliminary investigation, staff had no reason to believe that they were headwear manufacturers.

2/ Of these 24, 9 indicated they did not produce any type of headwear.

3/ HIA members who did not respond to the Commission's questionnaire include \* \* \*. The latter is the \* \* \* largest producer of sewn cloth headwear (according to the HIA), and the former, although a small producer of cloth headwear, is \* \* \*.

4/ This group includes \* \* \*, the \* \* \* largest domestic producer of sewn cloth headwear, according to the HIA. \* \* \*. In addition to being a major producer of sewn cloth headwear, though, \* \* \*. \* \* \* did not provide any information on its operations producing these types of headwear.

5/ A number of those not reporting such production indicated production of disposable paper hats or plastic headwear (e.g., hard hats). Virtually all responding producers providing data reported some production of sewn cloth headwear.

6/ Eight producers did not respond to the question.

the New York-New Jersey area; however, these are primarily small firms, many of which do not produce sewn cloth headwear. Most larger firms service the national market regardless of their location; because of the use by many firms of licensed local sales representatives, proximity to buyers does not generally appear to give local producers any particular advantage.

In terms of size, the sewn cloth headwear industry is stratified into three general levels: an upper tier of producers consisting of Paramount Cap Manufacturing Co., Inc., and K-Products, Inc., each producing over \* \* \* dozen units annually; a middle tier of producers producing \* \* \* dozen units annually; and a lower tier of small, specialized firms that serve essentially local or regional markets. The level of specialization varies among these tiers, the middle tier being the least specialized, as characterized by firms such as AJD and Bollman. Paramount and K-Products essentially concentrate on baseball caps, whereas many of the smallest producers produce for a particular niche in the sewn cloth headwear market. 1/

Paramount is \* \* \* of sewn cloth headwear, with a \* \* \*-percent share of the sewn cloth headwear market. 2/ Established in 1936, and based in Bourbon, MO, it has eight manufacturing facilities spread throughout Missouri, \* \* \*. The vast majority of its production consists of cloth headwear, mainly baseball-type caps, although it does have small production of acrylic caps and wool or wool-blend fedora-type headwear. Paramount \* \* \*. Paramount has \* \* \*.

K-Products, Inc., Orange City, IA, is \* \* \* of sewn cloth headwear, with a \* \* \*-percent share of the market. 3/ K-Products operates six plants \* \* \*. Like Paramount, K-Products specializes in baseball-type caps and visors, but unlike Paramount, K-Products \* \* \* and also sells other types of apparel, such as jackets. K-Products also decorates and distributes other promotional items, such as pens and coffee cups. K-Products owns and operates \* \* \*.

Several companies in the middle tier, such as Swingster, Kansas City, MO, Four Seasons Garment Co., Mason, OH, and Louisville Manufacturing Co., Louisville, KY, produce caps exclusively. As noted above, however, it is in that group that the more diversified headwear manufacturers are found. Bollman is the largest domestic manufacturer of felt headwear. International Hat Co., St. Louis, MO, is believed to be the largest domestic manufacturer of finished straw hats. Lastly, AJD is known to produce a full line of headwear through its ownership of the Resistol (felt), Stetson (felt), and AJD (cloth and straw) companies.

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1/ For instance, it is the smaller producers such as Keystone Adjustable Cap, Pennsauken, NJ, who produce painters' caps and other types of specialized sewn cloth headwear.

2/ Based on 1988 domestic shipments, as reported in responses to Commission questionnaires.

3/ Based on 1988 domestic shipments, as reported in responses to Commission questionnaires.

Most U.S. production is centered around sport and casual caps, with far less production of hats and visors. The number of responding companies producing only caps exceeds those specializing in other varieties of cloth headwear. 1/

Six responding companies, including \* \* \*, reported production of textile and apparel products other than headwear. These firms produced primarily for the promotional market.

#### U.S. importers

A review of the Customs Net Import File disclosed hundreds of U.S. firms importing under the TSUSA numbers listed in the petition during the period of investigation. Of these firms, the staff selected 93 companies to receive the Commission's importer's questionnaire. The staff selected firms that had "significant imports" of the subject merchandise during the period of investigation. 2/

Of the 93 firms who received questionnaires, the Commission received responses from 66 companies. Fifteen of those 66 firms indicated that they did not import the merchandise subject to this investigation. 3/ Responding firms accounted for 43 percent, by value, of 1985-88 official import statistics from all sources for the TSUSA numbers listed in the petition. Moreover, the companies that responded accounted for 52 percent of such imports from China during the period of investigation. 4/

Among the responding firms, Ed's West, Inc., headquartered in New York, NY, is the \* \* \* U.S. importer of sewn cloth headwear, accounting for over \* \* \* in imports in 1988. Based on the reported value of imports in 1988, Ed's West holds an approximate \* \* \*-percent share of the import market. Although based in New York, Ed's West also has substantial importing operations in, among other locations, \* \* \*. Ed's West imports primarily from Taiwan, but is a major importer from China as well, with Chinese headwear constituting approximately \* \* \* percent of its imports during the period of investigation. 5/ Ed's West \* \* \*. \* \* \*.

The \* \* \* importer of sewn cloth headwear \* \* \* is Universal Industries ("Universal"), Mattapoisett, MA, with 1988 imports valued at \* \* \*. Like Ed's West, Universal \* \* \* but has also \* \* \*. Universal is \* \* \* owned by the Bank of Boston. Universal has importing facilities in \* \* \*.

1/ Where companies specialize in varieties of headwear other than caps, they tend to concentrate on items such as painters' caps or caps for the military, police, and fire departments (uniform caps).

2/ The staff determined that a firm entered "significant imports" if it imported over 10,000 dozen pieces per year. Notwithstanding this criterion, smaller firms importing exclusively from China were also included.

3/ Most of these firms imported hats and caps as parts of ensembles; thus the merchandise was classified under the TSUSA numbers covered by the petition.

4/ Nonresponding companies believed to be major importers of sewn cloth headwear from China include \* \* \*.

5/ In turn, imports by Ed's West accounted for \* \* \* percent, by quantity, of reported 1988 imports from China.

Other major \* \* \* importers of sewn cloth headwear from China include Renaissance International, Santa Fe Springs, CA; Mash International Trading Company, Inc., Shawnee Mission, KS; Twins Enterprises, Inc., Boston, MA; Midwest Sporting Goods, Milwaukee, WI; and Nissin International, Inc., Arlington, TX. All but \* \* \* also reported significant imports from countries other than China.

Among the several varieties of sewn cloth headwear, baseball caps command by far the largest volume of imports, accounting for 84 percent of the total volume of imports of such headwear in 1988. Of those caps, importers generally imported plain and decorated caps in approximately equal quantities through the period; many importers imported both types of caps simultaneously. 1/

The importers responding to the Commission's questionnaire can generally be divided into two main groups: firms who distribute the caps nationwide (such as \* \* \*) and a small group made up of mass market retailers, whose import operations buy the caps direct for their own account and ship them immediately to their franchise stores. 2/

Twenty-one firms reported imports of headwear designed especially for children, including \* \* \*. For these firms, however, children's headwear represented \* \* \* of their complete headwear line. Other firms specialized in importing children's headwear, notably \* \* \*. Such firms imported the majority of their children's headwear from China.

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

The information in this section of the report is based on data received from responses to Commission questionnaires. With regard to U.S. headwear production, the staff originally sent questionnaires to 120 firms that it had reason to believe may have produced sewn cloth, wool, felt, fur, or straw headwear during the period of investigation. Of these firms, 38 responded that they did not manufacture such products. With regard to U.S. production of sewn cloth headwear, the Commission received responses from 32 producers of this product, accounting for 103 percent of estimated U.S. production in 1987. 3/ 4/ In addition, responding firms accounted for 97 percent, by quantity, of 1987 domestic shipments. 5/ Of the 43 firms that did not respond to the Commission's questionnaire, 16 are known to be significant producers of sewn cloth headwear, and 12 nonresponding firms are members of the petitioner, the HIA.

One reason for the large number of firms failing to respond in this investigation may stem from the small size of many of the companies

1/ Based on importers providing pricing data to the Commission.

2/ Examples of these firms include \* \* \*. Of these, \* \* \* is the largest importer of sewn cloth headwear from China.

3/ Four firms, who did not produce sewn cloth headwear, reported production of wool, felt, or straw headwear.

4/ According to petitioner's post-conference brief, Exhibit B. As stated supra, staff believes these estimates to be substantially understated.

5/ See petition, app. 28. The estimates contained therein are also believed to be considerably understated.

investigated. Staff held numerous conversations with producers who indicated that they do not keep the type of financial and accounting records that would enable them to respond fully to the Commission's questionnaire. 1/ In particular, many firms reportedly keep no records of the value of shipments, annual production figures, or basic inventory data. Several producers also commented that they were too busy to take the time to provide the requested information. 2/ When responses were incomplete in this regard, staff performed reasonable allocations where appropriate, as indicated and approved by responding firms.

#### U.S. production, capacity, and capacity utilization

U.S. capacity to manufacture sewn cloth headwear increased annually from 8.8 million dozen in 1985 to 9.1 million dozen in 1987, but then dropped off, by 2 percent, to 9.0 million dozen in 1988 (table 8). The capacity decline in 1988 stemmed primarily from a small decline in the capacity to manufacture caps and a large drop in the capacity to manufacture other styles of sewn cloth headwear; capacity to produce hats and visors increased steadily during the period of investigation.

Production of sewn cloth headwear showed no particular pattern during 1985-88, first falling to 5.9 million dozen in 1986 from its 1985 level of 6.2 million dozen, then rebounding to slightly below its 1985 level in 1987, and finally falling back to 6.0 million dozen in 1988. Overall, production declined by nearly 3 percent throughout the period. Again, movements in cap production and, more notably, in production of other types of sewn cloth headwear strongly affected the overall trend, as hat and visor production rose slightly.

With regard to capacity utilization, facilities producing sewn cloth headwear saw capacity utilization decline from 70 percent in 1985 to 65 percent in 1986, then move up slightly to 67 percent in 1987. Capacity utilization remained at 67 percent in 1988; overall, the ratio registered a small decline in the 1985-88 period. Once again, capacity utilization of facilities producing caps mirrored the overall trend, except for a small upturn at the end of the period. Visor facilities, however, exhibited a marked rise in this ratio, growing from \* \* \* percent in 1985 to \* \* \* percent in 1988. Although it also declined, capacity utilization for facilities producing other types of sewn cloth headwear was noticeably higher (consistently exceeding 85 percent) than that for facilities producing hats, caps, or visors during the period of investigation.

As seen from the table, U.S. production of children's sewn cloth headwear is minimal, as is the capacity to produce such headwear. Only three firms reported such production during the period of investigation: \* \* \*. 3/ The staff is, however, aware of at least one other producer of sewn cloth headwear for children: \* \* \*, who did not respond to the Commission's questionnaire. As a result of the limited production of children's sewn cloth headwear, figures for adults' headwear track closely the overall data.

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1/ See, e.g., telephone conversations with \* \* \*. \* \* \*.

2/ See, e.g., conversations with \* \* \*.

3/ Several domestic producers and importers commented to staff that U.S. production of children's headwear had declined to this level by the late 1970s, before the entry of China into the market.

Table 8

Sewn cloth headwear: U.S. producers' end-of-period capacity, production, and capacity utilization, by styles, 1985-88

Item	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
<b>Capacity:</b>				
Sport and casual hats.....	***	***	***	***
Sport and casual caps.....	6,736	6,804	6,942	6,936
Visors.....	***	***	***	***
Other sewn cloth headwear.....	1,163	1,162	1,092	914
<b>All sewn cloth headwear 1/...</b>	<b>8,804</b>	<b>9,012</b>	<b>9,107</b>	<b>8,956</b>
Adults' sewn cloth headwear....	***	***	***	***
Children's sewn cloth headwear..	***	***	***	***
<b>All sewn cloth headwear 1/...</b>	<b>8,804</b>	<b>9,012</b>	<b>9,107</b>	<b>8,956</b>
<b>Production:</b>				
Sport and casual hats.....	***	***	***	***
Sport and casual caps.....	4,652	4,308	4,568	4,623
Visors.....	***	***	***	***
Other sewn cloth headwear.....	1,085	1,058	985	795
<b>All sewn cloth headwear 1/...</b>	<b>6,152</b>	<b>5,872</b>	<b>6,085</b>	<b>5,991</b>
Adults' sewn cloth headwear....	***	***	***	***
Children's sewn cloth headwear..	***	***	***	***
<b>All sewn cloth headwear 1/...</b>	<b>6,152</b>	<b>5,872</b>	<b>6,085</b>	<b>5,991</b>
	<u>Ratio of production to capacity (percent)</u>			
<b>Capacity utilization:</b>				
Sport and casual hats.....	***	***	***	***
Sport and casual caps.....	69.1	63.3	65.8	66.7
Visors.....	***	***	***	***
Other sewn cloth headwear.....	93.3	91.0	90.2	87.0
<b>All sewn cloth headwear.....</b>	<b>69.9</b>	<b>65.2</b>	<b>66.8</b>	<b>66.9</b>
Adults' sewn cloth headwear....	***	***	***	***
Children's sewn cloth headwear..	***	***	***	***
<b>All sewn cloth headwear.....</b>	<b>69.9</b>	<b>65.2</b>	<b>66.8</b>	<b>66.9</b>

1/ Because of rounding, figures may not add to totals shown.

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

Plant closings.--Capacity figures, as seen in the table, are suppressed somewhat by a number of notable plant closings. Petitioners provided information, primarily subsequent to the hearing, on several closings of plants that produced sewn cloth headwear during the period of investigation. Information on those plants is presented in the following tabulation:

<u>Firm</u>	<u>Location</u>	<u>Capacity 1/</u> <u>(1,000 doz.)</u>	<u>Production 1/</u> <u>(1,000 doz.)</u>	<u>Employees</u>	<u>Date</u>
*	*	*	*	*	*

Based on information available to staff, with the exception of K-Products the above-listed firms are small producers of sewn cloth headwear. International Hat (International) is believed to be the largest manufacturer of fashion straw headwear. Stetson Hat Co., St. Joseph, MO, (Stetson), currently owned by AJD, is a well-known manufacturer of men's fashion headwear. 1/ Further, Mr. Hatfield of K-Products noted at the hearing that the closing of his plants in 1986 was done in anticipation of the full-scale entry of Chinese sewn cloth headwear into the U.S. market, on the basis of his knowledge of their intended pricing practices. 2/

With regard to the disposition of the machinery from the plants listed above, equipment from the \* \* \* was retained, and that from the factories of \* \* \* was sold off. \* \* \* sold one plant for \* \* \*, selling off the machinery, and retained the other. \* \* \* sold \* \* \* percent of its manufacturing facilities to \* \* \* and auctioned off the remainder. 3/ The disposition of \* \* \* facilities is unknown.

Since 1985, there has also been at least one sewn cloth headwear manufacturing facility established. Questionnaire responses submitted to the Commission indicate that in 1986, \* \* \* established a facility in \* \* \*, producing \* \* \*, among other products, with a capacity to produce sewn cloth headwear of \* \* \* dozen in 1988. Respondent also alleged in its prehearing brief and at the hearing that at least 13 companies have entered the headwear business since 1980 and that a large new factory is about to open on the east coast. 4/

Availability of adequate supplies of labor appeared to be a considerable restraint on sewn cloth headwear production throughout the period of investigation. Although many producers reported substantial unused capacity, many stated that production could not readily be expanded to fill that

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1/ AJD \* \* \*.

2/ Transcript, p. 54.

3/ \* \* \*.

4/ Of those 13 companies, staff sent questionnaires to three: \* \* \*. None of the three responded; with the exception of \* \* \*, it is not known whether any produce sewn cloth headwear. Officials from \* \* \* confirmed in a phone conversation with staff on Mar. 29, 1989 that the firm produces approximately \* \* \* dozen caps per day; \* \* \*, however, did not respond to the questionnaire.

With regard to the projected establishment of a plant on the east coast, petitioners indicated that they believed that to be a planned expansion by Young An, \* \* \*.

capacity because of difficulty in finding workers willing to fill relatively low-paying jobs. For example, Mr. Harold Kittay, president of Triangle Sport Headwear Co., Inc., Hialeah, FL, stated at the hearing that his firm was willing to expand production to meet demand, but found it impossible to find enough trainable workers willing to fill such jobs. 1/ This has been a particular problem for firms in urbanized areas. 2/

Most firms produced on a 40-hour work week, 50 weeks a year. Very few producers worked more than one eight-hour shift daily. Only \* \* \* reported round-the-clock operations, limited \* \* \*. Accordingly, with regard to most firms it would seem that production might readily be expanded without the necessity of hiring additional workers. 3/

Parties disagreed on whether the length of the time period needed to train workers posed a significant constraint on the ability to expand production. Domestic industry spokesmen indicated that some jobs in sewn cloth headwear facilities require as little as 2 weeks training, with perhaps 6 months to a year's time required for the most technically demanding tasks. 4/ By contrast, representatives of the Chinese industry alleged that in China it can take up to 2 years to train workers, even those employed on the cutting lines. 5/

All but three reporting producers of sewn cloth headwear stated that they procure their raw materials exclusively from domestic sources. Producers generally have not encountered any problems in such procurement. Fabrics commonly used in production of sewn cloth headwear include cotton or cotton/polyester blends, nylon mesh, poplins, corduroy, velour, satin, terry cloth, muslin, gabardine, and denim. In addition, there do not appear to be bottlenecks in procuring automated equipment. Firms visited by the staff all had automated or semiautomated cutting equipment, yet only K-Products operated such equipment more than one shift daily. 6/

1/ Transcript, p. 92. Also see conversation with \* \* \*, interviews with \* \* \*; letter from Abe Yeddis, Headwear, U.S.A., to Kenneth R. Mason, Mar. 31, 1989.

2/ Petitioners argued, however, that based on their estimate of 1987 domestic production, 70 percent of U.S. producers of sewn cloth headwear are located in rural areas. Petitioner's posthearing brief, p. 8. Staff, however, believes that the basis for this estimate is unreliable because petitioner's production estimates are understated. See infra, p. A-64. Moreover, many of the companies included in petitioner's sample did not respond to the Commission's questionnaire. Based on producers of sewn cloth headwear reporting employment data to the Commission, the split in production, based on 1988 data, is 49 percent rural and 51 percent urban. Paramount and K-Products account for much of the former category.

3/ Counsel for respondents speculated at the hearing that the absence of multiple shifts and prevalence of 40-hour work weeks might be due to the prohibitive expense of paying overtime. Transcript, p. 157. Parties did not provide additional information on this point.

4/ Transcript, p. 44.

5/ Transcript, p. 179.

6/ Both Paramount and K-Products demonstrated to staff during field visits their recent acquisition of sophisticated production equipment. With regard to Paramount, the firm is currently using state-of-the-art cutting equipment developed specifically for it by a Japanese vendor. In 1983, K-Products purchased a new measuring and cutting system incorporating computer-aided design.

\* \* \* reported production of other products on the same machinery as that used for sewn cloth headwear (e.g., jackets, bags, garment covers). Production of straw and felt headwear requires very little, if any, cutting and sewing. In an interview, \* \* \* reported that the firm does not like to shift employees from one headwear line to another, because of the dissimilar nature of the production processes and the lengthy training sessions needed to reorient the workers. 1/

U.S. producers' domestic shipments 2/

Thirty-two producers reported domestic shipments of sewn cloth headwear during the period of investigation. Domestic shipments of sewn cloth headwear by U.S. producers increased gradually between 1985 and 1987, to a level of 6.3 million dozen, but then suffered a modest decline, by 4 percent, in 1988 (table 9). When viewed in terms of dollar value, however, domestic sewn cloth headwear shipments were 13 percent higher in 1988 than in 1985. As a result, the unit values of such shipments showed a notable rise, particularly in 1988, when unit values increased by 11 percent over their 1987 level. 3/

Because of the extremely small number of U.S. facilities producing children's sewn cloth headwear, trends in shipment data, and the data themselves, from facilities producing adults' sewn cloth headwear follow very closely the corresponding data for the entire sewn cloth headwear market.

Sport and casual hats.--Eight producers reported domestic shipments of sport and casual hats during the period of investigation. At \* \* \* dozen, 1986 domestic shipments of hats exhibited a 16-percent jump from their 1985 level, before declining slightly during the remainder of the period. The value of such shipments, however, continued to increase, reaching \$8.6 million in 1988, \* \* \* percent higher than the value of 1985 shipments. Unit values demonstrated no particular pattern.

Sport and casual caps.--Twenty-five producers reported domestic shipments of sport and casual caps during the period of investigation. From 1985 to 1988, trends in the quantity and value of domestic shipments of caps were similar to those for sewn cloth headwear when viewed as a whole, but somewhat less marked. Quantities shipped were 1 percent higher in 1988 than in 1985,

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1/ Interview with \* \* \*.

2/ U.S. sewn cloth headwear producers did not report any intracompany transfers. Moreover, only three producers, \* \* \*, reported any export shipments. Data on these shipments, which accounted for less than 0.5 percent of total shipments in 1988, have not been included in this report.

3/ Petitioners indicated at the hearing that the rise in unit values toward the end of the period of investigation may be attributed in part to two factors: the increasing tendency for domestic producers to supply decorated caps and a shift to higher valued items due to competitive pressures at the lower end of their lines. By contrast, respondents testified that China tends to supply plain caps, which are later decorated in the United States. Transcript, p. 154. The subsequent decoration, according to respondent's witnesses, might increase the value of the cap by up to 30 percent. Transcript, p. 155.

Table 9  
Sewn cloth headwear: U.S. producers' domestic shipments, by styles, 1985-88

Item	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
Sport and casual hats.....	***	***	334	325
Sport and casual caps.....	4,694	4,715	4,768	4,733
Visors.....	144	***	222	233
Other sewn cloth headwear.....	***	***	982	790
<b>All sewn cloth headwear 1/...</b>	<b>6,192</b>	<b>6,279</b>	<b>6,306</b>	<b>6,081</b>
Sewn cloth headwear for adults.	***	***	***	***
Sewn cloth headwear for children.....	***	***	***	***
<b>All sewn cloth headwear 1/.</b>	<b>6,192</b>	<b>6,279</b>	<b>6,306</b>	<b>6,081</b>
	<u>Value (1,000 dollars)</u>			
Sport and casual hats.....	***	***	8,266	8,569
Sport and casual caps.....	133,499	136,393	140,453	149,768
Visors.....	5,200	***	6,214	6,992
Other sewn cloth headwear.....	***	***	17,132	18,462
<b>All sewn cloth headwear 1/...</b>	<b>162,223</b>	<b>166,303</b>	<b>172,064</b>	<b>183,791</b>
Sewn cloth headwear for adults.	***	***	***	***
Sewn cloth headwear for children.....	***	***	***	***
<b>All sewn cloth headwear 1/.</b>	<b>162,223</b>	<b>166,303</b>	<b>172,064</b>	<b>183,791</b>
	<u>Unit value (per dozen) 2/</u>			
Sport and casual hats.....	\$***	\$25.56	\$24.73	\$26.38
Sport and casual caps.....	28.44	28.93	29.46	31.64
Visors.....	36.11	28.42	27.99	30.01
Other sewn cloth headwear.....	***	***	17.44	23.38
<b>All sewn cloth headwear.....</b>	<b>26.20</b>	<b>26.49</b>	<b>27.29</b>	<b>30.23</b>
Sewn cloth headwear for adults.	***	***	***	***
Sewn cloth headwear for children.....	***	***	***	***
<b>All sewn cloth headwear....</b>	<b>26.20</b>	<b>26.49</b>	<b>27.29</b>	<b>30.23</b>

1/ Because of rounding, figures may not add to totals.

2/ Calculated from rounded data.

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

and the value of such shipments was 12 percent higher. The corresponding increase in unit values during the period, although substantial at 11 percent, was less extensive than that for all styles of sewn cloth headwear.

Visors.--Ten producers reported domestic shipments of visors during the period of investigation. Both the quantity and value of domestic shipments of visors exhibited steady increases during the 1985-88 period. By 1988, in quantity terms, shipments of visors had risen 62 percent over their 1985 level. Unit values generally declined, first sharply, by 23 percent, to a low of \$27.99 per dozen in 1987, then subsequently rose to \$30.01 per dozen in 1988, for an overall decrease of 17 percent.

Other sewn cloth headwear.--Thirteen producers reported domestic shipments of other types of sewn cloth headwear during the period of investigation. These products primarily consist of painters' caps; however, some producers also classified custom military, police, and fire department uniform caps in this category. The value of shipments of such products showed a consistent increase over the period of investigation, rising to over \$18 million in 1988, whereas shipment quantities steadily declined throughout the period, with a particularly sharp drop in 1988 of nearly 20 percent. Accordingly, unit values rose rather modestly in the 1985-87 period, then increased sharply, by almost 35 percent, in 1988.

Information on U.S. producers' domestic shipments of wool, fur, felt, and straw headwear are presented in appendix F.

As seen in the tabulation below, sport and casual caps consistently held the largest share (75 to 78 percent, by quantity) of shipments of U.S.-produced sewn cloth headwear during the period of investigation (in percent).

<u>Category</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Sport and casual hats.....	***	***	5.3	5.3
Sport and casual caps.....	75.8	75.1	75.6	77.8
Visors.....	2.3	***	3.5	3.8
Other sewn cloth headwear..	***	***	15.6	13.0
	100.0	100.0	100.0	100.0

U.S. producers' inventories

Because most U.S. sewn cloth headwear producers manufacture to order, inventories are generally insubstantial. Twenty-two U.S. producers of sewn cloth headwear did, however, provide information on the quantity of their end-of-period inventories for the periods December 31, 1984, through December 31, 1988 (table 10). <sup>1/</sup> These data include inventories of sewn cloth headwear purchases as well as the firms' own production. Eighty-five percent of reported inventories were of the latter category.

Although inventories are not common among the majority of sewn cloth headwear producers, and, as seen in the table, are small in relation to shipment levels, some larger producers are beginning to keep certain basic items in stock. For example, \* \* \* indicated that, in an attempt to meet import competition, they have begun to stock certain undecorated baseball caps that can be shipped within 1 to 3 days of an order. <sup>2/</sup>

U.S. producers' end-of-period inventories of sewn cloth headwear increased sharply, by 49 percent, from yearend 1984 to yearend 1985, before beginning a steady decline, to 665,000 dozen, by yearend 1987. By the end of 1988, however, such inventories had risen by 11 percent, to a level of 737,000 dozen. Movements in inventories of caps reflected the overall trend, whereas inventories of other headwear styles demonstrated no particular pattern during 1984-88. As inventories of children's sewn cloth headwear were extremely limited, adults' sewn cloth headwear inventories also followed the pattern of sewn cloth headwear inventories when viewed as a whole.

As a share of domestic shipments by producers that reported inventory data, inventories of sewn cloth headwear exhibited a slight drop, from 17 percent in 1985 to 14 percent in 1987, before recovering to 16 percent by the end of 1988. Trends in this ratio for inventories of caps were identical in direction, but somewhat more exaggerated. Inventories of visors and other sewn cloth headwear varieties generally declined in relation to shipments in the 1984-88 period, whereas hat inventories remained virtually constant in this regard, except for a small upturn at the end of 1988.

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<sup>1/</sup> These producers accounted for 77 percent, by quantity, of reported 1988 domestic shipments.

<sup>2/</sup> Interviews with \* \* \*.

Table 10

Sewn cloth headwear: U.S. producers' end-of-period inventories, 1/ by styles and categories, as of Dec. 31 of 1984-88

Item	As of Dec. 31--				
	1984	1985	1986	1987	1988
	Quantity (1,000 dozen)				
<b>End-of-period inventories:</b>					
Sport and casual hats.....	***	***	33	34	42
Sport and casual caps.....	476	767	697	572	651
Visors.....	28	28	46	40	***
Other sewn cloth headwear.....	***	***	26	18	***
<b>All sewn cloth headwear <u>2/</u>...</b>	<b>572</b>	<b>854</b>	<b>802</b>	<b>665</b>	<b>737</b>
Adults' sewn cloth headwear....	***	***	***	***	***
Children's sewn cloth headwear....	***	***	***	***	***
<b>All sewn cloth headwear <u>2/</u>...</b>	<b>572</b>	<b>854</b>	<b>802</b>	<b>665</b>	<b>737</b>
	Ratio of -- (percent)				
<b>End-of-period inventories</b>					
<b>to domestic shipments: <u>3/</u></b>					
Sport and casual hats.....	<u>4/</u>	11.6	10.0	10.3	13.0
Sport and casual caps.....	<u>4/</u>	18.5	17.2	13.2	15.4
Visors.....	<u>4/</u>	23.9	28.2	22.7	16.0
Other sewn cloth headwear.....	<u>4/</u>	4.4	4.1	2.8	3.8
<b>All sewn cloth headwear.....</b>	<b><u>4/</u></b>	<b>16.6</b>	<b>18.1</b>	<b>14.1</b>	<b>15.8</b>
Adults' sewn cloth headwear....	<u>4/</u>	16.6	18.2	14.1	15.9
Children's sewn cloth headwear.....	<u>4/</u>	21.4	14.0	10.9	9.0
<b>All sewn cloth headwear.....</b>	<b><u>4/</u></b>	<b>16.6</b>	<b>18.1</b>	<b>14.1</b>	<b>15.8</b>

1/ Includes inventories of firms' purchases as well as firms' own production.

2/ Because of rounding, figures may not add to the totals shown.

3/ Domestic shipments used are limited to those by firms reporting inventory data.

4/ Not available.

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

U.S. producers' imports

Two U.S. producers of sewn cloth headwear reported imports during the period of investigation. 1/ Both \* \* \*, imported plain caps from Taiwan and Korea, respectively, reportedly in order to fill out their product lines with cheaper, more basic caps. The quantity, value, and unit value of such imports, along with their ratio to domestic production, are shown in the following tabulation:

Firm	1985	1986	1987	1988
* * *	*	*	*	*
* * *	*	*	*	*

Respondents alleged that the following domestic manufacturers of sewn cloth headwear are also importers of that product: Benay-Albee Novelty Co., Newport News, VA (Benay-Albee); Betty Ann American Sales Corp., Bayonne, NJ (Betty Ann); Triangle Sport Headwear Co., Hialeah, FL (Triangle); and Northern Cap Co. (Northern Cap), Minneapolis, MN. 2/ Based on information received by staff, Benay-Albee \* \* \*, and Betty Ann \* \* \*, Northern Cap \* \* \*. Triangle \* \* \*.

U.S. employment, wages, and productivity

Of firms reporting production of sewn cloth headwear, 32 provided data on the number of production and related workers engaged in such production, the total hours worked by such workers, and the wages and total compensation paid to such workers during the period of investigation. The number of workers employed in the production of sewn cloth headwear decreased by 4 percent, from 4,821 in 1985 to 4,661 in 1987, before rebounding strongly to 4,895 workers, representing a rise of 5 percent, in 1988 (table 11). The number of hours worked by those employees decreased noticeably, by 4 percent from 1985 to 1986, and then inched gradually upward, to a level of 8 million hours, by 1988. Hourly compensation increased throughout the period, rising to \$7.03 per hour in 1988.

1/ In addition, \* \* \* and \* \* \*, which produce headwear other than sewn cloth, reported imports of sewn cloth headwear. Another firm, \* \* \*, \* \* \* but is believed to produce sewn cloth headwear; although \* \* \* does not import, a sister company, \* \* \*, does import sewn cloth headwear.

2/ Respondents further alleged that Weisman Novelty Co., Philadelphia, PA ("Weisman"), Arlington Hat Co., Long Island City, NY, and Jacobson Hat Co., Scranton, PA, all producers of children's headwear, also import. Transcript, p. 100. The latter two \* \* \*. Weisman \* \* \*.

Table 11

Average number of production and related workers producing sewn cloth headwear, hours worked, 1/ wages and total compensation 2/ paid to such employees, labor productivity, hourly compensation, and unit labor production costs, by styles, 1985-88

Item	1985	1986	1987	1988
<b>Production and related workers (PRW):</b>				
Hats.....	***	***	***	***
Percentage change <u>3/</u> .....	4/	(1.7)	2.9	3.9
Caps.....	2,754	2,669	2,565	2,638
Percentage change <u>3/</u> .....	4/	(3.1)	(3.9)	2.8
Visors.....	106	120	150	***
Percentage change <u>3/</u> .....	4/	13.2	25.0	***
Other sewn cloth headwear.....	235	294	289	302
Percentage change <u>3/</u> .....	4/	25.1	(1.7)	4.5
<b>All sewn cloth headwear <u>5/</u>.....</b>	<b>4,821</b>	<b>4,748</b>	<b>4,661</b>	<b>4,895</b>
Percentage change <u>3/</u> .....	4/	(1.5)	(1.8)	5.0
<b>Hours worked by PRW:</b>				
Hats (1,000 hours).....	***	***	***	***
Percentage change <u>3/</u> .....	4/	(2.1)	2.7	4.4
Caps (1,000 hours).....	4,917	4,614	4,559	4,708
Percentage change <u>3/</u> .....	4/	(6.2)	(1.2)	3.3
Visors (1,000 hours).....	240	238	300	***
Percentage change <u>3/</u> .....	4/	(0.9)	25.7	***
Other sewn cloth headwear (1,000 hours).....	454	502	548	570
Percentage change <u>3/</u> .....	4/	10.5	9.1	4.2
<b>All sewn cloth headwear <u>5/</u> (1,000 hours).....</b>	<b>7,774</b>	<b>7,456</b>	<b>7,531</b>	<b>7,960</b>
Percentage change <u>3/</u> .....	4/	(4.1)	1.0	5.7
<b>Wages paid to PRW:</b>				
Hats (1,000 dollars).....	***	***	***	***
Percentage change <u>3/</u> .....	4/	2.2	3.4	4.7
Caps (1,000 dollars).....	26,344	26,381	25,572	26,048
Percentage change <u>3/</u> .....	4/	0.1	(3.1)	1.9
Visors (1,000 dollars).....	1,006	1,081	1,337	1,606
Percentage change <u>3/</u> .....	4/	7.5	23.7	20.1
Other sewn cloth headwear (1,000 dollars).....	2,684	3,009	3,456	3,988
Percentage change <u>3/</u> .....	4/	12.1	14.9	15.4
<b>All sewn cloth headwear <u>5/</u> (1,000 dollars).....</b>	<b>44,291</b>	<b>44,632</b>	<b>46,637</b>	<b>48,852</b>
Percentage change <u>3/</u> .....	4/	0.8	4.5	4.7
<b>Total compensation paid to PRW:</b>				
Hats (1,000 dollars).....	***	***	***	***
Percentage change <u>3/</u> .....	4/	2.5	2.8	5.2
Caps (1,000 dollars).....	30,213	29,502	28,515	30,187
Percentage change <u>3/</u> .....	4/	(2.4)	(3.3)	5.9
Visors (1,000 dollars).....	1,192	1,280	1,540	***
Percentage change <u>3/</u> .....	4/	7.4	20.3	26.0
Other sewn cloth headwear (1,000 dollars).....	3,198	3,507	4,062	4,794
Percentage change <u>3/</u> .....	4/	9.6	15.8	18.0
<b>All sewn cloth headwear <u>5/</u> (1,000 dollars).....</b>	<b>50,460</b>	<b>50,038</b>	<b>52,016</b>	<b>55,962</b>
Percentage change <u>3/</u> .....	4/	(0.8)	4.0	7.6

See footnotes at end of table.

Table 11--Continued

Average number of production and related workers producing sewn cloth headwear, hours worked, <sup>1/</sup>wages and total compensation <sup>2/</sup> paid to such employees, labor productivity, hourly compensation, and unit labor production costs, by styles, 1985-88

Item	1985	1986	1987	1988
<b>Labor productivity for PRW: 6/</b>				
Hats (dozens per hour).....	***	***	***	***
Percentage change <sup>3/</sup> .....	4/	(14.2)	(5.3)	(8.1)
Caps (dozens per hour).....	0.73	0.70	0.75	0.75
Percentage change <sup>3/</sup> .....	4/	(4.4)	7.5	0.0
Visors (dozens per hour).....	0.38	0.58	0.53	0.50
Percentage change <sup>3/</sup> .....	4/	51.3	(7.8)	(6.9)
Other sewn cloth headwear (dozens per hour).....	0.49	0.43	0.44	0.40
Percentage change <sup>3/</sup> .....	4/	(13.1)	1.7	(8.7)
<b>All sewn cloth headwear</b> (dozens per hour).....	0.75	0.75	0.78	0.73
Percentage change <sup>3/</sup> .....	4/	0.0	4.4	(6.9)
<b>Hourly compensation paid to PRW:</b>				
Hats (per hour).....	***	***	***	***
Percentage change <sup>3/</sup> .....	4/	4.8	0.1	0.9
Caps (per hour).....	\$6.14	\$6.39	\$6.25	\$6.41
Percentage change <sup>3/</sup> .....	4/	4.1	(2.2)	2.5
Visors (per hour).....	\$4.96	\$5.37	\$5.14	\$5.13
Percentage change <sup>3/</sup> .....	4/	8.3	(4.3)	(0.2)
Other sewn cloth headwear (per hour).....	\$7.05	\$6.99	\$7.42	\$8.40
Percentage change <sup>4/</sup> .....	4/	(0.8)	6.1	13.3
<b>All sewn cloth headwear</b> (per hour).....	\$6.49	\$6.71	\$6.91	\$7.03
Percentage change <sup>3/</sup> .....	4/	3.4	2.9	1.8
<b>Unit labor costs: 6/</b>				
Hats (per dozen).....	***	***	***	***
Percentage change <sup>3/</sup> .....	4/	22.0	5.7	9.8
Caps (per dozen).....	\$8.45	\$9.20	\$8.37	\$8.60
Percentage change <sup>3/</sup> .....	4/	8.9	(9.0)	2.8
Visors (per dozen).....	\$12.96	\$9.28	\$9.63	\$10.32
Percentage change <sup>3/</sup> .....	4/	(28.4)	3.8	7.2
Other sewn cloth headwear (per dozen).....	\$14.24	\$16.25	\$16.95	\$21.03
Percentage change <sup>3/</sup> .....	4/	14.1	4.3	24.1
<b>All sewn cloth headwear</b> (per dozen).....	\$8.71	\$8.99	\$8.86	\$9.69
Percentage change <sup>3/</sup> .....	4/	3.2	(1.4)	9.4

<sup>1/</sup> Includes hours worked plus hours of paid leave time.

<sup>2/</sup> Includes wages and contributions to Social Security and other employee benefits.

<sup>3/</sup> Calculated from unrounded data.

<sup>4/</sup> Not available.

<sup>5/</sup> Figures do not add to totals because not all firms could provide data by style of headwear.

<sup>6/</sup> Calculated from data submitted by firms providing both production and employment information.

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

Labor productivity, as measured by dozens produced per hour, increased slowly until 1987, then declined by 7 percent in 1988. Unit labor costs, however, increased overall; in 1988, they showed a 9-percent increase over their 1987 level. <sup>1/</sup>

Sport and casual hats.--Of firms reporting production of sport and casual hats, five provided employment data. The trend in the total number of production workers employed in the production of hats and in the total hours worked by those employees was relatively flat from 1985 to 1987, but these indicia all rose more strongly in 1988. Total compensation paid to those employees showed a rise of 11 percent over the 1985-88 period. Hourly compensation also rose throughout the period, most strikingly in 1986 when compared to its 1985 level.

The productivity of workers producing hats declined steadily between 1985 and 1988, falling by 25 percent over the 4-year period. Unit labor costs, by contrast, rose markedly throughout the period, by 42 percent overall, with a particularly sharp jump in 1986. By the end of the period, unit labor costs for workers producing hats were higher than for workers producing any other style of sewn cloth headwear.

Sport and casual caps.--Of firms reporting production of sport and casual caps, 21 provided employment data. According to these data, the number of workers employed in cap production, the hours worked in such production, and wages and compensation paid to such workers all showed small declines from 1985 to 1987, ranging from 3 to 7 percent. Labor productivity first fell in 1986, then rose to a level of 0.75 dozen caps per hour in 1988. Hourly compensation and unit labor costs moved in tandem, first rising in 1986, then falling back in 1987, before recovering in 1988. Both indicators ended the period higher than their levels in 1985, by 4 and 2 percent, respectively.

Visors.--Of firms reporting production of visors, seven provided employment data. The number of workers producing visors and the wages and total compensation paid to those workers showed strong increases during the period of investigation. By 1988, \* \* \* more workers were engaged in visor production, representing an increase of \* \* \* percent. Hours worked by those workers also were notably higher in 1988 than in 1985. The hourly compensation for those employees, though increasing in 1986, slacked off in 1987 and 1988, but still increased overall by 3 percent. Unit labor costs fell overall, with a particularly marked decline in 1986.

Other sewn cloth headwear.--Of firms reporting production of other types of sewn cloth headwear, eleven provided employment data. The trends in the number of workers employed in such production, hours worked by those employees, and wages and total compensation paid to those employees were identical between 1985 and 1986. All four indicators exhibited marked increases from 1985 to 1986 (particularly employee levels, which rose by over 25 percent) and continued their rise during the remainder of the period. Hourly compensation also demonstrated a generally rising trend throughout the period of investigation. The productivity of workers producing these headwear

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<sup>1/</sup> By comparison, staff obtained information indicating that in China, unit labor costs range from \* \* \* to \* \* \* yuan per dozen. At current exchange rates, this is equivalent to between \* \* \* and \* \* \* per dozen, less than one-tenth of the labor costs of U.S. firms. See letter from Patrick Macrory to Kenneth R. Mason, Mar. 17, 1989.

styles primarily fell throughout the period, at a faster rate than that for workers producing hats, caps, or visors.

As noted below, the production of children's sewn cloth headwear in the United States is extremely limited. As a result, with regard to adults' sewn cloth headwear, the levels of, and trends in, the employment indicators discussed above are similar to those for the production of sewn cloth headwear when viewed in its entirety. Employment data regarding production of adults' and children's sewn cloth headwear are presented in table 12.

In general, workers producing sewn cloth headwear -- particularly those employed by firms in rural areas of the South and Midwest -- do not have union representation. Workers at Paramount and K-Products, for instance, are not represented by any union. A listing of those firms whose employees are represented by unions, the union involved, and the firm's share of 1988 domestic sewn cloth headwear shipments is presented in the following tabulation:

<u>Firm</u>	<u>Union</u>	<u>Share of 1988 domestic shipments (by quantity)</u>
New Era	Independent	***
West Penn	Amalgamated Clothing and Textile Workers (ACTWU)	***
Admanco	Teamsters	***
Imperial	ACTWU	***
Young An	Int'l. Ladies Garment Workers Union (ILGWU)	***
California Headwear	Amalgamated Cotton Garment	***
Benkel Manufacturing	Cap Makers Local 2H	***
Town Talk	UFCW-AFL-CIO	***
Keystone	ACTWU	***
Leader Manufacturing	ACTWU	***
Devon Co.	ACTWU	***
		<u>32.6</u>

Table 12

Average number of production and related workers producing adults' and children's sewn cloth headwear, hours worked, 1/ wages and total compensation 2/ paid to such employees, labor productivity, hourly compensation, and unit labor production costs, by categories, 1985-88

Item	1985	1986	1987	1988
<b>Production and related workers (PRW):</b>				
Adults' sewn cloth headwear...	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth headwear.....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear.....</b>	<b>4,821</b>	<b>4,748</b>	<b>4,661</b>	<b>4,895</b>
Percentage change <u>3/</u> .....	<u>4/</u>	(1.5)	(1.8)	5.0
<b>Hours worked by PRW:</b>				
Adults' sewn cloth headwear (1,000 hours).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth headwear (1,000 hours).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear (1,000 hours).....</b>	<b>7,774</b>	<b>7,456</b>	<b>7,531</b>	<b>7,960</b>
Percentage change <u>3/</u> .....	<u>4/</u>	(4.1)	1.0	5.7
<b>Wages paid to PRW:</b>				
Adults' sewn cloth headwear (1,000 dollars)....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth headwear (1,000 dollars)....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear (1,000 dollars).....</b>	<b>44,291</b>	<b>44,632</b>	<b>46,637</b>	<b>48,852</b>
Percentage change <u>3/</u> .....	<u>4/</u>	0.8	4.5	4.7
<b>Total compensation paid to PRW:</b>				
Adults' sewn cloth headwear (1,000 dollars)....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth headwear (1,000 dollars)....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear (1,000 dollars).....</b>	<b>50,460</b>	<b>50,038</b>	<b>52,016</b>	<b>55,962</b>
Percentage change <u>3/</u> .....	<u>4/</u>	(0.8)	4.0	7.6

See footnotes at end of table.

Table 12-Continued

Average number of production and related workers producing adults' and children's sewn cloth headwear, hours worked, 1/ wages and total compensation 2/ paid to such employees, labor productivity, hourly compensation, and unit labor production costs, by category, 1985-88

Item	1985	1986	1987	1988
<b>Labor productivity for PRW: 5/</b>				
Adults' sewn cloth				
headwear (dozens per hour)...	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth				
headwear (dozens per hour)...	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear</b>				
(dozens per hour).....	0.75	0.75	0.78	0.73
Percentage change <u>3/</u> .....	<u>4/</u>	0.0	4.4	(6.9)
<b>Hourly compensation paid to PRW:</b>				
Adults' sewn cloth				
headwear (per hour).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth				
headwear (per hour).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear</b>				
(per hour).....	\$6.49	\$6.71	\$6.91	\$7.03
Percentage change <u>3/</u> .....	<u>4/</u>	3.4	2.9	1.8
<b>Unit labor costs: 5/</b>				
Adults' sewn cloth				
headwear (per dozen).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
Children's sewn cloth				
headwear (per dozen).....	***	***	***	***
Percentage change <u>3/</u> .....	<u>4/</u>	***	***	***
<b>All sewn cloth headwear</b>				
(per dozen).....	\$8.71	\$8.99	\$8.86	\$9.69
Percentage change <u>3/</u> .....	<u>4/</u>	3.2	(1.4)	9.4

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ Calculated from unrounded data.

4/ Not available.

5/ Calculated from data submitted by firms providing both production and employment information.

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

In its questionnaire, the Commission requested U.S. producers to provide detailed information concerning reductions in the number of production and related workers producing sewn cloth headwear if such reductions involved at least 5 percent of the work force or 50 workers. The reported reductions, and the alleged causes, are shown in the following tabulation:

<u>Firm</u>	<u>Date</u>	<u>Number of workers</u>	<u>Duration</u>	<u>Reason given</u>
*	*	*	*	*

#### Financial experience of U.S. producers

Twenty-five producers supplied usable income-and-loss data on their overall establishment operations. Twenty-three producers, accounting for 90 percent of reported U.S. production in 1987, furnished usable income-and-loss data on their operations producing all sewn cloth headwear. Two producers were unable to furnish such data on the subject products.

The questionnaire requested separate income-and-loss data for both adults' and children's sewn cloth headwear. Production in the industry is generally geared toward adults' headwear, and most companies were unable to allocate costs between the adults' and children's lines. Thus all of the financial data are for all sewn cloth headwear.

Overall establishment operations.--In addition to sewn cloth headwear, some firms produce other types of headwear and/or apparel in their establishments. The income-and-loss data for overall establishment operations are presented in table 13.

Operations on all sewn cloth headwear.--Net sales for 21 producers in 1985 were \$154.9 million (table 14). 1/ In 1987 net sales were \$174.0 million, representing an increase of 7.2 percent over 1986 sales of \$162.2 million. Operating income was \$12.7 million in 1985, \$8.8 million in 1986, and \$12.2 million in 1987.

Operating income margins, as a percent of sales, were 8.2 in 1985, 5.4 in 1986, and 7.0 in 1987. Operating losses were incurred by two companies in 1985 and six companies in 1986 and 1987. 2/

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1/ Sales data between 1985 and 1986 are not comparable because two companies did not provide data for 1985 and one company reported data for only 3 months in 1985. For those companies that provided comparable sales data, net sales declined by 1 percent, from \* \* \* in 1985 to \* \* \* in 1986.

2/ Information on after-tax return on sales for related textile and apparel industries is presented in app. G.

Table 13

Income-and-loss experience of U.S. producers on the overall operations of their establishments within which sewn cloth headwear is produced, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988 <sup>1/</sup>

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
Value (1,000 dollars)					
Net sales.....	217,157	235,113	260,803	142,085	157,434
Cost of goods sold.....	148,767	163,678	185,518	100,264	108,568
Gross profit.....	68,390	71,435	75,285	41,821	48,866
General, selling, and administrative expenses...	50,513	56,748	57,653	28,830	34,304
Operating income.....	17,877	14,687	17,632	12,991	14,562
Startup or shutdown expense.....	86	0	0	0	0
Interest expense.....	4,866	5,136	4,911	1,710	2,180
Other income or (expense), net.....	(216)	232	(108)	(276)	172
Net income before income taxes.....	12,709	9,783	12,613	11,005	12,554
Depreciation and amorti- zation included above.....	4,014	5,111	5,400	2,286	1,745
Cash flow <sup>1/</sup> .....	16,723	14,894	18,013	13,291	14,299
Share of net sales (percent)					
Cost of goods sold.....	68.5	69.6	71.1	70.6	69.0
Gross profit.....	31.5	30.4	28.9	29.4	31.0
General, selling, and administrative expenses...	23.3	24.1	22.1	20.3	21.8
Operating income.....	8.2	6.2	6.8	9.1	9.2
Net income before income taxes.....	5.9	4.2	4.8	7.7	8.0
Number of firms reporting					
Operating losses.....	3	6	4	3	3
Net losses.....	6	8	6	3	3
Data.....	23	25	25	18	18

<sup>1/</sup> Cash-flow is defined as net income or loss plus depreciation and amortization.

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

Table 14

Income-and-loss experience of U.S. producers on their operations producing sewn cloth headwear, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988 1/ 2/

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
<u>Value (1,000 dollars)</u>					
Net sales.....	154,880	162,227	173,967	102,717	108,449
Cost of goods sold.....	109,814	117,038	125,630	75,754	77,391
Gross profit.....	45,066	45,189	48,337	26,963	31,058
General, selling, and administrative expenses...	32,412	36,366	36,176	19,380	22,124
Operating income.....	12,654	8,823	12,161	7,673	8,934
Startup or shutdown expense.....	86	0	0	0	0
Interest expense.....	3,499	3,426	3,161	974	1,113
Other income or (expense), net.....	27	126	(271)	(219)	182
Net income before income taxes.....	9,096	5,523	8,729	6,390	8,003
Depreciation and amorti- zation included above.....	3,123	3,524	3,911	1,854	1,287
Cash-flow <u>3/</u> .....	12,219	9,047	12,640	8,244	9,290
<u>Share of net sales (percent)</u>					
Cost of goods sold.....	70.9	72.1	72.2	73.8	71.4
Gross profit.....	29.1	27.9	27.8	26.2	28.6
General, selling, and administrative expenses...	20.9	22.4	20.8	18.9	20.4
Operating income.....	8.2	5.4	7.0	7.5	8.2
Net income before income taxes.....	5.9	3.4	5.0	6.2	7.4
<u>Number of firms reporting</u>					
Operating losses.....	2	6	6	3	3
Net losses.....	5	8	8	5	4
Data.....	21	23	23	17	17

1/ The fiscal year ending dates and the number of companies are as follows:  
1/31(2), 3/31(1), 5/31(1), 6/30(4), 7/31(2), 9/30(2), 10/31(1), 11/30(2) and  
12/31(8).

2/ \* \* \*.

3/ Cash-flow is defined as net income or (loss) plus depreciation and  
amortization.

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

Interim 1988 sales were \$108.4 million, representing an increase of 5.6 percent over 1987 interim sales of \$102.7 million. Operating income was \$7.6 million in interim 1987 and \$8.9 million in interim 1988. Operating income margins were 7.4 percent in interim 1987 and 8.2 percent in interim 1988. Operating losses were reported by three companies in both interim periods.

In 1986 the general, selling, and administrative ratio was higher than in other periods. Industry marketing costs rose because of increased sales promotion and the reduction of the minimum order quantity for custom or specialized order requests. 1/ In addition, \* \* \*, indicated that its marketing costs increased during that time. 2/ Table 15 shows the income-and-loss experience of the industry by company and by amount of sales in 1987 (in descending order except for the smaller companies). Although there are a few large producers, most of the industry consists of companies with under \$5 million in annual sales. These smaller companies accounted for most of the industry losses between 1985 and 1987. The discrepancy in profitability between firms could be attributable to a variety of factors, including size and efficiency of operations, degree of automation, number of shifts, productivity, wage differentials, and product mix. The two largest producers (\* \* \*) accounted for \* \* \* percent of reported industry sales and \* \* \* percent of reported industry operating income in 1987. \* \* \*. 3/

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1/ Petition, p. 35.

2/ Telephone conversation with \* \* \*.

3/ During the hearing on Mar. 29, 1989, Mr. Rubenstein of Paramount said that his company borrowed \$2 million in order to purchase embroidery equipment. Transcript, p. 60.

Table 15

Income-and-loss experience of U.S. producers on their operations producing sewn cloth headwear, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item/producer	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
<u>Value (1,000 dollars)</u>					
Net sales:					
***	***	***	***	1/	1/
***	***	***	***	1/	1/
***	***	***	***	1/	1/
***	***	***	***	2/	2/
***	***	***	***	2/	2/
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	***	***
Smaller companies...	***	***	***	***	***
Total.....	154,880	162,227	173,967	102,717	108,449
Operating income or (loss):					
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	2/	2/
***	***	***	***	2/	2/
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	***	***
Smaller companies...	***	***	***	***	***
Total.....	12,654	8,823	12,161	7,583	8,934
<u>Share of net sales (percent)</u>					
Operating income or (loss):					
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	2/	2/
***	***	***	***	2/	2/
***	***	***	***	***	***
***	***	***	***	***	***
***	***	***	***	***	***
Smaller companies...	***	***	***	***	***
Average.....	8.2	5.4	7.0	7.5	8.2

1/ \* \* \*

2/ Did not provide data.

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

Investment in productive facilities.--Sixteen companies provided data on their investment in productive facilities for 1985-87, and 12 companies furnished data for the 2 interim periods (table 16). Return on asset data is also shown in the table.

Table 16

Sewn cloth headwear: Value of property, plant, and equipment of U.S. producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item	As of end of accounting year--			Interim period ended Sept. 30--	
	1985	1986	1987	1987	1988
All products of establishments:					
Original cost (1,000 dollars).....	41,691	49,726	51,989	38,040	41,688
Book value (1,000 dollars).....	23,668	27,583	25,155	20,154	20,993
All sewn cloth headwear:					
Original cost (1,000 dollars).....	35,370	39,495	40,525	31,715	34,503
Book value (1,000 dollars).....	19,103	20,235	18,840	15,720	15,958
Return on total assets <u>1/</u> (percent).....	13.7	10.2	12.9	<u>2/</u>	<u>2/</u>

1/ Defined as product operating income or (loss) divided by total assets for those companies that provided reliable total establishment data.

2/ Not available.

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

At the hearing, Mr. Rubenstein (Paramount) indicated that a suitable rate of return would be 10 to 15 percent on investment and Mr. Hatfield (K-Products) said that, based on a comparison with publicly held apparel companies, his firm should be earning significantly higher rates of return. Mr. Hatfield also said that if more firms had responded to the Commission's questionnaires, the industry results would have been lower. 1/

In its report on the apparel industry, the Value Line Investment Service indicated that the industry's return on net worth was 15.2 percent in 1985, 15.0 percent in 1986, and 16.2 percent in 1987. 2/ It is questionable whether rates of return of privately held nonpublic companies should be compared with those of public companies, which generally are significantly larger and more diversified. Furthermore, Mr. Rubenstein said that Paramount is a family operation and most of the other firms in the headwear industry are "Mom and

1/ Transcript, pp. 52-53.

2/ Value Line Investment Service, Mar. 3, 1989, p. 1601.

Pop" operations. 1/ The tabulation below is a summary of the return on assets for the two largest producers:

\* \* \* \* \*

Capital expenditures.--Fifteen companies supplied data on their capital expenditures for 1985, 1986, and 1987, and 10 companies furnished such data for each of the interim periods (table 17). The two largest producers accounted for most of the capital expenditures.

Table 17

Sewn cloth headwear: Capital expenditures by U.S. producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

(In thousands of dollars)

Item	1985	1986	1987	Interim period ended Sept. 30-	
				1987	1988
All products of establishments:					
Land and land improvements.....	0	0	9	0	140
Building and leasehold improvements.....	1,966	304	541	213	438
Machinery, equipment, and fixtures.....	4,212	5,658	4,061	2,404	3,313
Total.....	6,178	5,962	4,611	2,617	3,891
All sewn cloth headwear:					
Land and land improvements.....	0	0	0	0	0
Building and leasehold improvements.....	1,146	259	167	126	215
Machinery, equipment, and fixtures.....	3,903	4,617	3,313	1,986	2,709
Total.....	5,049	4,876	3,480	2,112	2,924

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

Research and development expenses.--Five firms supplied data on their research and development expenses for all periods. The two largest producers accounted for most of the research outlays during the period of investigation. These outlays are shown in table 18.

Table 18

Sewn cloth headwear: Research and development expenses by U.S. producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

(In thousands of dollars)

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
All products of establish- ments.....	622	945	963	527	490
All sewn cloth headwear.....	443	743	762	463	412

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

Capital and investment.-- The Commission requested U.S. producers to describe any actual or potential negative effects of imports of sewn cloth headwear from China on their firms' growth, investment, and ability to raise capital (including efforts to develop a derivative or more advanced version of the like product). Their responses are shown in appendix H.

Consideration of the Question of  
Threat of Material Injury

Section 771(7)(F)(i) of the Tariff Act of 1930 (19 U.S.C. § 1677(7)(F)(i)) provides that--

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of any merchandise, the Commission shall consider, among other relevant factors 1/ 2/--

(I) if a subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement),

(II) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,

(III) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,

(IV) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,

(V) any substantial increase in inventories of the merchandise in the United States,

(VI) the presence of underutilized capacity for producing the merchandise in the exporting country,

(VII) any other demonstrable adverse trends that indicate the probability that the importation (or sale for importation) of the merchandise (whether or not it is actually being imported at the time) will be the cause of actual injury,

(VIII) the potential for product-shifting if production facilities owned or controlled by the foreign manufacturers, which can be used to produce products subject to investigation(s) under section 701 or 731 or to final orders under section 736, are also used to produce the merchandise under investigation,

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1/ Section 771(7)(F)(ii) of the act (19 U.S.C. § 1677(7)(F)(ii)) provides that "Any determination by the Commission under this title that an industry in the United States is threatened with material injury shall be made on the basis of evidence that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition."

2/ The Omnibus Trade and Competitiveness Act of 1988 amended section 771(7)(F) of the Tariff Act of 1930 by adding two items to section 771(7)(F)(i) (19 U.S.C. §§ 1677(7)(F)(i)(IX) and (X)), and by adding section 771(7)(F)(iii) (19 U.S.C. § 1677(7)(F)(iii)) in its entirety. Although this investigation was initiated prior to their effective date, the amendments are presented here for information.

(IX) in any investigation under this title which involves imports of both a raw agricultural product (within the meaning of paragraph (4)(E)(iv)) and any product processed from such raw agricultural product, the likelihood that there will be increased imports, by reason of product shifting, if there is an affirmative determination by the Commission under section 705(b)(1) or 735(b)(1) with respect to either the raw agricultural product or the processed agricultural product (but not both), and

(X) the actual and potential negative effects on the existing development and production efforts of the domestic industry, including efforts to develop a derivative or more advanced version of the like product. 1/

The available information on foreign producers' operations (items (II) and (VI) above) are presented in the section entitled "Ability of foreign producers to generate exports and availability of export markets other than the United States," and information on the volume, U.S. market penetration, and pricing of imports of the subject merchandise (items (III) and (IV) above) is presented in the section entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged material injury." Item I, regarding subsidies, is not relevant in this investigation. The potential for "product-shifting" (item (VIII)) is not an issue in this investigation because there are no known producers subject to investigation(s) or to final orders that use production facilities that can be shifted to produce sewn cloth headwear. 2/ Information on the effects of imports of the subject merchandise on U.S. producers' existing development and production efforts (item (X)) is presented in the section entitled "Consideration of alleged material injury to an industry in the United States." Available data on U.S. inventories of the subject products (item (V)) follow.

#### U.S. importers' inventories

Of the 66 firms who responded to the Commission's importer's questionnaire, 31 provided usable data on end-of-period inventories during the period of investigation. From 1984 to 1988, end-of-period inventories of sewn cloth headwear from China increased markedly, with their 1988 level being more than eight times that of 1984 and nearly double that of 1985 (table 19).

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1/ Section 771(7)(F)(iii) of the act (19 U.S.C. § 1677(7)(F)(iii)) further provides that, in antidumping investigations, ". . . the Commission shall consider whether dumping in the markets of foreign countries (as evidenced by dumping findings or antidumping remedies in other GATT member markets against the same class or kind of merchandise manufactured or exported by the same party as under investigation) suggests a threat of material injury to the domestic industry."

2/ Sewn cloth headwear producers are fairly limited in the products that can be produced with the machinery used in the manufacture of sewn cloth headwear, and none of these other products is subject to investigation or to final orders under Title VII.

Table 19

Sewn cloth headwear: End-of-period inventories of imports from China and other sources held in the United States, by styles, 1985-88

Item	1984	1985	1986	1987	1988
End-of-period inventories of reported imports from--	Quantity (1,000 dozen)				
<b>China:</b>					
Sport and casual hats.....	***	95	50	58	86
Sport and casual caps.....	93	389	463	963	1,085
Visors.....	10	32	49	83	96
Other sewn cloth headwear...	***	29	26	72	72
Total 1/.....	162	545	589	1,176	1,339
<b>Other sources:</b>					
Sport and casual hats.....	***	53	35	36	24
Sport and casual caps.....	948	1,467	1,589	1,872	2,046
Visors.....	96	121	123	102	120
Other sewn cloth headwear...	***	37	24	18	18
Total 1/.....	1,099	1,678	1,771	2,028	2,208
<b>All sources:</b>					
Sport and casual hats.....	***	148	85	94	110
Sport and casual caps.....	1,041	1,857	2,052	2,835	3,130
Visors.....	106	153	172	186	216
Other sewn cloth headwear...	***	65	50	90	90
Total 1/.....	1,261	2,233	2,360	3,204	3,547
End-of-period inventories to reported shipments of imports from--2/	Ratio of -- (percent)				
<b>China:</b>					
Sport and casual hats.....	3/	76.6	36.2	30.4	75.4
Sport and casual caps.....	3/	65.4	78.1	59.2	43.5
Visors.....	3/	61.5	73.1	61.5	81.4
Other sewn cloth headwear...	3/	24.2	28.6	48.6	51.4
Average.....	3/	61.2	65.3	55.9	46.8
<b>Other sources:</b>					
Sport and casual hats.....	3/	72.6	71.4	106.9	141.2
Sport and casual caps.....	3/	49.2	46.0	50.7	50.2
Visors.....	3/	55.8	48.6	47.4	47.1
Other sewn cloth headwear...	3/	64.9	80.0	78.3	62.1
Average.....	3/	50.4	46.9	49.3	50.4
<b>All sources:</b>					
Sport and casual hats.....	3/	75.1	45.4	41.8	84.0
Sport and casual caps.....	3/	51.9	50.7	51.9	47.7
Visors.....	3/	56.9	53.8	53.1	57.9
Other sewn cloth headwear...	3/	35.7	41.3	52.6	53.3
Average.....	3/	52.7	50.4	51.6	49.0

1/ Because of rounding, figures may not add to the totals shown.

2/ Shipments of imports used are limited to those from firms reporting inventory data.

3/ Not available.

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

Inventories grew particularly markedly in 1987, when they doubled over the previous year. 1/ This trend is also reflected in various styles of headwear when viewed separately; all showed consistent increases, except for hats and other styles of sewn cloth headwear between 1985 and 1986. Even with these substantial increases in end-of-period inventories, however, the ratio of inventories to reported shipments of imports of such headwear from China generally declined throughout the period (except for a rise in 1986), with a notable falling off from 65 percent in 1986 to 47 percent in 1988. Here, however, there were substantial variations in trends among the different headwear styles. For example, importers of caps tended to decrease their inventory holdings as compared with shipments, whereas importers of visors and other sewn cloth headwear varieties tended to increase their holdings.

Reported end-of-period inventories of adults' sewn cloth headwear from China generally increased over the 1984-88 period, by more than sixfold overall; however, because of rapidly increasing shipments of imports from China, the relationship of these inventories to preceding-period shipments rose only slightly overall, even though it topped \* \* \* percent in 1986 (table 20). End-of-period inventories of children's sewn cloth headwear showed wide fluctuations during the period of investigation, particularly in their relationship to preceding-period shipments. That ratio exceeded 100 percent in 1985 and 1988.

As seen by comparing tables 19 and 20 to table 10, the ratio of importers' inventories to shipments is much higher than that for U.S. producers. This is due in part to the fact that importers tend to supply a larger percentage of plain caps than do domestic firms. 2/ As noted above, some domestic firms are making an increased effort to hold substantial stocks of basic baseball caps in an attempt to counter this trend.

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1/ Petitioners charged that importers are deliberately stockpiling imports in an attempt to counter recent efforts by the domestic industry to decrease turnaround time on orders. Transcript, p. 62.

2/ Transcript, p. 153.

Table 20

Sewn cloth headwear: End-of-period inventories of imports from China and other sources held in the United States, by categories, 1985-88

Item	1984	1985	1986	1987	1988
End-of-period inventories of reported imports from--	Quantity (1,000 dozen)				
<b>China:</b>					
Sewn cloth headwear for adults.....	152	418	500	1,046	1,147
Sewn cloth headwear for children.....	10	126	88	129	195
Total <u>1/</u> .....	162	545	589	1,176	1,339
<b>Other sources:</b>					
Sewn cloth headwear for adults.....	1,043	1,536	1,652	1,829	1,941
Sewn cloth headwear for children.....	56	141	120	200	260
Total <u>1/</u> .....	1,099	1,678	1,771	2,028	2,208
<b>All sources:</b>					
Sewn cloth headwear for adults.....	1,195	1,954	2,152	2,875	3,089
Sewn cloth headwear for children.....	66	267	207	328	455
Total <u>1/</u> .....	1,261	2,223	2,360	3,204	3,547
End-of-period inventories to reported shipments of imports from-- <u>2/</u>	Ratio of -- (percent)				
<b>China:</b>					
Sewn cloth headwear for adults.....	<u>3/</u>	***	***	***	***
Sewn cloth headwear for children.....	<u>3/</u>	***	***	***	***
Average.....	<u>3/</u>	61.2	65.3	55.9	46.8
<b>Other sources:</b>					
Sewn cloth headwear for adults.....	<u>3/</u>	***	***	***	***
Sewn cloth headwear for children.....	<u>3/</u>	***	***	***	***
Average.....	<u>3/</u>	50.4	46.9	49.3	50.4
<b>All sources:</b>					
Sewn cloth headwear for adults.....	<u>3/</u>	51.8	55.8	53.6	48.7
Sewn cloth headwear for children.....	<u>3/</u>	77.6	48.5	72.2	97.4
Average.....	<u>3/</u>	52.7	50.4	51.6	49.0

1/ Because of rounding, figures may not add to the totals shown.

2/ Shipments of imports used are limited to those from firms reporting inventory data.

3/ Not available.

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

Ability of foreign producers to generate exports and availability of export markets other than the United States

In its final determination, the Department of Commerce indicated that it was aware of 26 firms producing headwear in China. The Commission received production and shipment data, however, from 13 firms. Of these firms, eight described themselves as "factories," and the remaining five as "import/export corporations," or trading houses. The trading houses indicated that they bought from a total of 16 different factories. 1/ Commission staff, therefore, knows of 24 firms producing headwear in China. The largest Chinese exporter is \* \* \*, accounting for \* \* \* percent of exports from China in 1988. As seen from table 21, the United States is by far the largest market for Chinese exports of sewn cloth headwear, although its importance is currently declining. Responding firms also reported substantial quantities of headwear exported to Canada, France, Italy, Australia, and Spain.

Among the responding firms, all firms reported production of either cotton or polyester/cotton baseball-type caps or other types of caps such as painters' caps. Three firms reported that their production was limited to baseball-type caps, whereas two others reported production limited to painters' caps or other, unspecified kinds of caps. Five companies reported production of all styles of headwear, with the exception of hats: baseball-type caps, visors, and other types of caps. 2/

Chinese production of sewn cloth headwear grew consistently from 1985 to 1988, slowing its rise considerably by the end of the period. Production rose 94 percent overall, and is expected to register a slight gain in 1989. Reported sewn cloth headwear capacity also increased, from 3.8 million dozen in 1985 to 7.3 million dozen in 1988. As capacity and production increased at approximately equal rates, capacity utilization remained fairly steady throughout the 4-year period. It is expected to decline somewhat, however, in 1989. 3/ 4/

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1/ Respondent's posthearing brief, exhibit 4.

2/ Staff believes, however, that it is likely that some of the products classified by the Chinese companies as "caps" actually fall under the definition of "sport and casual hats" as defined in the Commission's producers' questionnaire.

3/ Capacity utilization figures are heavily influenced by data from \* \* \*; capacity utilization figures for this firm ranged from \* \* \* to \* \* \* percent during 1985-88. Capacity utilization for other, smaller firms was much higher.

4/ Respondents contended at the hearing that production is constrained by shortages of material, electricity, and skilled workers, but could provide no information to support this allegation. Transcript, p. 108.

Table 21

Sewn cloth headwear: China's production, capacity, capacity utilization, home market sales, end-of-period inventories, and export shipments, 1985-89 <sup>1/</sup>

Item	1985	1986	1987	1988	1989 <sup>1/</sup>
Production (1,000 dozen).....	2,792	3,565	4,942	5,423	5,437
Capacity (1,000 dozen).....	3,822	4,992	6,531	7,331	7,654
Capacity utilization (percent)..	73.1	71.4	75.7	74.0	71.0
End-of-period inventories (1,000 dozen).....	***	***	***	***	***
Home-market sales (1,000 dozen).....	***	***	***	***	***
Export sales to--					
United States (1,000 dozen)...	***	2,532	3,527	3,427	3,135
Other countries (1,000 dozen).....	***	1,051	1,435	2,657	1,383
Total exports <sup>2/</sup> (1,000 dozen).....	2,510	3,583	4,961	6,084	4,518
Exports to the United States as a share of--					
Production (percent).....	***	71.0	71.4	63.2	57.7
Total exports (percent).....	***	70.7	71.1	56.3	69.4

<sup>1/</sup> 1989 data are projected.

<sup>2/</sup> Because of rounding, figures may not add to the totals shown.

Source: Data supplied by counsel for China National Arts & Crafts Import and Export Corp. & China National Light Industrial Products Import and Export Corp.

Home-market sales of sewn cloth headwear by reporting firms were generally insubstantial during 1985-88, never exceeding 15 percent of total shipments, although they did increase steadily, by \* \* \* percent, during the period. <sup>1/</sup> Exports of sewn cloth headwear to the United States grew strongly from 1985 to 1987, reaching 3.5 million dozen in 1987, constituting a 39-percent jump over their 1986 level. <sup>2/</sup> Such exports then fell off in 1988, by 3 percent, and are expected to decline further in 1989. As a share of production, exports to the United States generally declined, particularly between 1987 and 1988, when there was a dramatic surge, of 85 percent, in export shipments to other markets. Accordingly, exports to the United States also decreased as a share of total exports between 1987 and 1988, dropping to

<sup>1/</sup> Home-market sales were reported by only one producer, \* \* \*, which also produced small quantities for the U.S. market. Staff believes reported home-market shipments to be substantially understated, however, as there are many small plants in China that produce solely for the home market. No information was received on the operations of these plants. Respondents offered the explanation that headwear is not a fashion item in China and is worn only to protect from the cold. There is apparently no promotional function served, either.

<sup>2/</sup> Reported 1988 exports from China to the United States represent 52 percent, by quantity, of 1988 official import statistics for sewn cloth headwear. See table 22, *infra*.

less than 60 percent in the latter year. Reporting firms anticipate reductions in both ratios in the future, as they attempt to find alternative export markets. 1/

Consideration of the Causal Relationship Between Imports  
of the Subject Merchandise and the Alleged Material Injury

U.S. imports

Imports of sewn cloth headwear are provided for under TSUS items 702.06, 702.08, 702.12, 702.14, 702.20, 702.32, 703.05, 703.10, 703.16, and various items in part 6F of schedule 3, or in HTSUS subheadings 6114.20.00, 6114.30.30, 6114.90.00, 6204.22.30, 6204.23.00, 6204.29.20, 6204.29.40, 6209.20.50, 6209.30.30, 6209.90.30, 6209.90.40, 6211.32.00, 6211.33.00, 6211.39.00, 6211.42.00, 6211.43.00, 6211.49.00, and 6505.90 (except 6505.90.30 and 6505.90.40). Parties generally agree that most of the sewn cloth headwear is entered under TSUS items 703.05 and 702.12. Cloth visors, because they lack a crown, are not considered classifiable as headwear, and thus are classified as wearing apparel in part 6F of schedule 3.

Of the 93 firms who received questionnaires, 66 responded, 52 of whom provided usable data on imports. Based on official import statistics for sewn cloth headwear, responding firms accounted for 57 percent, by value, and 60 percent, by quantity, of imports from China in 1988. As a result, data in this section regarding sewn cloth headwear are based on official U.S. import statistics for the tariff items under which sewn cloth headwear is classified. Data in this section regarding separate styles of sewn cloth headwear, however, are based on questionnaire data, as the tariff schedules do not classify these items separately. U.S. imports of sewn cloth headwear, as calculated from questionnaire data, are presented in appendix I.

Imports of sewn cloth headwear from China increased sharply, from 2.9 million dozen in 1985 to 6.2 million dozen in 1987, or by 113 percent (table 22). Such imports continued to increase during 1988, by 5 percent compared with those in 1987. Imports of sewn cloth headwear from all sources also increased during 1985-87, peaking at a level of 16.3 million dozen in 1987, but declined in 1988 by less than 1 percent. Unlike imports from China, imports from Taiwan dropped steadily from 1986 to 1988, accounting for a smaller share of imports than they had in 1985. 2/

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1/ Several firms noted that the suspension of liquidation and bond requirement resulting from Commerce's preliminary determination was a factor in their decisions to lessen their dependence on the United States as a primary export market. Respondent testified at the hearing that the United States currently accounts for only one-third of China's volume of exports, with Europe and Australia accounting for the remainder. Transcript, p. 143.

2/ With regard to the distribution of imports from China between cotton and manmade-fiber headwear, based on 1988 official statistics, cotton headwear accounted for 54 percent and manmade-fiber headwear for 46 percent of total headwear imports from China, whereas in 1987, the shares were 45 and 55 percent, respectively. Petitioner's posthearing brief, app. V.

Table 22

Sewn cloth headwear: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
	Quantity (1,000 dozen)			
China.....	2,913	3,552	6,207	6,539
Taiwan.....	4,334	5,248	4,743	4,338
Korea.....	3,194	3,498	3,461	3,534
All other countries <u>1/</u> .....	2,558	2,365	1,888	1,819
Total.....	12,999	14,663	16,298	16,230
	Value (1,000 dollars) <u>2/</u>			
China.....	23,836	25,936	45,049	51,489
Taiwan.....	44,810	52,996	52,978	56,107
Korea.....	36,142	40,287	40,950	49,431
All other countries <u>1/</u> .....	30,850	29,121	26,053	25,963
Total.....	135,638	148,340	165,031	182,990
	Unit value (per dozen)			
China.....	\$8.18	\$7.30	\$7.26	\$7.87
Taiwan.....	10.34	10.10	11.17	12.93
Korea.....	11.32	11.52	11.83	13.99
All other countries <u>1/</u> .....	12.06	12.31	13.80	14.27
Average.....	10.43	10.12	10.13	11.27

1/ Primarily Hong Kong.

2/ C.i.f., duty-paid value.

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

Unit values of imports from China first declined during 1985-87, then rose markedly in 1988 to \$7.87 per dozen, still 4 percent below their 1985 level. The unit values of imports of sewn cloth headwear from all sources declined slightly during 1985-87, then climbed dramatically in 1988. This reflected notable increases in the unit value of imports from all three specified countries, but particularly imports from Korea, whose unit values increased by 18 percent between 1987 and 1988.

Sport and casual hats.--Imports of hats from China generally showed the same trend as imports of hats from all sources during 1985-88, except that imports from China experienced a considerable decline in 1986, to 190,000 dozen, before recovering strongly in 1987 (table 23). The surge in 1987 was lessened somewhat in 1988; overall imports, however, were still 34 percent higher than they had been in 1985. This overall increase occurred primarily because of steady increases in imports from China and, until 1988, Taiwan.

Table 23

Sport and casual hats: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
	Quantity (1,000 dozen)			
China.....	223	190	279	303
Taiwan.....	71	107	132	119
Korea.....	141	156	***	164
All other countries <u>1/</u> .....	22	25	***	27
Total.....	457	478	580	612
	Value (1,000 dollars) <u>2/</u>			
China.....	1,767	1,696	2,531	2,817
Taiwan.....	633	1,289	1,353	1,869
Korea.....	1,756	1,765	***	2,013
All other countries <u>1/</u> .....	220	276	***	255
Total.....	4,376	5,026	5,971	6,954
	Unit value (per dozen)			
China.....	\$7.92	\$8.94	\$9.07	\$9.31
Taiwan.....	8.92	12.01	10.25	15.76
Korea.....	12.45	11.31	***	12.27
All other countries <u>1/</u> .....	10.00	10.86	***	9.50
Average.....	9.58	10.51	10.29	11.36

1/ Primarily Hong Kong.

2/ C.i.f., duty-paid value.

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

Unit values of imports of hats from China climbed steadily throughout the 1985-88 period, increasing by 18 percent from their 1985 level. The unit value of imports from all sources also rose to an equal extent. Declines in unit values of Korean hats were offset by increases in the unit values of hats from China and Taiwan.

Sport and casual caps.--Total imports of caps showed a consistent increase, of 66 percent, during the period of investigation, with the largest rise coming between 1986 and 1987 (table 24). Imports from China mirrored that trend in direction but increased more strongly in 1988, so that 1988 imports were more than triple the 1985 total. Unit values of imports generally increased, except for imports from China, which were much more variable than the overall trend; they dropped by 11 percent in 1986 before moving upward in 1987 and 1988, to just below their 1985 level. In 1988, the spread between the unit value of Chinese cap imports and those from Taiwan and Korea was substantially greater than in 1985.

Table 24

Sport and casual caps: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
<u>Quantity (1,000 dozen)</u>				
China.....	962	1,032	2,589	3,070
Taiwan.....	2,315	2,819	3,261	3,327
Korea.....	1,386	1,432	1,401	1,511
All other countries <u>1/</u> .....	123	106	47	53
Total <u>2/</u> .....	4,785	5,389	7,297	7,961
<u>Value (1,000 dollars) <sup>3/</sup></u>				
China.....	7,763	7,453	19,012	23,934
Taiwan.....	19,778	27,026	30,968	33,763
Korea.....	12,019	12,828	13,398	16,252
All other countries <u>1/</u> .....	1,014	942	508	449
Total <u>2/</u> .....	40,574	48,248	63,886	74,398
<u>Unit value (per dozen)</u>				
China.....	\$8.07	\$7.22	\$7.34	\$7.80
Taiwan.....	8.54	9.59	9.50	10.15
Korea.....	8.67	8.96	9.57	10.76
All other countries <u>1/</u> .....	8.24	8.89	10.81	8.47
Average.....	8.48	8.95	8.76	9.35

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ C.i.f., duty-paid value.

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

Visors.--Visor imports from China, Taiwan, and Korea exhibited varying levels of increase between 1985 and 1987, with substantial declines thereafter (table 25). Imports of visors from China grew slowly in 1986, then almost tripled in 1987. Imports from other sources were less erratic in movement; in 1988, imports from Korea returned to their 1985 level. In general, the increase in overall imports in 1986 can be attributed to a large jump in imports from Taiwan (36 percent), whereas that in 1987 stemmed mostly from increases in imports from China (180 percent). Unit values of imports of visors from all sources increased gradually. Until 1988, this was also true of imports from China; however, unit values of these imports dropped off in that year. Unit values of imports from Taiwan and Korea both showed overall increases during the period of investigation.

Table 25

Visors: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
	Quantity (1,000 dozen)			
China.....	92	104	291	270
Taiwan.....	245	332	332	267
Korea.....	***	139	***	***
All other countries <u>1/</u> .....	***	25	***	***
Total <u>2/</u> .....	464	600	765	652
	Value (1,000 dollars) <u>3/</u>			
China.....	497	569	1,736	1,557
Taiwan.....	1,145	1,844	1,894	1,885
Korea.....	***	913	***	***
All other countries <u>1/</u> .....	***	143	***	***
Total.....	2,409	3,469	4,499	4,326
	Unit value (per dozen)			
China.....	\$5.40	\$5.47	\$5.96	\$5.77
Taiwan.....	4.68	5.55	5.71	7.05
Korea.....	***	6.56	***	***
All other countries <u>1/</u> .....	***	5.81	***	***
Average.....	5.19	5.78	5.88	6.63

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ C.i.f., duty-paid value.

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

Other sewn cloth headwear.--Data on imports of other varieties of sewn cloth headwear are limited and are heavily influenced by data on imports from China (table 26). Nor do the data reveal any particular pattern, other than an abrupt surge in imports in 1987, of 77 percent, followed by an equally abrupt fall in 1988. Unit values generally dropped for both imports from China and for total imports during the period of investigation, with the lowest unit values correlating with the surge in imports in 1987. Imports of other sewn cloth headwear from Korea, as seen in the table, were negligible.

Table 26

Other sewn cloth headwear: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
<u>Quantity (1,000 dozen)</u>				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	2/	2/	2/	2/
All other countries 1/.....	***	***	***	***
Total 3/.....	290	281	498	289
<u>Value (1,000 dollars) 4/</u>				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	5/	5/	5/	5/
All other countries 1/.....	***	***	***	***
Total 3/.....	1,394	1,210	1,935	1,251
<u>Unit value (per dozen)</u>				
China.....	\$ ***	\$ ***	\$ ***	\$ ***
Taiwan.....	***	***	***	***
Korea.....	6/	6/	6/	6/
All other countries 1/.....	***	***	***	***
Average.....	4.81	4.31	3.88	4.33

1/ Primarily Hong Kong.

2/ Less than \* \* \*.

3/ Because of rounding, figures may not add to the totals shown.

4/ C.i.f., duty-paid value.

5/ Less than \* \* \*.

6/ Not applicable.

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

Adults' and children's sewn cloth headwear.--Imports of both adults' and children's sewn cloth headwear, when viewed separately, showed general increases during the period of investigation, again with the most notable increases, over 50 percent in the case of children's sewn cloth headwear, occurring in 1987 (table 27). The trend in imports from China of adults' sewn cloth headwear mirrored that for total imports of such headwear, except for a greater rate of growth in 1986. As for children's sewn cloth headwear, the movement in imports from China during 1985-88 was identical to that for all imports.

Table 27

Sewn cloth headwear: U.S. imports from China, Taiwan, Korea, and all other countries, by categories, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
<b>Sewn cloth headwear for adults:</b>				
China.....	1,252	1,350	3,196	3,520
Taiwan.....	2,449	3,168	3,413	3,340
Korea.....	1,631	1,729	1,679	1,774
All other countries <u>1/</u> .....	163	161	71	71
Total <u>2/</u> .....	5,494	6,409	8,359	8,706
<b>Sewn cloth headwear for children:</b>				
China.....	217	161	343	362
Taiwan.....	233	270	334	369
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total.....	464	457	695	759
	<u>Value (1,000 dollars) <sup>3/</sup></u>			
<b>Sewn cloth headwear for adults:</b>				
China.....	10,172	9,271	22,230	26,986
Taiwan.....	20,054	27,636	31,759	34,337
Korea.....	14,293	15,357	16,076	18,956
All other countries <u>1/</u> .....	1,269	1,268	631	604
Total.....	45,788	53,532	70,696	80,883
<b>Sewn cloth headwear for children:</b>				
China.....	1,369	1,208	2,546	2,979
Taiwan.....	2,080	2,404	2,995	3,777
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total <u>2/</u> .....	3,595	3,848	5,774	7,068
	<u>Unit value (per dozen)</u>			
<b>Sewn cloth headwear for adults:</b>				
China.....	\$8.13	\$6.87	\$6.96	\$7.67
Taiwan.....	8.19	8.72	9.31	10.28
Korea.....	8.76	8.88	9.57	10.68
All other countries <u>1/</u> .....	7.78	7.87	8.84	8.48
Average.....	8.33	8.35	8.46	9.29
<b>Sewn cloth headwear for children:</b>				
China.....	\$6.31	\$7.51	\$7.41	\$8.23
Taiwan.....	8.94	8.89	8.96	10.22
Korea.....	7.29	4.71	9.14	9.80
All other countries <u>1/</u> .....	10.23	10.13	15.48	12.68
Average.....	7.74	8.42	8.30	9.31

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ C.i.f., duty-paid value.

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

Unit values of imports of adults' sewn cloth headwear from all sources inched upward from 1985 to 1987, then moved up sharply in 1988, to a level of \$9.29 per dozen. Unit values of total childrens' sewn cloth headwear imports also increased overall, with the largest increase coming in 1988. Imports from China of adults' sewn cloth headwear generally declined in unit value, whereas imports from China of children's sewn cloth headwear became noticeably more expensive over the period of investigation, with the unit value of 1988 imports rising by 11 percent over the level of the previous year.

Reported imports of wool, felt, fur, and straw headwear are presented in appendix J.

As a percentage of the volume of all imports of sewn cloth headwear, sport and casual caps consistently held the largest share throughout the period of investigation. 1/ With respect to relative unit values, other types of sewn cloth headwear were the least expensive style on a per-dozen basis. Even though their average unit values are quite low, such headwear ranged from very expensive hats for the military to cheap, virtually disposable painters' caps.

#### U.S. market penetration by imports

As noted supra, reported U.S. producers' domestic shipments are believed to constitute in excess of 70 percent, by quantity, of actual 1987 domestic shipments. 2/ In turn, reported imports account for 56 percent of the quantity and 46 percent of the value of total 1987 imports of sewn cloth headwear, according to official import statistics. Because of the differences in these percentages, the staff used official statistics to calculate market penetration ratios for sewn cloth headwear. 3/ The staff used questionnaire data to calculate U.S. market penetration by imports of hats, caps, visors, and other styles of sewn cloth headwear because the tariff schedules do not classify these items separately.

U.S. market penetration by imports (in terms of quantity) of sewn cloth headwear increased from 68 percent in 1985 to 73 percent in 1988 (table 28).

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1/ This can be seen by comparing tables 23 through 26 to table I-1, app. I.

2/ According to estimates by the petitioner, reported 1987 U.S.-produced domestic shipments represent 97 percent of actual 1987 domestic shipments. See petition, app. 28. As those estimates are limited to shipments by firms then known by the petitioner to produce sewn cloth headwear, they are believed to be understated because during the course of the investigation staff subsequently identified numerous sewn cloth headwear producers that are not on that list. Staff also discovered that several firms, identified as sewn cloth headwear producers by the petitioner, did not produce such headwear; on balance, however, staff believes petitioner's totals to be significantly understated.

3/ Because of the use of official statistics, import penetration ratios for sewn cloth headwear are somewhat overstated. Market penetration by imports of sewn cloth headwear, calculated using questionnaire data, is presented in app. K.

Table 28

Sewn cloth headwear: U.S. producers' domestic shipments, imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	6,192	6,279	6,306	6,081
Imports from--				
China.....	2,913	3,552	6,207	6,539
Taiwan.....	4,334	5,248	4,743	4,338
Korea.....	3,194	3,498	3,461	3,534
All other countries 1/.....	2,558	2,365	1,888	1,819
Total.....	12,999	14,663	16,298	16,230
U.S. consumption.....	19,191	20,942	22,604	22,311
	<u>Share of consumption quantity (percent) 2/</u>			
U.S. producers' shipments.....	32.3	30.0	27.9	27.3
Imports from--				
China.....	15.2	17.0	27.5	29.3
Taiwan.....	22.6	25.1	21.0	19.4
Korea.....	16.6	16.7	15.3	15.8
All other countries 1/.....	13.3	11.3	8.4	8.2
Total 3/.....	67.7	70.0	72.1	72.7
	<u>Value (1,000 dollars) 4/</u>			
U.S. producers' shipments.....	162,223	166,303	172,064	183,791
Imports from--				
China.....	23,836	25,936	45,049	51,489
Taiwan.....	44,810	52,996	52,978	56,107
Korea.....	36,142	40,287	40,950	49,431
All other countries 1/.....	30,850	29,121	26,053	25,963
Total.....	135,638	148,340	165,031	182,990
U.S. consumption.....	297,861	314,643	337,095	366,781
	<u>Share of consumption value (percent) 2/</u>			
U.S. producers' shipments.....	54.5	52.9	51.0	50.1
Imports from--				
China.....	8.0	8.2	13.4	14.0
Taiwan.....	15.0	16.8	15.7	15.3
Korea.....	12.1	12.8	12.1	13.5
All other countries 1/.....	10.4	9.3	7.7	7.1
Total 3/.....	45.5	47.1	49.0	49.9

1/ Primarily Hong Kong.

2/ Because of the use of official import statistics, import shares are somewhat overstated and U.S. producers' shares are somewhat understated.

3/ Because of rounding, figures may not add to the totals shown.

4/ Value of U.S. producers' shipments is f.o.b. point-of-shipment; value of imports is c.i.f., duty-paid.

Source: U.S. producers' shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports compiled from official statistics of the U.S. Department of Commerce.

Imports from China also increased their market share throughout the 1985-88 period, nearly doubling it from 15 percent in 1985 to 29 percent in 1988. Overall, Korea and Taiwan generally decreased their shares of the U.S. sewn cloth headwear market during the period of investigation.

For imports from China and as a whole, trends in U.S. market penetration by imports in dollar terms were similar to those in quantity terms. Over the period of investigation, imports from Korea and Taiwan, however, generally showed a steady rise in their market penetration in terms of value, reflecting substantial increases in the unit value of those imports.

Sport and casual hats.--In terms of quantity, U.S.-produced shipments of hats as a share of apparent consumption fluctuated, at between 34 and \* \* \* percent of the market during the period of investigation (table 29). U.S. producer shares were, however, a bit lower in 1988 than in 1985. The share of Chinese imports of hats in apparent U.S. consumption peaked at 36 percent in 1987 before dropping off sharply in 1988.

When viewed in value terms, U.S. producers also lost several percentage points of market share over the 1985-87 period before recouping most of that loss in 1988, ending up with a share of 52 percent. Despite a small surge in market share in 1987, with respect to both quantity and value, imports of hats from China ended up with only a slightly greater share of the market in 1988 than they had possessed in 1985.

Sport and casual caps.--As shown in table 30, imports of caps increased their penetration of the U.S. market, in terms of quantity, from 50 percent in 1985 to 63 percent in 1988. China once again made the strongest gains, with its most marked inroads being made in 1987, when it captured over 18 percent of the market, compared with 9 percent in 1986. Taiwan was still the largest foreign presence, however, with a consistent 27- to 29-percent share of the U.S. market throughout the period of investigation.

Trends in relative market shares, when seen in value terms, were virtually identical to those based on quantities. When viewed in value terms, however, U.S. producers' U.S. market share in caps was higher, as it was for other headwear styles.

Visors.--For visors, relative movements in market shares were different depending on whether viewed in terms of quantity or value (table 31). In terms of quantity, a small shift to U.S. producers occurred during the investigation period, with such producers going from accounting for 23 percent of the market in 1985 to over 27 percent in 1988. By 1988, Taiwanese producers also held nearly a third of the market, with other sources, including China, competing for the remainder. In value terms, however, U.S. producers, after losing a few percentage points of market share at the beginning of the period, virtually recaptured that share by the end of the period, with much of the gain coming at the expense of Taiwan. As with other types of sewn cloth headwear, with respect to visors, China's largest gains came in 1987; in that year, China gained 19 percent of the market in value terms, compared with \* \* \* percent in 1986.

Table 29

Sport and casual hats: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	***	***	334	325
Shipments of imports from--				
China.....	216	265	355	271
Taiwan.....	69	105	129	114
Korea.....	160	162	152	168
All other countries <u>1/</u> .....	23	26	25	27
Total <u>2/</u> .....	468	558	661	580
U.S. consumption.....	***	***	995	905
	<u>Share of consumption quantity (percent)</u>			
U.S. producers' shipments.....	***	***	33.6	35.9
Shipments of imports from--				
China.....	***	***	35.7	29.9
Taiwan.....	***	***	13.0	12.6
Korea.....	***	***	15.3	18.6
All other countries <u>1/</u> .....	***	***	2.5	3.0
Total .....	***	***	66.4	64.1
	<u>Value (1,000 dollars) <sup>3/</sup></u>			
U.S. producers' shipments.....	***	***	8,266	8,569
Shipments of imports from--				
China.....	2,511	2,841	3,803	3,089
Taiwan.....	1,037	1,663	2,108	1,809
Korea.....	3,284	3,077	3,060	2,838
All other countries <u>1/</u> .....	250	292	298	304
Total <u>2/</u> .....	7,082	7,874	9,270	8,039
U.S. consumption.....	***	***	17,536	16,608
	<u>Share of consumption value (percent)</u>			
U.S. producers' shipments.....	***	***	47.1	51.6
Shipments of imports from--				
China.....	***	***	21.7	18.6
Taiwan.....	***	***	12.0	10.9
Korea.....	***	***	17.4	17.1
All other countries <u>1/</u> .....	***	***	1.7	1.8
Total.....	***	***	52.9	48.4

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ F.o.b. point-of-shipment.

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

Table 30

Sport and casual caps: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	4,694	4,715	4,768	4,733
Shipments of imports from--				
China.....	771	869	2,088	2,921
Taiwan.....	2,496	2,864	3,253	3,465
Korea.....	1,336	1,336	1,382	1,475
All other countries <u>1/</u> .....	87	86	27	18
Total <u>2/</u> .....	4,690	5,154	6,750	7,878
U.S. consumption.....	9,384	9,869	11,518	12,611
	<u>Share of consumption quantity (percent)</u>			
U.S. producers' shipments.....	50.0	47.8	41.4	37.5
Shipments of imports from--				
China.....	8.2	8.8	18.1	23.2
Taiwan.....	26.6	29.0	28.2	27.5
Korea.....	14.2	13.5	12.0	11.7
All other countries <u>1/</u> .....	0.9	0.9	0.2	0.1
Total .....	50.0	52.2	58.6	62.5
	<u>Value (1,000 dollars) <sup>3/</sup></u>			
U.S. producers' shipments.....	133,499	136,393	140,453	149,768
Shipments of imports from--				
China.....	7,596	10,787	29,406	38,821
Taiwan.....	33,840	40,456	48,083	51,310
Korea.....	18,574	19,111	20,158	22,347
All other countries <u>1/</u> .....	1,307	1,124	366	291
Total <u>2/</u> .....	61,318	71,479	98,014	112,770
U.S. consumption.....	194,817	207,872	238,437	262,538
	<u>Share of consumption value (percent)</u>			
U.S. producers' shipments.....	68.5	65.6	58.9	57.0
Shipments of imports from--				
China.....	3.9	5.2	12.3	14.8
Taiwan.....	17.4	19.5	20.2	19.5
Korea.....	9.5	9.2	8.5	8.5
All other countries <u>1/</u> .....	0.7	0.5	0.2	0.1
Total .....	31.5	34.4	41.1	43.0

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ F.o.b. point-of-shipment.

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

Table 31

Visors: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	144	***	222	233
Shipments of imports from--				
China.....	85	118	244	250
Taiwan.....	264	329	304	253
Korea.....	116	106	120	103
All other countries <u>1/</u> .....	14	***	6	14
Total .....	478	***	673	619
U.S. consumption.....	622	***	895	852
	<u>Share of consumption quantity (percent)</u>			
U.S. producers' shipments.....	23.2	***	24.8	27.3
Shipments of imports from--				
China.....	13.7	***	27.3	29.3
Taiwan.....	42.4	***	34.0	29.7
Korea.....	18.6	***	13.4	12.1
All other countries <u>1/</u> .....	2.3	***	0.7	1.6
Total .....	76.8	***	75.2	72.7
	<u>Value (1,000 dollars) <u>2/</u></u>			
U.S. producers' shipments.....	5,200	***	6,214	6,992
Shipments of imports from--				
China.....	819	1,165	2,319	2,381
Taiwan.....	2,299	3,041	2,862	2,557
Korea.....	960	834	933	871
All other countries <u>1/</u> .....	115	***	61	128
Total .....	4,193	***	6,175	5,937
U.S. consumption.....	9,393	***	12,389	12,929
	<u>Share of consumption value (percent)</u>			
U.S. producers' shipments.....	55.4	***	50.2	54.1
Shipments of imports from--				
China.....	8.7	***	18.7	18.4
Taiwan.....	24.5	***	23.1	19.8
Korea.....	10.2	***	7.5	6.7
All other countries <u>1/</u> .....	1.2	***	0.5	1.0
Total .....	44.6	***	49.8	45.9

1/ Primarily Hong Kong.

2/ F.o.b. point-of-shipment.

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

Other sewn cloth headwear.--Unlike the U.S. markets for hats, caps, and visors, U.S. producers thoroughly dominated the market for other styles of sewn cloth headwear throughout the period of investigation (table 32). In value terms, U.S. producers increased their share of the market, peaking at nearly 90 percent in 1988. China, the largest foreign supplier of these headwear styles, saw its share of the market decline steadily in value terms during 1985-88. The market share of imports from other sources (primarily Taiwan) also tended to fall.

Adults' and children's sewn cloth headwear.--Although, as noted *infra*, U.S. producers' shipments of children's sewn cloth headwear are very limited, U.S. firms did manage to increase their market share over the period of investigation, topping out, in value terms, at \* \* \* percent in 1988 (table 33). Even so, importers' market share of this product exceeded 80 percent, by any measure, throughout 1985-88. Relative producer and importer market shares of adults' sewn cloth headwear, and movements in those shares, were similar in magnitude and direction to those for all categories of sewn cloth headwear when viewed in their entirety.

Table 32

Other sewn cloth headwear: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	***	***	982	790
Shipments of imports from--				
China.....	248	174	229	221
Taiwan.....	55	40	38	39
Korea.....	2/	2/	2/	2/
All other countries 1/.....	14	22	5	3
Total.....	317	236	272	263
U.S. consumption.....	***	***	1,254	1,053
	<u>Share of consumption quantity (percent)</u>			
U.S. producers' shipments.....	***	***	78.3	75.0
Shipments of imports from--				
China.....	***	***	18.3	21.0
Taiwan.....	***	***	3.0	3.7
Korea.....	3/	3/	3/	3/
All other countries 1/.....	***	***	0.4	0.3
Total.....	***	***	21.7	25.0
	<u>Value (1,000 dollars) 4/</u>			
U.S. producers' shipments.....	***	***	17,132	18,462
Shipments of imports from--				
China.....	1,713	1,456	1,538	1,545
Taiwan.....	690	449	468	518
Korea.....	5/	5/	5/	5/
All other countries 1/.....	96	155	40	27
Total.....	2,499	2,060	2,046	2,090
U.S. consumption.....	***	***	19,178	20,552
	<u>Share of consumption value (percent)</u>			
U.S. producers' shipments.....	***	***	89.3	89.8
Shipments of imports from--				
China.....	***	***	8.0	7.5
Taiwan.....	***	***	2.4	2.5
Korea.....	3/	3/	3/	3/
All other countries 1/.....	***	***	0.2	0.1
Total.....	***	***	10.7	10.2

1/ Primarily Hong Kong.

2/ Less than \* \* \*.

3/ Less than \* \* \*.

4/ F.o.b. point-of-shipment.

5/ Less than \* \* \*.

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

Table 33

Sewn cloth headwear: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, by categories, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
<b>Sewn cloth headwear for adults:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	11,662	12,221	13,989	14,737
<b>Sewn cloth headwear for children:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	421	561	645	653
	<u>Share of consumption quantity (percent)</u>			
<b>Sewn cloth headwear for adults:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total <u>2/</u> .....	***	***	***	***
<b>Sewn cloth headwear for children:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries <u>1/</u> .....	***	***	***	***
Total <u>2/</u> .....	***	***	***	***

Footnotes presented at end of table.

Table 33--Continued

Sewn cloth headwear: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, by categories, 1985-88

Source	1985	1986	1987	1988
	Value (1,000 dollars) 2/			
<b>Sewn cloth headwear for adults:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries 1/.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	230,860	244,236	276,955	301,882
<b>Sewn cloth headwear for children:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries 1/.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	6,437	8,381	10,689	11,683
	Share of consumption value (percent)			
<b>Sewn cloth headwear for adults:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries 1/.....	***	***	***	***
Total 2/.....	***	***	***	***
<b>Sewn cloth headwear for children:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
Taiwan.....	***	***	***	***
Korea.....	***	***	***	***
All other countries 1/.....	***	***	***	***
Total 2/.....	***	***	***	***

1/ Primarily Hong Kong.

2/ Because of rounding, figures may not add to the totals shown.

3/ F.o.b. point-of-shipment.

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

Information on the market penetration of imports of wool, fur, felt, and straw headwear is presented in appendix L.

### Prices

Market characteristics.--The prices of different sewn cloth headwear products vary according to differences in the style of the headwear, in the type and amount of cloth in the headwear, and in the degree of decoration or embroidery. The cost of decoration at times can equal or exceed the cost of the undecorated hat or cap. Thus, the prices of caps can differ substantially on the basis of complexity of the decoration or embroidery, including the number of stitches, the variety of colors, the type of imprinting, and the volume ordered. Decorations have become more intricate; use of multiple colors more common; emblem imprints applied by puff printing more attractive; and caps themselves more decorative in material and color, all with an impact on price and on perceived quality.

Questionnaire responses to the question of comparative quality of domestic caps versus caps imported from China reflect mixed views. Six importers stated that the domestic caps and visors cost more but that they are of much better quality. Five other importers said that the Chinese caps were viewed by their customers as better quality than the domestic product. Fourteen other importers responded that differences in quality between the domestic and imported caps were not a significant factor.

Eight domestic producers stated that differences in quality between domestic and imported Chinese headwear were a significant factor in their sales. Six noted better quality material and workmanship in the domestic product. Five listed the lower price of the Chinese caps as a significant advantage for the importers. Five said quality differences were not a significant factor.

Most U.S. producers reported selling their headwear from price lists, whereas the majority of importers reported that they did not use price lists. Those firms selling from price lists indicated that the list prices are generally adhered to. Both U.S. producers and importers typically quote prices f.o.b. their U.S. plants or warehouses and offer similar payment terms, net 30 days or 2 percent 10 days, net 30.

Questionnaire price data.--The Commission requested net U.S. selling prices and quantities for two mesh adult baseball caps, one undecorated and one decorated, and two woven, full-cloth adult baseball caps, one undecorated and one decorated. U.S. producers and importers were requested to report the f.o.b. price data separately for sales of these products to premium account end users, ad specialty distributors, and to retailers. The price data were requested for each firm's largest sale, by quarter, during the period January 1986-December 1988. In addition, the quantity and value of total sales during each quarter was requested. The four products for which the price data were requested are identified below.

PRODUCT 1: ADULTS' MESH BASEBALL CAP, PLAIN-- Polyester, knit front, baseball-type cap, undecorated, foam-backed with sides and back of polyester or nylon mesh, or of foam-backed polyester knit of the same material as the front.

PRODUCT 2: ADULTS' MESH BASEBALL CAP, DECORATED OR EMBROIDERED-- Polyester, knit front, baseball-type cap, embroidered directly on the patch or cap, foam-backed with sides and back of polyester or nylon mesh, or of foam-backed polyester knit of the same material as the front.

PRODUCT 3: ADULTS' TWILL OR CORDUROY CAP, PLAIN--Woven twill or corduroy fabric baseball-type cap, undecorated.

PRODUCT 4: ADULTS' TWILL OR CORDUROY CAP, DECORATED OR EMBROIDERED--Woven twill or corduroy fabric baseball-type cap, embroidered directly on the patch or cap.

Thirteen U.S. producers of sewn cloth headwear and 26 U.S. importers of the subject foreign products reported the requested price data but not for each product, class of customer, or period. The reported sales quantities for the four specified headwear products accounted for 69.9 percent of total reported U.S. domestic shipments of sport and casual caps (based on questionnaire responses) of the subject headwear sold during January 1986-December 1988 and 8.8 percent of total U.S. shipments of these imported products from China during this period (based on questionnaire responses).

Price trends.--Price trends for the domestic and subject imported sewn cloth headwear are based on indexes of the reported quarterly weighted-average net f.o.b. selling prices of **undecorated** mesh baseball caps (product 1) and **undecorated** cloth twill or corduroy baseball caps (product 3) sold to premium-account end users, to ad specialty distributors, and to retailers during January 1986-December 1988. The net weighted-average selling prices were based on total sales values and volumes of the specified products to each type of purchaser. Indexes of these prices are shown in table 34 for U.S.-produced caps and in table 35 for imported Chinese caps. The wide variety in types of decorations on baseball caps and the associated differences in costs to the purchaser prevent any meaningful analysis of the trend in the prices of **decorated** mesh and cloth baseball caps (products 2 and 4). Weighted-average prices of decorated baseball caps based on questionnaire responses reveal no discernible trends but in many quarters do reflect sharp, random movements in average prices, which appear to reflect the price effect of differences in decoration between various caps.

United States.--Weighted-average prices of the subject domestic caps sold to ad specialty distributors reflect a downturn in price level followed by an upturn in 1988. Prices to retailers reveal an erratic pattern. Price data on sales of Product 1 caps to premium account end users were received for only two widely separated quarters; no trend analysis is possible (table 34). Indexes of the weighted-average net f.o.b selling prices of domestic undecorated mesh baseball caps (product 1) to ad specialty

Table 34

Sewn cloth headwear: Indexes of weighted-average net U.S. f.o.b. selling prices of sewn cloth headwear produced in the **United States**, by types of customer, by specified products, and by quarters, January 1986-December 1988 1/

Period	Sales to premium account end users		Sales to ad specialty distributors		Sales to retailers	
	Prod. 1	Prod. 3	Prod. 1	Prod. 3	Prod. 1	Prod. 3
1986:						
Jan.-Mar....	<u>2/</u>	<u>2/</u>	100	100	100	100
Apr.-June...	<u>2/</u>	<u>2/</u>	100	101	101	98
July-Sept...	<u>2/</u>	<u>2/</u>	99	94	100	106
Oct.-Dec....	<u>2/</u>	<u>2/</u>	96	94	100	95
1987:						
Jan.-Mar....	<u>2/</u>	<u>2/</u>	97	96	126	101
Apr.-June...	100	<u>2/</u>	98	100	125	98
July-Sept...	<u>2/</u>	<u>2/</u>	97	90	124	106
Oct.-Dec....	<u>2/</u>	<u>2/</u>	98	81	126	95
1988:						
Jan.-Mar....	<u>2/</u>	<u>2/</u>	106	95	126	100
Apr.-June...	99	<u>2/</u>	105	101	125	97
July-Sept...	<u>2/</u>	<u>2/</u>	105	92	116	104
Oct.-Dec....	<u>2/</u>	<u>2/</u>	105	101	140	95

1/ The price indexes were based on total sales of these products to premium account end users, to distributors, and to retailers.

2/ No price data were reported.

Note. -- January-March 1986=100, unless otherwise specified.

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

distributors reflect a 4-percent downturn in 1986; a rather flat price level in 1987, 2 or 3 points below the base-period price; and then an increase of 9 percent in January-March 1988 that basically held during the balance of the year at 5 points above the base-period level. The price trend for domestic twill or corduroy baseball caps (product 3) also reflects a downturn in 1986 and an upturn during January-June 1987, but then a sharp decline to a level 19 percent below the base period in October-December 1987. The price level jumped to an index of 95 in January-March 1988 and was erratic during the balance of the year but ended the subject period a point above the base-period price level.

Weighted-average domestic prices of mesh baseball caps sold to retailers reveal a flat trend in 1986, then a sharp upturn to a level about 25 percent above the base period through April-June 1988. The price level fell by 7 percent in July-September but jumped to 40 percent above the base-period price in October-December 1988. The quarterly prices of twill or corduroy baseball caps reflect a mixed pattern, moving up, then down, roughly 5 to 6 points above or below the base-period price in each year, ending the subject time period 5 percent below the level in January-March 1986.

China.--Prices of imported Chinese caps (product 1) sold to premium-account end users show an uptrend, but prices to ad specialty distributors and retailers show an irregular downtrend. Indexes of product 3-type caps reflect an upturn punctuated by marked price drops. Indexes of the weighted-average net f.o.b. selling prices of imported Chinese mesh baseball caps (product 1) to premium-account end users show a flat trend in 1986, a 10-percent decline in January-June 1987, and a sharp upturn in July-September of that year to 5 points above the base-period price, a level that held through 1988 (table 35). No data were received on prices of undecorated twill or corduroy baseball caps (product 3) imported from China and sold to premium account end users. Importers stated that such purchasers do not buy undecorated caps.

Indexes of prices of Chinese mesh baseball caps (product 1) sold to ad specialty distributors reflect a 4-percent downturn in 1986, a recovery and upturn in 1987 that peaked in July-September at a level 16 percent above the base period, and then a downturn in October-December that continued in 1988 to a period low in April-September, 25 percent below the period high. In October-December 1988, the price level jumped to an index of 99. The price indexes of undecorated Chinese twill or corduroy baseball caps (product 3) sold to ad specialty distributors reveal a flat trend through September 1986, then a sharp downturn to a period low of 84. The price index turned up 29 percent during the period January-June 1987 to a 1987 high of 108 before sliding to 86 in October-December. The price level recovered in January-March 1988 and moved to a period high of 118 in April-June, before the trend reversed to end the subject period 7 percent below the base-period price level.

Table 35

Sewn cloth headwear: Indexes of weighted-average net U.S. f.o.b. selling prices of sewn cloth headwear imported from China, by types of customer, by specified products, and by quarters, January 1986-December 1988 <sup>1/</sup>

Period	Sales to premium account end users		Sales to ad specialty distributors		Sales to retailers	
	Prod.	Prod.	Prod.	Prod.	Prod.	Prod.
	1	3	1	3	1	3
1986:						
Jan.-Mar....	100	2/	100	100	100	100
Apr.-June...	100	2/	102	100	111	162
July-Sept...	100	2/	98	101	94	2/
Oct.-Dec....	100	2/	96	84	100	74
1987:						
Jan.-Mar....	90	2/	104	96	92	46
Apr.-June...	90	2/	102	108	88	161
July-Sept...	105	2/	116	108	89	154
Oct.-Dec....	105	2/	102	86	90	117
1988:						
Jan.-Mar....	105	2/	96	107	93	132
Apr.-June...	105	2/	87	118	88	54
July-Sept...	105	2/	88	114	86	125
Oct.-Dec....	105	2/	99	93	98	132

1/ The price indexes were based on total sales of these products to premium account end users, to distributors, and to retailers.

2/ No price data were reported.

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

Note: January-March 1986=100, unless otherwise specified.

Indexes of weighted-average prices of undecorated mesh baseball caps imported from China and sold to retailers reflect a mixed pattern in 1986, then a 12-point downturn in the period January-June 1987. Prices edged upward through January-March 1988 to an index of 93, then fell to a period low of 86, but returned to within 2 points of the base-period price level at the end of the subject time period. Indexes of undecorated twill or corduroy Chinese baseball caps sold to retailers reveal an erratic pattern of up-and-down price levels that range from more than 50 points below the base period to more than 60 points above the initial index. Except for the period April-June, the price indexes in 1988 were roughly 30 percent above the base-period level.

Price comparisons.--Price comparisons between U.S.-produced and subject imported sewn cloth headwear products are based on the quarterly weighted-average net f.o.b. selling prices to premium account end users, ad specialty distributors, and to retailers during January 1986-December 1988. The price data were based on net f.o.b. selling prices of the largest sale to each class of customer, weighted by the total quantities of all sales of each representative product in each quarter in which price data were reported. Tables 36-46 show the weighted-average quarterly selling prices of the four representative domestic and imported Chinese baseball caps, by types of customer, the quantity sold, and the margins of underselling or overselling by the imported caps from China.

Product 1, undecorated mesh baseball caps.--Based on questionnaire responses of U.S. producers and importers, the reported net U.S. f.o.b. selling price data resulted in two quarterly price comparisons between the domestic and imported product 1-type baseball caps sold to **premium account end users** (table 36). Both sales were relatively small quantities. Domestic producers noted that such end users generally purchased decorated rather than undecorated baseball caps. Both comparisons showed that the imported Chinese caps were priced below the domestic caps. The Chinese caps undersold the domestic caps by margins of \$14.05 and \$15.77 per dozen, or by 59 and 65 percent.

Quarterly weighted-average prices of domestic and imported cap product 1 sold to **ad specialty distributors** provided 12 comparisons. Each comparison showed that the imported Chinese cap was priced less than the domestic cap (table 37). The margins of underselling by the imported product ranged from \$4.12 to \$8.15 per dozen, or 27 to 49 percent below the domestic prices.

Questionnaire responses provided the basis for quarterly weighted-average prices that enabled 12 comparisons of domestic and imported cap product 1 sold to **retailers**. All 12 price comparisons indicated that the imported Chinese caps were priced below the domestic caps (table 38). The imported product undersold the domestic product by margins that ranged from \$7.21 to \$16.84 per dozen, or 34 to 58 percent.

Product 2, decorated mesh baseball caps.--Based on questionnaire responses of U.S. producers and importers, the reported net U.S. f.o.b. selling price data resulted in 12 comparisons between the domestic and imported product 2-type baseball caps sold to **premium account end users**. Each comparison shows the imported Chinese caps priced below the domestic caps (table 39). The margins of underselling ranged from \$2.61 to \$13.57 per dozen, or from 13 to 52 percent.

Questionnaire responses provided the basis for comparisons of weighted-average prices of product 2-type caps sold to **ad specialty distributors** in each of the 12 quarters of the subject time period. All of these comparisons reflect underselling by the imported product (table 40). The Chinese caps were priced below the domestic product by margins that ranged from \$4.63 to \$8.90 per dozen, or 22 to 40 percent.

Table 36

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 1 produced in the United States and imported from China and sold to premium account end users, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	3/	3/	9.50	1,000	3/	3/
Apr.-June.....	3/	3/	9.50	1,500	3/	3/
July-Sept.....	3/	3/	9.50	2,500	3/	3/
Oct.-Dec.....	3/	3/	9.50	1,500	3/	3/
1987:						
Jan.-Mar.....	3/	3/	8.52	76,000	3/	3/
Apr.-June.....	\$24.31	342	8.54	77,000	\$15.77	65
July-Sept.....	3/	3/	10.00	3,500	3/	3/
Oct.-Dec.....	3/	3/	10.00	1,500	3/	3/
1988:						
Jan.-Mar.....	3/	3/	10.00	2,000	3/	3/
Apr.-June.....	24.05	280	10.00	2,500	14.05	59
July-Sept.....	3/	3/	10.00	3,500	3/	3/
Oct.-Dec.....	3/	3/	10.00	2,000	3/	3/

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 1 sold to premium-account end users.

3/ No price data were reported.

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

Table 37

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 1 produced in the United States and imported from China and sold to ad specialty distributors, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	\$15.85	25,071	\$9.71	50,312	\$6.15	39
Apr.-June.....	15.88	24,892	9.88	44,429	6.00	38
July-Sept.....	15.74	25,398	9.50	66,774	6.24	40
Oct.-Dec.....	15.26	26,533	9.29	45,600	5.96	39
1987:						
Jan.-Mar.....	15.42	34,328	10.12	57,476	5.30	34
Apr.-June.....	15.51	33,771	9.87	83,952	5.64	36
July-Sept.....	15.35	36,120	11.23	39,838	4.12	27
Oct.-Dec.....	15.56	30,978	9.93	46,260	5.63	36
1988:						
Jan.-Mar.....	16.77	20,438	9.36	85,784	7.41	44
Apr.-June.....	16.60	22,110	8.45	138,317	8.15	49
July-Sept.....	16.70	23,109	8.58	132,043	8.12	49
Oct.-Dec.....	16.60	23,135	9.58	61,567	7.02	42

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 1 sold to ad specialty distributors.

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

Table 38

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 1 produced in the United States and imported from China and sold to retailers, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity		
	Per dozen	Dozens	Per dozen	Dozens	Per dozen	Percent
1986:						
Jan.-Mar.....	\$20.80	2,818	\$12.48	270	\$8.32	40
Apr.-June.....	21.08	1,845	13.87	140	7.21	34
July-Sept.....	20.80	3,054	11.72	286	9.08	44
Oct.-Dec.....	20.80	1,309	12.47	208	8.33	40
1987:						
Jan.-Mar.....	26.14	2,366	11.42	364	14.72	56
Apr.-June.....	26.05	1,622	10.97	300	15.09	58
July-Sept.....	25.78	2,738	11.14	290	14.63	57
Oct.-Dec.....	26.15	1,123	11.23	194	14.92	57
1988:						
Jan.-Mar.....	26.14	1,713	11.62	250	14.52	56
Apr.-June.....	25.95	1,199	10.94	329	15.01	58
July-Sept.....	24.18	2,230	10.75	480	13.43	56
Oct.-Dec.....	29.05	807	12.21	589	16.84	58

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 1 sold to retailers.

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

Table 39

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 2 produced in the United States and imported from China and sold to premium account end users, and margins of underselling, <sup>1/</sup> by quarters, January 1986-December 1988 <sup>2/</sup>

Period	United States		China		Margins of underselling	
	Price Per dozen	Quantity Dozens	Price Per dozen	Quantity Dozens	Per dozen	Percent
1986:						
Jan.-Mar.....	\$24.28	113,772	\$11.95	2,000	\$12.33	51
Apr.-June.....	24.26	196,774	15.55	3,000	8.71	36
July-Sept.....	24.23	143,875	11.56	4,224	12.68	52
Oct.-Dec.....	24.35	60,174	11.87	2,542	12.48	51
1987:						
Jan.-Mar.....	25.32	119,389	12.71	2,959	12.60	50
Apr.-June.....	25.89	219,809	12.32	11,151	13.57	52
July-Sept.....	21.18	156,372	12.45	6,760	8.73	41
Oct.-Dec.....	19.57	86,086	16.96	2,500	2.61	13
1988:						
Jan.-Mar.....	22.87	155,710	13.33	3,000	9.54	42
Apr.-June.....	26.14	125,916	13.30	5,246	12.84	49
July-Sept.....	23.29	166,013	13.47	5,685	9.82	42
Oct.-Dec.....	24.15	136,141	14.13	3,000	10.01	42

<sup>1/</sup> Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

<sup>2/</sup> The selling prices are weighted-average prices based on total sales of product 2 sold to premium account end users.

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

Table 40

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 2 produced in the **United States** and imported from **China** and sold to ad specialty distributors, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	\$21.84	44,131	\$14.44	1,728	\$7.40	34
Apr.-June.....	21.58	52,046	16.26	3,896	5.32	25
July-Sept.....	21.64	48,730	14.98	2,244	6.66	31
Oct.-Dec.....	22.84	41,834	16.12	2,198	6.72	29
1987:						
Jan.-Mar.....	22.11	74,722	13.21	1,408	8.90	40
Apr.-June.....	21.62	119,552	14.84	7,552	6.78	31
July-Sept.....	21.44	93,254	13.26	1,486	8.18	38
Oct.-Dec.....	21.12	72,609	14.32	5,446	6.80	32
1988:						
Jan.-Mar.....	21.47	87,800	16.84	3,558	4.63	22
Apr.-June.....	21.48	101,517	14.90	9,612	6.58	31
July-Sept.....	22.82	100,065	15.02	1,214	7.80	34
Oct.-Dec.....	22.39	72,137	14.20	4,342	8.19	37

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 2 sold to ad specialty distributors.

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

Weighted-average price data based on questionnaire responses provided 11 quarterly comparisons of prices of domestic and imported product 2-type caps sold to retailers. The prices of the imported Chinese caps were below the domestic cap prices in every comparison (table 41). Margins of underselling ranged from \$6.32 to \$15.16 per dozen, or 24 to 62 percent.

Product 3, undecorated twill or corduroy baseball caps.--No data were received from domestic producers or importers on prices of this type of baseball cap sold to **premium account end users**. Both producers and importers affirm that almost without exception such purchasers buy only decorated twill or corduroy caps.

Questionnaire data provided the basis for 12 quarterly weighted-average price comparisons of sales of product 3-type baseball caps to **ad specialty distributors**. In each instance, the imported Chinese caps were priced below the domestic caps (table 42). The margins of underselling ranged from \$7.39 to \$11.88 per dozen, or 35 to 51 percent.

Table 41

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 2<sup>1</sup> produced in the United States and imported from China and sold to retailers, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	\$24.50	1,325	\$15.35	2,960	\$9.15	37
Apr.-June.....	24.50	884	14.52	2,008	9.98	41
July-Sept.....	24.50	1,546	9.34	516	15.16	62
Oct.-Dec.....	25.00	663	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
1987:						
Jan.-Mar.....	25.00	1,202	10.96	9,500	14.04	56
Apr.-June.....	27.06	893	15.27	3,254	11.79	44
July-Sept.....	25.64	1,492	15.71	1,242	9.93	39
Oct.-Dec.....	26.94	617	12.74	220	14.20	53
1988:						
Jan.-Mar.....	26.76	1,207	16.87	2,116	9.89	37
Apr.-June.....	27.49	870	19.31	5,084	8.18	30
July-Sept.....	26.86	1,419	20.54	3,874	6.32	24
Oct.-Dec.....	26.70	597	15.32	1,883	11.38	43

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 2 sold to retailers.

3/ No price data were reported.

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

Table 42

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 3 produced in the **United States** and imported from **China** and sold to ad specialty distributors, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	\$22.76	5,314	\$12.00	600	\$10.76	47
Apr.-June.....	22.97	5,399	12.00	600	10.97	48
July-Sept.....	21.47	4,871	12.08	606	9.40	44
Oct.-Dec.....	21.50	4,542	10.02	1,108	11.49	53
1987:						
Jan.-Mar.....	21.78	14,625	11.56	1,800	10.22	47
Apr.-June.....	22.74	12,620	12.95	1,306	9.79	43
July-Sept.....	20.55	20,470	12.96	1,308	7.59	37
Oct.-Dec.....	18.47	28,933	10.30	2,806	8.16	44
1988:						
Jan.-Mar.....	21.64	11,614	12.85	3,806	8.79	41
Apr.-June.....	23.05	9,083	14.12	2,500	8.93	39
July-Sept.....	21.03	10,783	13.64	2,200	7.39	35
Oct.-Dec.....	23.09	6,613	11.21	4,200	11.88	51

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 3 sold to ad specialty distributors.

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

Weighted-average prices in 11 quarters provided comparisons of sales of product 3-type baseball caps to retailers. Seven of the comparisons revealed that the imported Chinese cap prices were below those of the domestic products (table 43). The imported caps undersold the domestic caps by margins that ranged from \$0.60 to \$12.89 per dozen, or from 3 to 66 percent. In four comparisons, the imported Chinese caps were priced above the domestic caps by margins that ranged from \$0.32 to \$4.04 per dozen or from 2 to 22 percent.

Table 43

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 3 produced in the United States and imported from China and sold to retailers, and margins of under/(over)selling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of	
	Price	Quantity	Price	Quantity	under/(over)selling	
	Per dozen	Dozens	Per dozen	Dozens	Per dozen	Percent
1986:						
Jan.-Mar.....	\$19.20	6,559	\$14.04	12	\$5.16	27
Apr.-June.....	18.73	5,804	22.77	1,206	(4.04)	(22)
July-Sept.....	20.40	6,722	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Oct.-Dec.....	18.18	4,805	10.38	4,790	7.80	43
1987:						
Jan.-Mar.....	19.41	5,908	6.52	1,998	12.89	66
Apr.-June.....	18.90	5,267	22.59	8,772	(3.69)	(20)
July-Sept.....	20.30	5,835	21.58	3,429	(1.29)	(6)
Oct.-Dec.....	18.19	4,482	16.48	3,344	1.72	9
1988:						
Jan.-Mar.....	19.20	7,469	18.60	8	0.60	3
Apr.-June.....	18.70	6,752	7.57	1,008	11.13	60
July-Sept.....	19.96	7,176	17.62	744	2.33	12
Oct.-Dec.....	18.28	5,713	18.60	6	(0.32)	(2)

1/ Any figures in parenthesis indicate that the price of the domestic product was less than the price of the imported Chinese product. Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 3 sold to retailers.

3/ No price data were reported.

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

Product 4. decorated twill or corduroy baseball caps.--

Based on questionnaire responses of U.S. producers and importers, the reported net U.S. f.o.b. selling price data resulted in nine quarterly price comparisons between the domestic and imported product 4-type baseball cap sold to premium-account end users. The imported Chinese caps were priced below the domestic products in all nine comparisons (table 44). The margins of underselling ranged from \$5.14 to \$14.97 per dozen, or from 22 to 52 percent.

Weighted-average price data based on questionnaire responses enable nine quarterly comparisons of prices of product 4-type caps sold by domestic producers and importers to ad specialty distributors. In four comparisons, the imported Chinese caps were priced below the domestic product (table 45). Margins of underselling ranged from \$0.58 to \$9.10 per dozen, or from 2 to 37 percent. Five comparisons revealed that the imported prices were above those of the domestic caps by margins that ranged from \$0.12 to \$8.80 per dozen, or from 1 to 44 percent.

Table 44

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 4 produced in the **United States** and imported from **China** and sold to premium-account end users, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity	Per dozen	Percent
	Per dozen	Dozens	Per dozen	Dozens		
1986:						
Jan.-Mar.....	\$24.79	417,503	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Apr.-June.....	25.67	309,782	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
July-Sept.....	25.26	332,029	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Oct.-Dec.....	25.24	366,619	\$13.50	8,333	\$11.74	47
1987:						
Jan.-Mar.....	28.63	434,458	13.66	4,562	14.97	52
Apr.-June.....	25.78	396,747	15.16	40,869	10.62	41
July-Sept.....	25.13	330,293	14.50	6,447	10.63	42
Oct.-Dec.....	24.49	344,253	14.86	5,032	9.63	39
1988:						
Jan.-Mar.....	25.13	414,811	15.02	20,048	10.11	40
Apr.-June.....	25.06	377,423	16.64	35,884	8.42	34
July-Sept.....	24.80	327,784	15.65	1,333	9.15	37
Oct.-Dec.....	23.90	348,472	18.76	4,132	5.14	22

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 4 sold to premium account end users.

3/ No price data were reported.

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

Table 45

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 4 produced in the **United States** and imported from **China** and sold to ad specialty distributors, and margins of under/(over)selling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of	
	Price	Quantity	Price	Quantity	under/(over)selling	
	Per dozen	Dozens	Per dozen	Dozens	Per dozen	Percent
1986:						
Jan.-Mar.....	\$21.05	2,287	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Apr.-June.....	20.18	3,468	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
July-Sept.....	20.28	3,904	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Oct.-Dec.....	25.27	14,836	\$16.20	800	\$9.07	36
1987:						
Jan.-Mar.....	24.81	11,474	15.71	3,403	9.10	37
Apr.-June.....	27.65	11,035	27.07	1,486	0.58	2
July-Sept.....	21.53	6,198	20.82	544	0.70	3
Oct.-Dec.....	22.75	5,403	27.01	1,686	(4.26)	(19)
1988:						
Jan.-Mar.....	24.69	11,820	24.81	1,325	(0.12)	(1)
Apr.-June.....	21.90	7,544	25.16	744	(3.26)	(15)
July-Sept.....	20.04	17,047	28.84	1,614	(8.80)	(44)
Oct.-Dec.....	24.08	5,570	27.27	732	(3.18)	(13)

1/ Any figures in parenthesis indicate that the price of the domestic product was less than the price of the imported Chinese product. Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 4 sold to ad specialty distributors.

3/ No price data were reported.

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

Based on questionnaire data received from domestic producers and importers, weighted-average price comparisons were possible for sales of product 4-type caps to retailers in 10 quarters. The caps imported from China were priced below the domestic caps in all 10 quarters (table 46). The margins of underselling ranged from \$6.22 to \$20.67 per dozen, or from 19 to 49 percent.

Table 46

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 4 produced in the United States and imported from China and sold to retailers, and margins of underselling, 1/ by quarters, January 1986-December 1988 2/

Period	United States		China		Margins of underselling	
	Price	Quantity	Price	Quantity		
	Per dozen	Dozens	Per dozen	Dozens	Per dozen	Percent
1986:						
Jan.-Mar.....	\$33.56	2,213	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
Apr.-June.....	32.74	4,066	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>
July-Sept.....	38.29	1,700	\$21.60	700	\$16.69	44
Oct.-Dec.....	42.27	1,201	21.60	700	20.67	49
1987:						
Jan.-Mar.....	33.80	2,144	26.40	48	7.40	22
Apr.-June.....	32.62	3,601	26.40	300	6.22	19
July-Sept.....	35.44	1,780	23.27	894	12.17	34
Oct.-Dec.....	41.89	1,421	22.40	700	19.49	47
1988:						
Jan.-Mar.....	35.00	2,702	27.60	48	7.40	21
Apr.-June.....	34.89	4,507	27.60	128	7.29	21
July-Sept.....	37.94	2,709	24.18	736	13.76	36
Oct.-Dec.....	41.43	1,869	24.06	712	17.37	42

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios of the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 4 sold to retailers.

3/ No price data were reported.

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

Purchase prices.--The Commission sent questionnaires to more than 70 purchasers of sewn cloth headwear. Thirty-seven purchasers responded. Six stated they did not purchase sewn cloth headwear. Thirty-one purchasers responded with useful information, but only 24 provided useful data on purchase prices of adult baseball caps. 1/ Two respondents purchased only childrens' caps from China. One firm provided data on purchase prices of caps imported from Taiwan and Korea by domestic producers. Four firms responded to qualitative questions but did not provide price data.

Price data received from the respondent purchasers provided the basis for calculating quarterly weighted-average prices for domestic baseball caps and for competing caps imported from China. The weighted-average prices enabled

1/ Purchases of the representative domestic baseball cap products 1 through 4 by these 24 respondent firms totaled 88,644 dozen in 1988, or 2 percent of total shipments of sport and casual caps by domestic producers in that same year, on the basis of questionnaire responses. Purchases of the representative baseball caps imported from China by the respondent purchasers totaled 51,464 dozen in 1988 or 0.7 percent of total shipments of imported sport and casual caps from China on the basis of questionnaire responses from importers.

28 quarterly purchase price comparisons between domestic and imported Chinese caps, by class of purchaser. Purchases of mesh baseball caps, plain and decorated, by premium-account end users, distributors, and retailers, account for 22 of the quarterly price comparisons. These purchase price data span the subject time period but are concentrated in number in 1988. Table 47 presents the aggregate results of these comparisons.

Underselling characterizes 27 of the 28 comparisons of weighted-average domestic cap prices and those of the imported product from China. In the single price comparison that shows the import price above that of the domestic product, the weighted-average price of the imported twill baseball cap, decorated, was \$2.76 per dozen, or 8.3 percent higher than the domestic price. <sup>1/</sup> The remaining 27 comparisons of purchase prices reflect margins of underselling that ranged from \$4.81 to \$27.60 per dozen, or 31 to 71 percent. By category of purchaser, six quarterly price comparisons of baseball cap purchases by premium-account end users reflect margins of underselling by the imported caps from China of \$7.40 to \$20.48 per dozen, or from 21 to 65 percent. Thirteen quarterly comparisons of purchase prices paid by ad specialty distributors for domestic and imported Chinese baseball caps all showed underselling. The margins ranged from \$4.81 to \$14.72 per dozen, or 31 to 46 percent. Data from retailers enabled eight quarterly price comparisons, all of which reflected underselling. The imported caps from China were priced below the domestic caps by margins that ranged from \$7.49 to \$27.60 per dozen, or 51 to 71 percent.

Table 47

Sewn cloth headwear: Number of comparisons made between net U.S. f.o.b. purchase prices of PRODUCTS 1, 2, 3, and 4 produced in the **United States** and of those same products imported from **China** and sold, respectively, to premium account end users, distributors, and retailers and the range of margins of underselling, <sup>1/</sup> by quarters, January 1986-December 1988 <sup>2/</sup>

\* \* \* \* \*

### Transportation factors

U.S. producers and importers reported in their questionnaire responses that the domestic and imported Chinese sewn cloth headwear are generally shipped by truck to their U.S. customers. On the basis of limited questionnaire responses of 10 U.S. producers and 18 importers, U.S. freight costs reportedly ranged from 1 to 10 percent of the U.S. f.o.b. selling prices. These producers and importers indicated, however, that the transportation costs did not significantly affect price competition between the U.S.-produced and subject imported headwear. Questionnaire responses of 9 U.S. producers and 10 importers suggest that, in comparison with the U.S. importers, U.S. producers sell a higher proportion of their headwear products to customers located more than 100 miles from the supplying firms' U.S. selling locations.

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<sup>1/</sup> This price comparison was for the period January-March 1988.

Although freight costs of 10 percent should affect sales, this may not always be the case where the higher freight costs reflect only a small proportion of sales. Average U.S. freight costs may be at the low end of the reported range but are not reflected in the responses of so few firms. In addition, freight costs at the upper end of the range may reflect higher cost transport modes for quick delivery of small-volume orders. Five respondents shipped 90 percent or more of their orders by UPS. Such purchases are likely to be insensitive to freight costs and more dependent on availability of the products ordered. Domestic producers' freight costs were at the low end of the range and importers' at the high end. One domestic producer noted that the low prices of the imported caps enabled purchasers to absorb higher freight costs yet have a sharp price advantage compared to the delivered price of the domestic product.

### Exchange rates

Market values of the Chinese yuan are not readily known. The Chinese Government pegs the yuan to the value of the U.S. dollar and limits convertibility of the yuan with other currencies.

### Lost sales

Domestic producers, with one exception, provided no new allegations of lost sales in the final investigation. That domestic producer, \* \* \*, listed a single example of an alleged lost sale. <sup>1/</sup> The following analysis is based on the allegations made in the preliminary investigation. Two U.S. producers of the subject sewn cloth headwear reported specific lost sales allegations related to imports from China and involving four purchasers. <sup>2/</sup> The Commission staff telephone conversations with the four purchasers are discussed below.

\* \* \* named \* \* \* in a lost sales allegation involving cloth mesh baseball caps imported from China. \* \* \* asserts that in \* \* \* it quoted a price of \* \* \* per dozen caps to \* \* \* for an order of \* \* \* dozen caps, but lost the sale to Chinese caps selling at \* \* \* per dozen. Mr. \* \* \*, buyer of caps and other promotional items for \* \* \*, stated that the order was for about \* \* \* dozen caps and \* \* \* 's price was about \* \* \* per dozen. \* \* \* indicated that his firm purchased the Chinese caps instead of domestic caps because of the lower price of the imported product and because of poor service from \* \* \*. \* \* \* complained that \* \* \* would not return telephone calls, was late in deliveries, promised small volume delivery and then would refuse when \* \* \* placed an order, would not provide quick delivery service, and would bill \* \* \* for caps at prices higher than those originally agreed upon. \* \* \* explained that for giveaway promotional programs, he imports caps directly from China in order sizes of \* \* \* caps or more, but for other promotional

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<sup>1/</sup> During the posthearing period, the staff finally located the buyer for the company named by \* \* \* as involved in this competitive situation and investigated the alleged lost sale. The results of the staff inquiry are summarized at the end of this "Lost sales" section.

<sup>2/</sup> \* \* \* and \* \* \* reported the lost sales allegations.

purchases buys mostly domestic caps in smaller order sizes. 1/ \* \* \* noted that it was not feasible to import small volume requirements. \* \* \* felt that if buyers were careful in purchasing Chinese caps, they could get imported caps that were similar in quality to caps made in the United States. During 1985-87, U.S. caps that were imprinted averaged about \* \* \* per cap, compared with about \* \* \* for the imported Chinese caps, according to \* \* \*.

\* \* \* named \* \* \* 2/ in a lost sales allegation involving polyester mesh baseball caps imported from China. \* \* \* alleged that in \* \* \* it quoted a price of \* \* \* per dozen caps to \* \* \* for an order of \* \* \* dozen caps, but lost the sale to Chinese caps selling at \* \* \* per dozen. \* \* \*, buyer of caps and other promotional items for the firm, could not recall any such purchase and stated that \* \* \* has never placed an order for that many caps. \* \* \* felt the U.S. caps were a little better in quality than the imported Chinese caps, citing the better sizing of the domestic caps. 3/ \* \* \* indicated that during 1985-87 the domestic plain mesh baseball caps were priced higher than the imported Chinese caps. According to \* \* \*, in 1987 the domestic caps averaged about \* \* \* per dozen, compared with \* \* \* for the imported caps. \* \* \* also commented that the domestic caps would be purchased at \* \* \* per dozen if lower priced caps were not available, because the plain caps would still be priced less than \* \* \*, which cost \* \* \* about \* \* \*.

\* \* \* named \* \* \* in a lost sales allegation involving polyester caps with emblems imported from China. \* \* \* reported that in \* \* \* it quoted a price of \* \* \* per dozen caps to \* \* \* for an order of \* \* \* dozen caps, but lost the sale to Chinese caps selling at \* \* \* per dozen. \* \* \*, buyer of caps and other promotional items for \* \* \*, could not recall the purchase cited, but felt the reported price difference was exaggerated. \* \* \* felt that U.S.-made caps were of a higher quality than the imported Chinese caps, citing better colors and embroidery of the domestic caps. According to \* \* \*, during 1985-87 imprinted caps produced in the United States averaged about 10 percent higher in price than imprinted caps imported from China. \* \* \* buys mostly \* \* \* for resale in his retail stores, and, despite the higher price, plans to buy only U.S.-made caps for its \* \* \*. \* \* \* reported buying imprinted caps at prices ranging from \* \* \* per cap and retailing them for \* \* \* per cap.

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1/ \* \* \* stated that for large giveaway promotions, he would not spend much more than \* \* \* for an imprinted cap, but would spend \* \* \* for an imprinted cap on promotions in which the caps would be sold. \* \* \* commented that domestic producers were not interested in selling imprinted caps for \* \* \* per cap, and, therefore, felt that such imported caps did not compete with U.S.-made caps. He indicated that if \* \* \* caps were not available for giveaway promotions, he would buy other advertising products like pens, pencils, etc.

2/ \* \* \* purchases headwear \* \* \* without any decoration and sells these products to firms specializing in imprinting \* \* \*. These latter firms imprint, embroider, or otherwise decorate the blank headwear \* \* \* before selling the finished products.

3/ \* \* \* stated that despite the higher price, \* \* \* buys about \* \* \* percent of \* \* \* caps from U.S. producers. \* \* \* explained that some customers prefer domestic caps, because they are using the caps to promote products identified as "made in the United States." \* \* \* cited \* \* \* as examples of firms preferring the domestic caps.

\* \* \* named \* \* \* in a lost sales allegation involving plain polyester caps imported from China. \* \* \* reported that in \* \* \* it quoted a price of \* \* \* per dozen caps to \* \* \* for \* \* \* dozen caps, but lost the sale to Chinese caps selling at \* \* \* per dozen. The senior buyer of caps for \* \* \*, \* \* \*, was the firm's cap buyer in \* \* \*, but \* \* \* could not recall domestic producers quoting prices of caps to \* \* \* in \* \* \*. \* \* \* commented that, since 1982, \* \* \* firm has purchased only imported caps, including those from China, and because of the higher price of domestic caps has not considered domestic producers as a source of caps. \* \* \* also indicated that \* \* \* began buying the plain mesh cap from China in \* \* \*. According to \* \* \*, another buyer for the firm, in 1987 the delivered price of the imported plain mesh baseball cap from China was \* \* \* per cap, compared with \* \* \* per cap for the U.S.-produced cap. \* \* \* felt that the imported Chinese and domestic caps were similar in quality.

In the final investigation, \* \* \* named the \* \* \* in an alleged lost sale involving \* \* \* dozen twill, mesh-backed baseball caps in \* \* \*. Based on the price of \$\* \* \* per dozen quoted by \* \* \*, the value of this potential sale to the domestic producer was \$\* \* \*. The sale allegedly was awarded to an importer quoting a price for Chinese caps believed to be \$\* \* \* per dozen. \* \* \*, purchasing director for \* \* \*, after clearing the staff request with the firm's attorney, provided the details of the sourcing decisions involving \* \* \* imported from China. During the past 2 years, 1987-88, \* \* \* solicited bids and then placed three different orders for imported baseball caps. In all three instances, the orders initially were awarded to importers whose low price quotes were on caps to be sourced from China. The details of each transaction are presented below.

<u>Firm identity</u>	<u>Price quoted</u> (Per dozen)	<u>Quantity base</u> (Dozen)	<u>Source of supply</u>
*	*	*	*

The award was made to \* \* \*. Delivery, partially by air freight, was timely and the quality of the caps was very good.

<u>Firm identity</u>	<u>Price quoted</u> (Per dozen)	<u>Quantity base</u> (Dozen)	<u>Source of supply</u>
*	*	*	*

\* \* \* won the bid competition on the basis of the price quoted for Chinese caps, but could not deliver. Next the award went to \* \* \*. This importer had shown a high-quality Korean sample, stating that caps from Taiwan would match it in quality. On arrival, the Taiwan caps were not of the quality of the Korean sample, and \* \* \*.

<u>Firm</u> <u>identity</u>	<u>Price</u> <u>quoted</u> ( <u>Per dozen</u> )	<u>Quantity</u> <u>base</u> ( <u>Dozen</u> )	<u>Source</u> <u>of supply</u>
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\* \* \* \* \*

\* \* \* won the award, initially, but the Chinese factory could not produce an acceptable production sample over a period of \* \* \* months. The sale then was awarded to \* \* \*. On arrival, the shipment was not acceptable and was rejected by \* \* \*. " \* \* \*, " \* \* \* said. \* \* \* wrote a letter of apology for the problems with this cap shipment. Although they were dealing with the same \* \* \* firm, the caps were manufactured by a different factory because of the complex embroidery. At this point, \* \* \* turned to \* \* \* for a second bid on the entire \* \* \* dozen caps needed. \* \* \* had made several photographers' promotion samples of this cap as a favor for \* \* \* before the initial award was made. Consequently, \* \* \* had the embroidery tape in its computer and drop-shipped the caps weekly to \* \* \* in order to meet the promotion schedule. \* \* \* noted the very attractive prices of Chinese caps and the fine quality of the first shipment but was disenchanted by this last experience. \* \* \* will, however, solicit bids from both importers and domestic suppliers for the 1989-90 requirements, but will take extra precautions in \* \* \* sourcing decision.

The facts concerning the above purchases and the data on competing bids provide a perspective that reveals the dynamics of this market, the considerations involved in selecting a source of supply, and the problems that can result from specific sourcing decisions. These three examples highlight the importance of such factors as availability of inputs ( \* \* \* cloth--product A), capacity to supply (quotes based on partial quantity requirements--products A,B,C), timely delivery (partial shipment of product A by air freight), technical support (embroidery capability and cost--product C), change in Chinese source (inability to provide an acceptable production sample--product C), unacceptable shipments (quality--products B, Taiwan and C, China), and source proximity (weekly drop shipments--product C).

The data on competing bids, order by order, show how broad the range of prices can be to the same purchaser, for the same specified baseball cap, decorated with the same embroidery, in the same quantity, for delivery in the same time period. Margins of underbidding for product A ranged from \$\* \* \* to \$\* \* \* per dozen, or from 21 to 37 percent. Comparisons of price quotes on product B reflect margins in favor of the imported Chinese caps that ranged from \$\* \* \* to \$\* \* \* per dozen, or 39 to 53 percent below the respective domestic bids, and from \$\* \* \* to \$\* \* \* per dozen, or 12 to 30 percent lower than the competing bids for Taiwanese or Korean caps. The quote on product C by \* \* \* to supply Chinese caps underbid the final domestic quotes by an average margin of \$\* \* \*, or 25 percent. The \* \* \* quote on imported Chinese caps was \$\* \* \* per dozen, or 26 percent below that of \* \* \* and \$\* \* \* per dozen, or 44 percent under the competing domestic bids to supply the total quantity requirement.

Price suppression/depression

No new allegations of price suppression/depression were received in the final investigation. One U.S. producer of the subject sewn cloth headwear, \* \* \*, reported specific allegations of price suppression/depression related to imports of these products from China and involving 11 purchasers. The volume of sales cited in these allegations varied considerably. The Commission staff investigated the larger volume sales; telephone conversations with the purchasers contacted are discussed below.

\* \* \* identified \* \* \* in a lost revenue allegation involving polyester mesh baseball caps. On a reported sale of \* \* \* caps to \* \* \* in \* \* \*, \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \*, purchaser for the firm, could not recall the precise figures on a \* \* \* purchase but felt that the numbers sounded reasonable. \* \* \* indicated buying the imported Chinese caps instead of the domestic caps because of the lower price of the imported caps. \* \* \* felt the quality of the imported caps was somewhat inferior to the domestic caps, citing poorer sizing of the imported caps.

\* \* \* was cited in a lost revenue allegation involving polyester caps with emblems. On a reported sale of \* \* \* caps to \* \* \* in \* \* \*, \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \* of the firm could not recall the purchase.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \* in 1986. \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \*, purchaser for \* \* \*, could not recall purchasing these caps from \* \* \* in \* \* \*. \* \* \* indicated that \* \* \* buys baseball caps to complement its \* \* \*. \* \* \* stated that, in \* \* \*, \* \* \* firm stopped buying baseball caps from China because of poor quality, citing printing difficulties with the imported caps and poor color matching of the cap panels. \* \* \* also indicated that with the imported Chinese caps it is difficult to return damaged caps; whereas U.S. producers will quickly replace any damaged caps. \* \* \* noted that the Chinese caps are packed tighter and are cheaper to ship than the domestic caps, but often have a poorer appearance because of the packing. \* \* \* stated that the domestic and imported Chinese caps each have their place in the U.S. market. According to \* \* \*, the higher quality domestic caps are used as promotional items by firms who have strong union ties or are trying to promote a "made in America" product image. The domestic caps are also purchased by firms retailing caps principally as a headwear item rather than as a promotional item. \* \* \* felt that the Chinese baseball caps are used primarily as a vehicle for advertising by firms sensitive only to price, not quality, and that these caps substitute readily for other promotional items, such as headbands, bandannas, mugs, key rings, pens, etc., depending on the relative prices of these products.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \* in \* \* \*. \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \* of \* \* \* could not recall purchasing these caps from \* \* \* and noted that \* \* \* firm typically buys quantities of \* \* \* dozen. \* \* \* felt the U.S.-produced caps were better in quality than the imported Chinese caps, citing better sizing and sewing of the domestic caps. According to \* \* \*, during 1985-87 the Chinese caps were priced about \* \* \* percent less than

domestic caps. \* \* \* indicated that \* \* \* firm does not consider domestic and imported Chinese caps comparable.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \* in \* \* \*. \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \* of the purchasing firm was unwilling to discuss the figures because of confidentiality concerns but commented that this purchase involved competing \* \* \*. Imported caps from China were not considered by \* \* \* firm because of inferior quality. \* \* \* noted that during 1985-87 the imported Chinese caps were generally priced about \* \* \* percent less than domestic caps.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \* in \* \* \*. \* \* \* allegedly reduced its price from \* \* \* per dozen to \* \* \* per dozen because of competition from lower priced caps from China. \* \* \*, could not recall the transaction but commented that imported caps from China would not be a consideration at the price levels mentioned. \* \* \* noted that \* \* \* buys caps with embroidered emblems from \* \* \* because \* \* \* does not have the \* \* \*. \* \* \* also purchased major league baseball caps from \* \* \* until \* \* \*, when \* \* \*. \* \* \* indicated that \* \* \* imports \* \* \* from China. According to \* \* \*, \* \* \* is available from U.S. producers.

APPENDIX A

NOTICE OF THE COMMISSION'S INSTITUTION OF A FINAL  
ANTIDUMPING INVESTIGATION

## INTERNATIONAL TRADE COMMISSION

[Investigation No. 731-TA-405 (Final)]

### Sewn Cloth Headwear From the People's Republic of China

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution of a final antidumping investigation and scheduling of a hearing to be held in connection with the investigation.

**SUMMARY:** The Commission hereby gives notice of the institution of final antidumping investigation No. 731-TA-405 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673(b)) (the Act) 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 from the People's Republic of China of sewn cloth headwear, provided for in items 702.06, 702.08, 702.12, 702.14, 702.20, 702.32, 703.05, 703.10, and 703.16 and various items in part 6F of schedule 3 of the Tariff Schedules of the United States,<sup>1</sup> that have been found by the Department of Commerce, in a preliminary determination, to be sold in the United States at less than fair value (LTFV). Commerce will make its final LTFV determination on or before March 17, 1989 and the Commission will make its final injury determination by May 1, 1989 (see sections 735(a) and 735(b) of the act (19 U.S.C. 1673(a) and 1673(b))).

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 207, Subparts A and C (19 CFR Part 207), and Part 201, Subparts A through E (19 CFR Part 201).

**EFFECTIVE DATE:** November 8, 1988.

**FOR FURTHER INFORMATION CONTACT:** Jonathan Seiger (202-252-1177), Office of Investigations, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments

who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

#### SUPPLEMENTARY INFORMATION:

**Background.**—This investigation is being instituted as a result of an affirmative preliminary determination by the Department of Commerce that imports of sewn cloth headwear from the People's Republic of China are being sold in the United States at less than fair value within the meaning of section 731 of the Act (19 U.S.C. 1673). The investigation was requested in a petition filed on May 26, 1988 by counsel for the Headwear Institute of America, New York, NY. In response to that petition the Commission conducted a preliminary antidumping investigation, and, on the basis of information developed during the course of that investigation, determined that there was a reasonable indication that an industry in the United States was materially injured by reason of imports of the subject merchandise (53 FR 27409, July 20, 1988).

**Participation in the investigation.**—Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's rules (19 CFR 201.11), not later than twenty-one (21) days after the publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

**Service list.**—Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) and 207.3 of the rules (19 CFR 201.16(c) and 207.3), each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

**Limited disclosure of business proprietary information under a protective order.**—Pursuant to § 207.7(a) of the Commission's rules (19 CFR 207.7(a)), the Secretary will make available business proprietary information gathered in this final investigation to authorized applicants

under a protective order, provided that the application be made later than twenty-one (21) days after the publication of this notice in the Federal Register. A separate service list will be maintained by the Secretary for those parties authorized to receive business proprietary information under a protective order. The Secretary will not accept any submission by parties containing business proprietary information without a certificate of service indicating that it has been served on all the parties that are authorized to receive such information under a protective order.

**Staff report.**—The prehearing staff report in this investigation will be placed in the nonpublic record on March 14, 1989, and a public version will be issued thereafter, pursuant to § 207.21 of the Commission's rules (19 CFR 207.21).

**Hearing.**—The Commission will hold a hearing in connection with this investigation beginning at 9:30 a.m. on March 29, 1989, at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on March 21, 1989. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 9:30 a.m. on March 22, 1989 at the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is March 24, 1989.

Testimony at the public hearing is governed by § 207.23 of the Commission's rules (19 CFR 207.23). This rule requires that testimony be limited to a nonbusiness proprietary summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. Any written materials submitted at the hearing must be filed in accordance with the procedures described below and any business proprietary materials must be submitted at least three (3) working days prior to the hearing (see § 201.6(b)(2) of the Commission's rules (19 CFR 201.6(b)(2))).

**Written submissions.**—All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 of the Commission's rules (19 CFR 207.22). Posthearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24) and must be submitted not later than the close of business on April 4, 1989. In addition, any person who has

<sup>1</sup> Such headwear is also provided for in subheadings 6114.20.00, 6114.30.30, 6114.90.00, 6204.22.30, 6204.23.00, 6204.29.20, 6204.29.40, 6209.20.50, 6209.30.30, 6209.90.30, 6209.90.40, 6211.32.00, 6211.33.00, 6211.39.00, 6211.42.00, 6211.43.00, 6211.49.00, and 6505.90 (except 6505.90.30 and 6505.90.40), of the Harmonized Tariff Schedule of the United States (USITC Pub. 2030, as supplemented).

not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before April 4, 1989.

A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for business proprietary data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any information for which business proprietary treatment is desired must be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Business Proprietary Information." Business proprietary submissions and requests for business proprietary treatment must conform with the requirements of § 201.6 and 207.7 of the Commission's rules (19 CFR 201.6 and 207.7).

Parties which obtain disclosure of business proprietary information pursuant to § 207.7(a) of the Commission's rules (19 CFR 207.7(a)) may comment on such information in their prehearing and posthearing briefs, and may also file additional written comments on such information no later than April 10, 1989. Such additional comments must be limited to comments on business proprietary information received in or after the posthearing briefs.

**Authority**

This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.20 of the Commission's rules (19 CFR 207.20).

By order of the Commission.

Kenneth R. Mason,

Secretary.

Issued: November 29, 1988.

[FR Doc. 88-28005 Filed 12-5-88; 8:45 am]

BILLING CODE 7020-02-M

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APPENDIX B

LIST OF PARTICIPANTS IN THE COMMISSION'S HEARING  
IN THE INVESTIGATION

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Sewn Cloth Headwear from the People's Republic of China

Inv. No. : 731-TA-405 (Final)

Date and time: March 29, 1989 - 9:30 a.m.

Sessions were held in connection with the investigation in the Main Hearing Room (room 101) of the United States International Trade Commission, 500 E Street, S.W., in Washington, DC.

In support of the imposition of antidumping duties

Barnes & Thornburg--Counsel  
Washington, DC  
on behalf of--

The Headwear Institute of America

Norman Rubenstein, President  
Paramount Manufacturing Co.  
Quentin Hatfield, Vice President-Marketing, K-Products, Inc.;  
President, Headwear Institute of America  
Kenneth Button, Senior Economist  
Economic Consulting Services, Inc.

Randolph J. Stayin)--OF COUNSEL  
Marcela B. Stras)--OF COUNSEL

In opposition to the imposition of antidumping duties

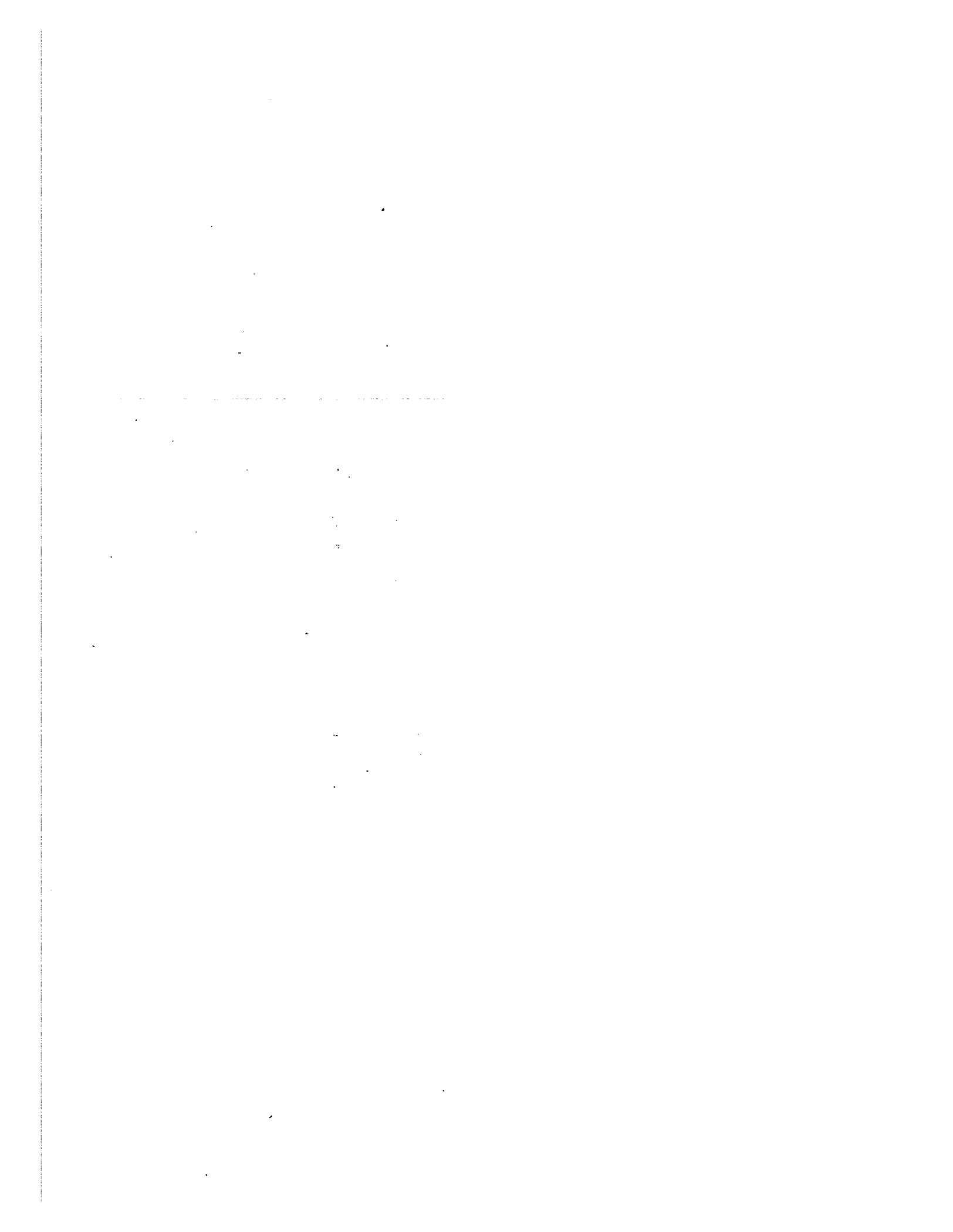
Arnold & Porter--Counsel  
Washington, DC  
on behalf of--

China National Arts & Crafts Import and Export Corporation  
China National Light Industrial Products Import and Export Corporation

Harold Kittay, Owner  
Triangle Sport Headwear  
Ken Shwartz, President  
Universal Industries, Inc.  
Gary Bromberg, President  
Midway Chinese Products

Yao Shao Ping, Manager - Overseas Administration Department  
China National Light Industrial Products Import and Export Corp.  
Chen Honghui, Manager - Headwear and Gloves Business Department  
China National Arts & Crafts Import and Export Corp.

Robert Herzstein)--OF COUNSEL  
Patrick F. J. Macrory)--OF COUNSEL  
Matthew J. Seiden)--OF COUNSEL  
Alan O. Sykes)--OF COUNSEL



APPENDIX C

NOTICE OF THE DEPARTMENT OF COMMERCE'S  
FINAL LTFV DETERMINATION ON SEWN CLOTH HEADWEAR  
FROM THE PEOPLE'S REPUBLIC OF CHINA

**International Trade Administration**  
**[A-570-801]**

**Final Determination of Sales at Less Than Fair Value; Certain Headwear From the People's Republic of China**

**AGENCY:** International Trade Administration, Import Administration, Commerce.

**ACTION:** Notice.

**SUMMARY:** We have determined that certain headwear from the People's Republic of China (PRC) is being, or is likely to be, sold in the United States at less than fair value. We also determine that critical circumstances do not exist with respect to imports of certain headwear from the PRC. The U.S. International Trade Commission (ITC) will determine, within 45 days of the publication of this notice, whether these imports are materially injuring, or are threatening material injury to, a United States industry.

**EFFECTIVE DATE:** March 23, 1989.

**FOR FURTHER INFORMATION CONTACT:** Robin Gray or Anne D'Alauro (202) 377-1130, Office of Antidumping Compliance, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230.

**SUPPLEMENTARY INFORMATION:**

**Final Determination**

We have determined that certain headwear from the PRC is being, or is likely to be, sold in the United States at less than fair value as provided in section 735(a) of the Tariff Act of 1930, as amended (19 U.S.C. 1673d(a)) (the Act). The weighted-average margins of sales at less than fair value are shown in the "Suspension of Liquidation" section of this notice.

**Case History**

On November 2, 1988, we made an affirmative preliminary determination (53 FR 45138). The following events have occurred since the publication of that notice.

On November 9, 1988, the PRC trading companies requested that we postpone

making our final determination for a period of sixty days pursuant to section 735(a)(2)(A) of the Act. On November 17, 1988, we issued a notice postponing the final determination until March 17, 1989 (53 FR 47741).

We verified the questionnaire responses in the PRC between November 20 and December 12, 1988. The surrogate responses were verified in the Philippines on December 15-16, 1988.

On January 25, 1989, the Department held a public hearing. Petitioner and respondents also submitted comments for the record in prehearing briefs on January 23, 1989, and in posthearing briefs on February 9, 1989. An importer filed comments on November 8, 1988.

**Scope of the Investigation**

The United States has developed a system of tariff classification based on the international harmonized system of Customs nomenclature. On January 1, 1989, the U.S. tariff schedules were fully converted from the Tariff Schedules of the United States Annotated ("TSUSA") to the Harmonized Tariff Schedule ("HTS"), as provided for in section 1201 et seq. of the Omnibus Trade and Competitiveness Act of 1988. All merchandise entered, or withdrawn from warehouse, for consumption, after that date is now classified so according to the appropriate HTS number. As with the TSUSA numbers, the HTS numbers are provided for convenience and Customs purposes. The written product description remains dispositive.

Imports covered by this investigation are caps, hats, and visors made from knitted or woven cloth of vegetable fibers including cotton, flax, and ramie, of man-made fibers, and/or of blends thereof, and which are cut and sewn. The subject headwear may be adorned with braid, embroidery, or other applied, printed or sewn decoration or may be plain. This investigation does not include headwear of straw, felt or wool. The products are classified under the TSUSA item numbers 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, 702.3200, 703.0510, 703.0520, 703.0530, 703.0540, 703.0550, 703.0560, 703.1000, 703.1610, 703.1620, 703.1630, 703.1640, 703.1650, 384.0438, 384.0954, 384.2211, 384.2608, 384.2707, 384.2723, 384.2741, 384.2752, 384.2784, 384.2796, 384.3436, 384.5216, 384.5365, 384.5427, 384.5485, 384.5533, 384.5685, 384.5698, 384.8676, 384.9000, and under HTS item numbers 65.05.15.6505.90.20, 6505.90.25, 6505.90.90, 6505.90.50, 6505.90.70, 6505.90.60, 6505.90.80, 6114.20.00, 6211.42.00, 6114.30.30, 6211.43.00, 6204.23.00, 6204.29.40, 6211.32.00, 6211.49.00,

6211.39.00, 6204.22.30, 6204.29.20, 6209.20.50, 6209.30.30, 6209.90.30, 6209.90.40, 6214.90.00.

#### Fair Value Comparison

To determine whether sales of the subject merchandise in the United States were made at less than fair value, we compared the United States price with the foreign market value.

The petitioner has argued that the PRC should be treated as a state-controlled economy for purposes of this investigation. The respondents claim that economic reforms in the PRC, particularly with respect to the headwear sector, have led to reductions of state-control that make a determination of foreign market value under section 773(a) of the Act both possible and appropriate.

We have examined information submitted by parties concerning this issue and have determined that, although the degree of state control has lessened, particularly with respect to the production and exportation of headwear, the PRC is appropriately treated as a state-controlled economy for purposes of this investigation. In arriving at this determination the Department considered: (1) The degree of government ownership of the means of production, (2) the degree of centralized government control over allocation of resources or inputs, (3) the degree of centralized government control over output and (4) the relative convertibility of the country's currency and the degree of government control over trade. (See *Petroleum Wax Candles from the People's Republic of China*, 51 FR 25085, July 10, 1986.)

Despite the reforms that have been introduced, the Chinese government continues to own most of the assets in the Chinese economy. In the case of headwear, the eight trading company respondents are state-owned. Of the twenty-six factories producing headwear, four are state-owned, sixteen are collective-owned, and six are foreign-owned.

Since January 1, 1988, the branches of the national trading companies have operated as autonomous entities. According to the responses and information gathered at verification, neither the trading companies nor the factories report their business or production plans to the State. These facilities are responsible for their own profits and losses and are subject to PRC bankruptcy laws. After-tax profits toward employee welfare and benefits, business expansion and retained earnings. Any losses that are incurred are financed out of retained earnings or borrowing.

While these factors suggest that decisions to invest assets in the production and exportation of headwear may be guided more by economic considerations than by the direction of the government, there are certain rigidities present in the system which militate against this conclusion. For example, state-owned entities channel after-tax profits into specified "funds," including business expansion, according to government-set or suggested percentages. Thus, as long as an entity remains profitable it will continue its operations without any apparent consideration of whether the assets may be more usefully employed in other lines of business. Also, we found no evidence that entities could sell their assets or discharge their ownership.

With respect to the degree of centralized government control over inputs, the major physical inputs used in producing the headwear under investigation are cotton and polyester. The decision of which inputs to use is based on customer specifications.

Most of the cotton used in headwear manufacturing is grown in the PRC and there is heavy government involvement in the production of cotton cloth. Not only is the State the largest purchaser of raw cotton (90 percent) but it is also the major consumer of cotton cloth (50 percent). Headwear producers purchase their cotton textiles from outside the government plan and are, therefore, able to choose their supplier and negotiate prices with that supplier, although the government provides suggested prices for informational purposes.

Despite the fact that cotton cloth purchased by headwear producers is outside the government plan, the large presence of the government in the production of cotton cloth would indicate that its actions affect the prices and quantities available for producers outside the plan. Given the government's involvement, we are not persuaded that there are sufficient market-like influences to determine that the prices paid by the headwear producers for cotton cloth are market-driven.

All polyester used by the headwear producers subject to the investigation is imported. All such importations are made through state-owned trading companies and all headwear produced from the imported materials must be re-exported.

With respect to labor, there are indications of increased flexibility in the labor pool, although there is also evidence of continued rigidity. We saw evidence that workers could be fired and that employee bonuses were based on the profitability of the enterprise.

Nevertheless, in many cases it appeared that wages were set by national and/or local labor bureaus and that "professional" employees, in particular, faced difficulties in moving from job-to-job.

Thus the extent of government control over the allocation of inputs presents a mixed picture. While certain market-like phenomena are present, such as employee bonuses based on profits and the ability of headwear producers and headwear exporters to choose their suppliers and negotiate prices, the government continues to play an important role, directly or indirectly, in the allocation of inputs to the headwear sector.

The degree of centralized government control over outputs is also a mixed picture. Within the broad terms of their licenses, the trading companies are able to export the products they choose and to negotiate the prices they receive. The factories also appear capable of changing the products they produce, or at least the product mix, and to negotiate the prices they receive from the trading companies. At the same time, the decision to export headwear remains in the hands of the government because trade continues to be a state monopoly. While we found no evidence of specific quantity targets for the trading companies exporting headwear, they have recently entered into contracts with the State which specifies foreign exchange targets.

Finally, with respect to currency convertibility and government control over international trade, the government continues to maintain a monopoly in foreign trade, as noted above. This, in and of itself, does not necessarily mean that the PRC should be treated as a state-controlled economy, especially in light of the growing autonomy of the trading companies and the reduced import licensing requirements. For example, headwear is imported into the PRC and, therefore, the state monopoly in trade does not appear to shield domestic PRC producers from international competition. Moreover, one of the goals of the recently-introduced reforms in the headwear sector is that the trading companies will perform more as agents acting on behalf of PRC manufacturers, with the result that the manufacturing entities will be more directly involved in international trade.

With respect to currency convertibility, the renminbi is not internationally convertible and the government imposes tight controls on foreign exchange earned through exporting. Nevertheless, the recently-

introduced currency swap centers provide certain PRC enterprises with a "market" for buying or selling foreign exchange. For example, the trading companies involved in this investigation were able to retain a portion of their foreign exchange receipts in the form of exchange quotas, and these quotas could be sold in the swap markets or they could be used to purchase imports. At the same time, however, a large portion of the trading companies' foreign exchange earning was sold to the government at the official exchange rate and was not available to the trading companies. Even more limited access to foreign exchange was experienced by the factories producing headwear for export.

Based on the above, the Department believes that the Chinese foreign trade system is in transition. In many ways it is like a developing market economy country. On the other hand, many of respondents' claims are based on reforms that were instituted during the period of investigation. This makes questionable the extent to which these reforms could have had an impact on the prices in the sector during the same period. Moreover, we received a great deal of individual respondent information which did not support a uniform experience or conclusion.

These considerations, combined with evidence of continuing indirect control exercised by the Chinese government, lead us to determine that the headwear sector is state-controlled for purposes of this investigation. Such evidence of control is indicated by State mandated after-tax outlays and foreign exchange earning targets; the State monopoly on foreign trade; currency quota allocation; the involvement of the government in the cotton market as well as the limited convertibility of the currency. However, if future changes occur in these areas as a result of diminished government control, the Department will be willing to reconsider its conclusions in any future review, should this investigation result in an antidumping duty order.

There are two types of transactions involved in exporting the subject merchandise to the United States: processing fee and non-processing fee. Processing fee sales are those sales where the PRC factories are responsible only for converting supplied materials into finished headwear. Consistent with past practice, we have based United States price for the processing fee sales on the price received for the conversion. (See, e.g., *Small Diameter Welded Carbon Steel Pipes and Tubes from the Philippines, Final Determination of Sales at Less Than Fair Value*, (51 FR

33099, September 18, 1986), (*Pipes and Tubes from the Philippines*); *Brass Sheet and Strip from Canada, Final Determination of Sales at Less Than Fair Value*, (51 FR 44319, December 9, 1986), (*Canadian Brass Sheet and Strip*)). Foreign market value for processing fee sales was calculated by valuing the factors of production employed by the PRC manufacturers in performing the conversion in a non-state-controlled economy country, as described in the "Foreign Market Value" section of this notice.

For non-processing fee sales, the United States price is based on the prices charged by the PRC trading companies for finished headwear. The foreign market value for these sales has been calculated using PRC factors of production valued in a non-state-controlled economy, as described in the "Foreign Market Value" section of this notice.

#### United States Price

We used the purchase price of the subject merchandise to represent United States price because the merchandise was sold to unrelated purchasers prior to its importation into the United States. We calculated the purchase price of the subject merchandise as provided in section 772 of the Act, on the basis of the C&F or CIF prices with deductions, where applicable, for ocean freight, and marine insurance. An adjustment for taxes rebated on export was not added to U.S. price since the amount of rebate actually received could not be verified.

#### Foreign Market Value

As a result of our determination to treat the PRC as a state-controlled economy, section 773(c) of the Act requires us to base foreign market value on either the prices of, or the constructed value of, such or similar merchandise in a "non-state-controlled-economy" country.

Our regulations establish a preference for foreign market value based upon sales prices. They further stipulate that, to the extent possible, we should use information from a "non-state-controlled-economy" country at a stage of economic development comparable to the state-controlled-economy country.

As noted in the preliminary determination, we sent a questionnaire to, and received a response from a headwear producer in the Philippines. Since the preliminary determination we have received a supplemental response from this manufacturer and we were able to verify both response in December 1988.

We did not use information on domestic sales provided by this

"surrogate" producer as the foreign market value for PRC sales of polyester headwear since the Department determined that the surrogate merchandise was not sufficiently similar to serve as a basis of comparison. For these sales, we constructed foreign market value by valuing the factors of production employed by the PRC manufacturers using factor cost information provided by the surrogate. This methodology was also utilized for sales of cotton hats with the exception of the cotton input. For the value of the cotton input, we based the factor information on the customs value of U.S. imports from Egypt. For processing fee sales, we constructed foreign market value by valuing the factors of production employed by the PRC manufacturers in performing the conversion using factor cost information provided by the surrogate. Foreign market value based on valuing factors of production includes the statutory minimum for SG&A and profit.

#### Currency Conversions

When evaluating U.S. sales made in Hong Kong dollars, we made currency conversions in accordance with § 353.56(a)(1) of our regulations, using certified exchange rates as furnished by the Federal Reserve Bank of New York. Because we did not have certified exchange rates from the Federal Reserve Bank of New York for the surrogate country data, as best information we used currency conversions based on monthly averages as provided by the International Monetary Fund.

#### Negative Determination of Critical Circumstances

Petitioner alleged that imports of headwear from the PRC present "critical circumstances." Section 735(a)(3) of the Act provides that critical circumstances exist if we determine that there is a reasonable basis to believe or suspect that:

(A)(i) There is a history of dumping in the United States or elsewhere of the class or kind of merchandise which is the subject of the investigation, or

(ii) The person by whom, or for whose account, the merchandise was imported knew or should have known that the exporter was selling the merchandise which is the subject of the investigation at less than fair value, and

(B) there have been massive imports of the merchandise which is the subject of the investigation over a relatively short period.

Pursuant to section 735(a)(3)(B), we generally consider the following factors in determining whether imports have been massive over a relatively short

period of time: (1) The volume and value of the imports; (2) seasonal trends (if applicable); and (3) the share of domestic consumption accounted for by imports.

For purposes of this finding, we analyzed recent trade statistics on import levels for headwear from the PRC, for equal periods immediately preceding and following the filing of the petition until the month of our preliminary determination. Using this data, we find that there has been less than a one percent increase in imports of headwear following the initiation of this investigation.

Since we do not find that there have been massive imports, we need not consider whether there is a history of dumping or whether importers knew or should have known that it was being sold at less than fair value. Therefore, we determine that critical circumstances do not exist with respect to imports of headwear from the PRC. We have notified the ITC of this determination.

#### Verification

As provided in section 776(b) of the Act, we verified all information used in reaching the final determination in this investigation. We used standard verification procedures, including examination of relevant accounting records and original source documents provided by respondents.

#### General Comments

*Comment 1.* Both the petitioner and the respondents have commented on various methodological issues pertaining to the analysis if the Department had found the headwear sector to be non-state-controlled for the purposes of the investigation. These comments included whether the Department should use third country sales information and whether the Department should use the official exchange rate or the swap rate when making currency conversions.

*Department's Position.* Since the Department determined the headwear sector to be state-controlled, these comments are not addressed.

#### Petitioners' Comments

*Comment 1.* Petitioner argues that the PRC is a state-controlled economy and should be treated as such under the antidumping law.

*Department's Position.* We agree. See the "Foreign Market Value" section of this notice.

*Comment 2.* Petitioner argues that the Department has correctly chosen to use the surrogate information provided by a headwear manufacturer in the Philippines. In making its final determination, the Department should

continue to use the home market sales made by the surrogate as the basis of foreign market value for non-processing fee sales.

*Department's Position.* Department regulations establish a preference for foreign market value of such or similar merchandise based upon sales prices prior to constructing a cost based value of the merchandise. At verification we confirmed that the Philippine home market sales consist exclusively of embroidered headwear. The Department verified the cost of information submitted by the surrogate producer including the cost of embroidery. The cost differences associated with embroidery were found to be of sufficient magnitude to preclude a reasonable comparison with sales of unembroidered headwear. Moreover, the Department is unable to make a determination as to the similarity of the embroidered headwear sold in the Philippines and that sold by the PRC because no factor information on the embroidery component, such as the number of stitches or the time involved, was provided by the PRC respondents producing embroidered headwear. Due to the limited number of sales of embroidered headwear sold by respondents in this investigation, in its final determination, the Department has disregarded these sales in its analysis. For all other sales, the Department has used the cost information supplied by the surrogate in valuing the factor information from the PRC respondents as described in the "Foreign Market Value" section of this notice.

*Comment 3.* The petitioner contends that the affirmative preliminary determination of critical circumstances for three specific trading companies should be expanded to include all of the PRC trading companies. In its preliminary determination the Department imputed "knowledge that dumping was occurring" to those three trading companies whose margins were greater than 25 percent. Since the PRC is a non-market economy country with central control and direction, the companies act in unison and knowledge is shared among them. Therefore, knowledge should be imputed to all of the state-owned trading companies. The petitioner also argues that it was appropriate to use a three month time period in evaluating whether massive imports existed for our determination of critical circumstances.

*Department's Position.* Although the Department relied on a three month period in making its preliminary affirmative critical circumstance determination, we have used the five months between the filing of the petition

and the preliminary determination for our final determination. The Department uses this period between the filing of the petition and the preliminary determination to determine whether there are massive imports since this is the period during which respondents could take advantage of their knowledge of the dumping case to increase exports to the United States without being subject to dumping duties. See *Internal Combustion, Industrial Forklift Trucks from Japan*, 53 FR 12566, April 15, 1988. During this time, the import statistics indicate that PRC headwear imports increased less than one percent. Having determined that imports during the period were not massive, the Department need not consider whether importers of this product knew or should have known that the merchandise from the PRC was being sold at less than fair value. (See the "Negative Determination of Critical Circumstances" section of this notice.)

*Comment 4.* Petitioner argues that the Department should issue one rate to all PRC trading companies or at most, two rates—one to China Arts and Crafts and one to China Light—because the State owns and controls all PRC trading companies. The establishment of nine rates with large margin variations facilitates circumvention in a state-controlled economy where exports can be easily directed and diverted among the trading companies by the State.

*Department's Position.* We disagree that one, or two, dumping margins should be calculated in this investigation. The former branches of the national trading companies have separated from the national companies and we found no evidence that the prices the branches charge for exports to the United States are set by or coordinated through the national trading companies. Therefore, it is appropriate to calculate separate margins for each of the now independent trading companies. Moreover, in past findings where different national trading companies exported to the United States, we calculated separate rates for these trading companies even though we treated the PRC as a state-controlled economy (See, e.g., *Shop Towels from the People's Republic of China; Final Results of Administrative Review of Antidumping Duty Order* (50 FR 26020, June 24, 1985)).

*Comment 5.* Petitioner claims that because of the poor quality of the responses and the number of discrepancies found at verification, the Department should reject the questionnaire responses as inadequate and unreliable and use best information

available, *i.e.*, information provided by the petitioner. In addition, the Department should reject last minute revisions as unverified.

*Department's Position.* The majority of the information provided in the PRC companies' responses to the factors of production and sales questionnaires was verified. Some of the last minute filings referred to by the petitioner were made to place information on the record that was corrected at verification. Furthermore, any information submitted by the respondents that was not verified was not used in our final determination except in those instances where it was used as best information available.

*Comment 6.* Petitioner contends that the respondents have failed to provide information fully describing product codes and identifying which of the headwear exports are embroidered. Therefore, as best information available, the Department should assume one-third of all headwear imports are embroidered.

*Department's Position.* For all but one of the trading companies, Jiangsu Arts and Crafts, we were able to verify which headwear orders included embroidered hats based on our examination of representative sales documentation. For Jiangsu Arts and Crafts, where we were unable to identify specific sales which included embroidered headwear, information submitted by Jiangsu following verification mirrors the experience of the largest known exporter of embroidered headwear, *i.e.*, an insignificant percent of total sales. Due to the limited volume of sales involved, the Department has dropped these sales from its analysis.

*Comment 7.* The petitioner argues that the Department was correct in not considering Universal Hats and Caps Manufacturing Company, Ltd., and Universal Trading Company ("Universal") as well as Golden Crown as respondents in the investigation because these Hong Kong companies are not PRC manufacturers, producers or exporters of headwear. Furthermore, since the PRC trading companies must obtain export visas for all shipments to the United States, U.S. price is appropriately based on the PRC trading companies' prices given their knowledge that the merchandise is destined for the U.S. market.

*Department's Position.* We agree. See our response to Interested Party Comment 1.

#### Respondent's Comments

*Comment 1.* Respondents argue that the PRC headwear sector is not state-controlled.

*Department's Position.* We disagree. See discussion above in the "Foreign Market Value" section of this notice.

*Comment 2.* The Department should not use the surrogate country producer's domestic sales prices as the basis for foreign market value for the following reasons: (1) The volume of home market sales was too small to have been made in commercial quantities, (2) they were not in the ordinary course of trade, and (3) the sales price was extraordinarily high and totally unrepresentative of any fair measure of foreign market value. In addition, as the Department learned at verification, the surrogate's headwear was embroidered which significantly adds to the cost of producing the merchandise. Most of the headwear sold by the trading companies, however, is not embroidered. For these reasons, the Department should use the factor cost information for its constructed value of polyester baseball caps. Alternatively, the cost of embroidery should be deducted from the surrogate's price in the calculation of foreign market value, except for those sales of embroidered headwear.

*Department's Position.* The Department verified the cost information submitted by the surrogate including the cost of embroidery and from that information was able to determine that embroidered hats could not reasonably be compared to unembroidered hats. Since the number of embroidered headwear sales made by PRC respondents was insignificant, and the Department could not determine the similarity of PRC embroidered headwear with that of the surrogate, embroidered headwear sales have been dropped from our analysis. Because the Department has not used the home market sales of the surrogate for comparison purposes in our final determination, we have not addressed respondents' additional concerns about the home market.

*Comment 3.* Respondents claim that they provided information on which exports of Chinese headwear were embroidered and that this information should be utilized in making fair value comparisons.

*Department's Position.* See our response to petitioner's comment 6.

*Comment 4.* Respondents claim that critical circumstances do not exist because imports have not been massive. Further, the Department should not impute knowledge of sales at less than fair value to importers using results based on information supplied by a surrogate. This is a particularly unreasonable assumption in the case where a surrogate's home market price is being used for foreign market value. It

is unlikely that importers of PRC headwear have knowledge that sales are being made at less than fair value based on knowledge of a particular surrogate's pricing practices in an industry where potential suppliers are numerous and prices from all such sources would need to be known.

*Department's Position.* The Department agrees that the requirements for an affirmative determination of critical circumstances have not been met. (See the "Negative Determination of Critical Circumstances" section of this notice.) For this reason, the Department need not consider the issue of the importers knowledge of sales at less than fair value.

*Comment 5.* Respondents claim that the Department incorrectly used the CIF value of Egyptian cotton for the cotton input cost in constructing foreign market value. The headwear factories in China purchase the cotton cloth domestically and do not incur any ocean freight or marine insurance charges. Since the CIF value includes ocean freight and marine insurance, the Department instead should use the FOB value of Egyptian cotton found on the same customs statistics.

*Department's Position.* We agree and have used the import value exclusive of transportation and insurance expenses for the cost of the cotton input in our final determination.

*Comment 6.* Respondents claim that the Department should utilize the verified revised labor hour calculations submitted prior to verification. In the initial responses the factories were only able to estimate the labor hour figures because of tight time limits. These estimates were considerably higher than the actual amounts.

*Department's Position.* The Department did receive a number of revised figures at the time of verification. In our final determination, we have accepted those revised figures which were submitted prior to the beginning of verification and which were acceptably verified.

#### Interested Party Comments

*Comment 1.* The interested party, Universal, argues that the Department is incorrect in refusing to investigate Universal's claim that it is manufacturer. Nonetheless, even if the Department does not accept Universal's contention that it is the manufacturer of the hats under investigation, Universal claims that it is at least acting as a trading company (where the manufacturer has no knowledge of the destination of the goods) and is entitled to a separate

determination. Because Universal contracts with the Chinese trading company prior to receiving specific orders from its U.S. and third country customers, Universal contends that at the time the contract is entered into neither the factory nor the PRC trading company knows where the hats will be exported.

*Department's Position.* Universal is a Hong Kong company which supplies materials to the PRC factories for conversion into headwear under processing fee arrangements with the PRC trading companies. As such, Universal is not a PRC manufacturer, producer, or exporter. In recent proceedings involving processing fee-like arrangements, we have treated the processor as the producer/manufacturer/exporter and have based United States price on the price paid for processing. (See, e.g., *Pipes and Tubes from the Philippines, Canadian Brass Sheet and Strip*).

Moreover, the Department does not agree with Universal's contention that trading companies did not have knowledge of the destination of the merchandise. Specifically, the PRC trading companies are aware that the processing fee sales are destined for the United States because they must supply the export visas required under the U.S.-PRC bilateral textile agreement. Consistent with Department practice, where a seller knows that the merchandise is destined for the United States, we base United States price on the price charged by the seller. The respondents in this investigation, some of whom supply Universal, have stated that they have knowledge of or can infer the destination of the merchandise. During the period of investigation, two of these suppliers did not have any third country sales and were producing exclusively for the U.S. market. For these reasons, we are not considering Universal as a respondent in this investigation.

*Comment 2.* Universal contends that the reasons the Department has given for finding the headwear sector to be state-controlled do not apply to the Universal factories. Because the Chinese state-owned trading companies serve merely as the issuer of the visas and financial intermediary for U.S. sales by Universal, and have no role in making sales to the U.S. or elsewhere for the Universal factories, there is no basis for finding foreign exchange targets for the Universal factories. With respect to currency convertibility, all of Universal's raw materials are purchased

at arm's length from unrelated suppliers and the transactions are in hard currency. Moreover, all of Universal's transactions occur in U.S. dollars. Therefore, the convertibility or non-convertibility of the renminbi is completely inapplicable to sales from Universal's factories. Finally, all sales of the merchandise are negotiated between Universal and its customer in the United States. The Chinese state-owned trading companies do not act in the role of a trading company that negotiates sales. Therefore, because of the lack of state control over Universal's operations, the Department should analyze Universal's sales on the basis of normal, market-oriented dumping methodology.

*Department's Position.* Having determined that Universal is not a respondent in this investigation, we are concerned with the economic activity occurring within the PRC by respondents who are Universal's suppliers. We have determined that the headwear sector in the PRC is state-controlled for purposes of this investigation. For this reason, in our foreign market value construction, we utilized the factor information supplied by the PRC factories valued in a market economy. Specifically, foreign market value for the sales to Universal were valued using the factor information for conversion from factories investigated that supply Universal. Since these transactions involve only conversion, the fact that Universal purchased materials in a hard currency does not enter our analysis. U.S. price was the price charged Universal for conversion by the PRC-trading company respondents.

#### Suspension of Liquidation

Since we have determined that critical circumstances do not exist with regard to this investigation, entries suspended prior to November 8, 1988, the date of publication of the preliminary determination in the Federal Register, can now be liquidated and all securities posted as a result of the suspension of liquidation prior to that date will be refunded or cancelled. We are directing the U.S. Customs Service to continue to suspend liquidation of all entries of headwear from the PRC that are entered, or withdrawn from warehouse, for consumption on or after November 8, 1988. The Customs Service shall continue to require a cash deposit or posting of bond equal to the estimated amounts by which the foreign market value of the merchandise subject to this investigation exceeds the United States price, as shown below. This suspension

of liquidation will remain in effect until further notice.

The weighted-average margins are as follows:

Manufacturer/producer/exporter	Weighted-average margin percentage
China National Light Industrial Products Import and Export Corporation, Guangdong Branch, Travelling Goods Company.....	* 5.30
Guangdong Stationery & Sporting Products Import and Export Corporation.....	* 7.09
China National Light Industrial Products Import/Export Corporation, Guangzhou Branch Footwear and Headgear Company.....	* 32.06
Guangdong Arts & Crafts Imports and Exports Corporation.....	* 7.00
Jiangsu Arts & Crafts Imports & Exports Corporation.....	27.71
Shanghai Arts & Crafts Import & Export Corporation.....	16.27
Shanghai Stationery and Sporting Goods Import/Export Corporation.....	28.60
Zhejiang Arts & Crafts Import & Export Co.....	22.20
All Others.....	21.37

\* Because we made fair value comparisons on the basis of processing charges, the resulting differences for these companies have been multiplied by a coefficient equaling the proportion processing represents of the value of PRC hats to arrive at the margins for individual sales. The coefficient is based on our review of the cost and sales experience of Shanghai Stationery.

#### ITC Notification

In accordance with section 735(d) of the Act, we have notified the ITC of our determination. If the ITC determines that material injury, or threat of material injury, does not exist, this proceeding will be terminated and all securities posted as a result of suspension of liquidation will be refunded. However, if the ITC determines that such an injury does exist, the Department will issue an antidumping duty order directing Customs officers to assess an antidumping duty on headwear from the PRC as defined in the "Scope of Investigation" section of this notice, entered or withdrawn from warehouse, for consumption after the suspension of liquidation, equal to the amount by which the foreign market value exceeds the U.S. price.

This determination is published pursuant to section 735(d) of the Act (19 U.S.C. 1673d(d)).

Jan W. Mares,

Assistant Secretary for Import Administration.

March 17, 1989.

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APPENDIX D

CALCULATION OF APPARENT U.S. CONSUMPTION OF  
SEWN CLOTH HEADWEAR USING DATA SUPPLIED IN  
RESPONSE TO COMMISSION QUESTIONNAIRES

Table D-1

Sewn cloth headwear: U.S.-produced domestic shipments, shipments of imports, and apparent U.S. consumption, by categories, 1985-88

Item	1985	1986	1987	1988
	Quantity (1,000 dozen)			
U.S.-produced domestic shipments:				
Adults'.....	***	***	***	***
Children's.....	***	***	***	***
Total 1/.....	6,198	6,279	6,306	6,081
U.S. shipments of imports:				
Adults'.....	***	***	***	***
Children's.....	***	***	***	***
Total 1/.....	5,955	6,522	8,356	9,341
Apparent U.S. consumption:				
Adults'.....	11,662	12,221	13,989	14,737
Children's.....	421	561	645	653
Total 1/.....	12,153	12,801	14,662	15,422
	Value (1,000 dollars)			
U.S.-produced domestic shipments:				
Adults'.....	***	***	***	***
Children's.....	***	***	***	***
Total 1/.....	162,223	166,303	172,064	183,791
U.S. shipments of imports:				
Adults'.....	***	***	***	***
Children's.....	***	***	***	***
Total.....	75,113	86,638	115,504	128,837
Apparent U.S. consumption:				
Adults'.....	230,860	244,236	276,955	301,882
Children's.....	6,437	8,381	10,689	11,683
Total 1/.....	237,336	252,941	287,568	312,628

1/ Because of rounding and/or inconsistent reporting by responding firms, figures may not add to the totals shown.

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

APPENDIX E

APPARENT U.S. CONSUMPTION OF  
WOOL, FELT, FUR, AND STRAW HEADWEAR

Table E-1

Wool, felt, fur, and straw headwear: U.S.-produced domestic shipments, shipments of imports, and apparent consumption, 1985-88 1/

Item	1985	1986	1987	1988
<u>Quantity (1,000 dozen)</u>				
<b>Wool headwear:</b>				
U.S.-produced domestic shipments.....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	***	***	***	***
<b>Straw headwear:</b>				
U.S.-produced domestic shipments <u>2/</u> .....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	***	284	316	***
<b>Felt headwear:</b>				
U.S.-produced domestic shipments <u>2/</u> .....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	232	217	232	248
<u>Value (1,000 dollars)</u>				
<b>Wool headwear:</b>				
U.S.-produced domestic shipments.....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	***	***	***	***
<b>Straw headwear:</b>				
U.S.-produced domestic shipments <u>2/</u> .....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	***	9,826	10,898	***
<b>Felt headwear:</b>				
U.S.-produced domestic shipments <u>2/</u> .....	***	***	***	***
U.S. shipments of imports.....	***	***	***	***
Apparent U.S. consumption.....	13,535	12,104	12,738	14,578

1/ There were no reported imports of fur headwear. Accordingly, apparent consumption of these types of headwear is limited to domestic shipments; see app. F, table F-1.

2/ Data are understated because several major producers of straw headwear, including \* \* \*, did not respond to the Commission's questionnaire.

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

APPENDIX F

U.S.-PRODUCED DOMESTIC SHIPMENTS OF  
WOOL, FUR, FELT, AND STRAW HEADWEAR

Table F-1

Wool, fur, felt, and straw headwear: U.S. producers' domestic shipments, by fabric, 1985-88

\* \* \* \* \*

APPENDIX G

SELECTED FINANCIAL INFORMATION FOR  
RELATED TEXTILE AND APPAREL INDUSTRIES

Table G-1

Apparel: After-tax return on sales, 1/ by industry and SIC code, 1987 and 1988

(In percent)

SIC code	Industry	1987	1988
2352	Hats and caps.....	2.7	2.7
2311	Men's and boys' suits.....	1.6	1.9
2321	Men's and boys' shirts.....	2.9	4.1
2323	Men's and boys' neckwear.....	2.1	2.2
2327	Men's and boys' trousers.....	2.6	3.8
2331	Women's blouses.....	3.4	3.1
2337	Women's suits.....	2.4	1.9
2387	Apparel belts.....	2.2	1.8
2389	Apparel accessories.....	5.2	4.9

1/ Represents the median ratios.

Source: Dun & Bradstreet Corp., Industry Norms and Key Business Ratios, 1987-88 and 1988-89 issues.

APPENDIX H

IMPACT OF IMPORTS ON U.S. PRODUCERS' EXISTING DEVELOPMENT AND PRODUCTION EFFORTS (INCLUDING EFFORTS TO DEVELOP A DERIVATIVE OR MORE ADVANCED VERSION OF THE LIKE PRODUCT), GROWTH, INVESTMENTS, AND ABILITY TO RAISE CAPITAL

The Commission requested U.S. producers to describe and explain the actual and potential negative effects, if any, of imports of sewn cloth headwear from China on their existing development and production efforts, growth, investments, and ability to raise capital. Ten firms ( \* \* \* ) responded that there were no negative effects. Responses by the remaining firms are shown below.

\* \* \* \* \*

APPENDIX I

CALCULATION OF U.S. IMPORTS OF SEWN CLOTH HEADWEAR  
USING INFORMATION COMPILED FROM DATA SUBMITTED  
IN RESPONSE TO COMMISSION QUESTIONNAIRES

Table I-1

Sewn cloth headwear: U.S. imports from China, Taiwan, Korea, and all other countries, 1985-88

Source	1985	1986	1987	1988
	Quantity (1,000 dozen)			
China.....	1,490	1,539	3,614	3,895
Taiwan.....	2,694	3,305	3,762	3,748
Korea.....	1,636	1,727	1,682	1,784
All other countries <u>1/</u> .....	177	178	82	88
Total.....	5,997	6,748	9,139	9,515
	Value (1,000 dollars) <u>2/</u>			
China.....	10,954	10,603	24,888	29,266
Taiwan.....	21,941	30,342	34,513	37,794
Korea.....	14,426	15,506	16,189	19,114
All other countries <u>1/</u> .....	1,433	1,502	801	754
Total.....	48,755	57,953	76,390	86,928
	Unit value (per dozen)			
China.....	\$7.35	\$6.89	\$6.89	\$7.51
Taiwan.....	8.15	9.18	9.17	10.08
Korea.....	8.82	8.98	9.62	10.71
All other countries <u>1/</u> .....	8.10	8.44	9.77	8.59
Average.....	8.13	8.59	8.36	9.14

1/ Primarily Hong Kong.

2/ C.i.f., duty-paid value.

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

APPENDIX J

U.S. IMPORTS OF WOOL, FUR, FELT, AND STRAW HEADWEAR

Table J-1

Wool, fur, felt, and straw headwear: U.S. imports from China and all other countries, 1985-88 <sup>1/</sup>

Source	1985	1986	1987	1988
<u>Quantity (1,000 dozen)</u>				
<b>Wool headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	29.2	34.2	22.0
<b>Straw headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	79.0	***	***
<b>Felt headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<u>Value (1,000 dollars) <sup>2/</sup></u>				
<b>Wool headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	562	672	346
<b>Straw headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	623	***	***
<b>Felt headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<u>Unit value (per dozen)</u>				
<b>Wool headwear from:</b>				
China.....	\$***	\$***	\$***	\$***
All other countries.....	***	***	***	***
Average.....	***	19.20	19.65	15.73
<b>Straw headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Average.....	***	7.92	***	***
<b>Felt headwear from:</b>				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Average.....	***	***	***	***

<sup>1/</sup> There were no reported imports of fur headwear.<sup>2/</sup> C.i.f., duty-paid value.

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

**APPENDIX K**

**MARKET PENETRATION BY U.S. IMPORTS OF SEWN CLOTH HEADWEAR  
CALCULATED USING INFORMATION COMPILED FROM DATA SUBMITTED  
IN RESPONSE TO COMMISSION QUESTIONNAIRES**

Table K-1

Sewn cloth headwear: U.S. producers' domestic shipments, shipments of imports from China, Taiwan, Korea, and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
U.S. producers' shipments.....	6,198	6,279	6,306	6,081
Shipments of imports from--				
China.....	1,320	1,426	2,916	3,662
Taiwan.....	2,884	3,339	3,725	3,871
Korea.....	1,612	1,604	1,653	1,745
All other countries 1/.....	139	153	62	62
Total.....	5,955	6,522	8,356	9,341
U.S. consumption.....	12,153	12,801	14,662	15,422
	<u>Share of consumption quantity (percent)</u>			
U.S. producers' shipments.....	51.0	49.1	43.0	39.4
Shipments of imports from--				
China.....	10.9	11.1	19.9	23.7
Taiwan.....	23.7	26.1	25.4	25.1
Korea.....	13.3	12.5	11.3	11.3
All other countries 1/.....	1.1	1.2	0.4	0.4
Total .....	49.0	50.9	57.0	60.6
	<u>Value (1,000 dollars) 2/</u>			
U.S. producers' shipments.....	162,223	166,303	172,064	183,791
Shipments of imports from--				
China.....	12,639	16,250	37,066	45,837
Taiwan.....	37,874	45,609	53,521	56,194
Korea.....	22,818	23,021	24,152	26,057
All other countries 1/.....	1,781	1,756	765	750
Total .....	75,113	86,638	115,504	128,837
U.S. consumption.....	237,336	252,941	287,568	312,628
	<u>Share of consumption value (percent)</u>			
U.S. producers' shipments.....	68.4	65.7	59.8	58.8
Shipments of imports from--				
China.....	5.3	6.4	12.9	14.7
Taiwan.....	16.0	18.0	18.6	18.0
Korea.....	9.6	9.1	8.4	8.3
All other countries 1/.....	0.8	0.7	0.3	0.2
Total .....	31.6	34.3	40.2	41.2

1/ Primarily Hong Kong.

2/ F.o.b. point-of-shipment.

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

APPENDIX L

MARKET PENETRATION BY U.S. IMPORTS OF  
WOOL, FUR, FELT, AND STRAW HEADWEAR

Table L-1

Wool, fur, felt, and straw headwear: U.S. producers' domestic shipments, shipments of imports from China and all other countries, and apparent consumption, 1985-88 1/

Source	1985	1986	1987	1988
	<u>Quantity (1,000 dozen)</u>			
<b>Wool headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	***	***	***	***
<b>Straw headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	***	284	316	***
<b>Felt headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	232	217	232	248
	<u>Share of consumption quantity (percent)</u>			
<b>Wool headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<b>Straw headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<b>Felt headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***

Footnotes presented at end of table

Table L-1--Continued

Wool, fur, felt, and straw headwear: U.S. producers' domestic shipments, shipments of imports from China and all other countries, and apparent consumption, 1985-88

Source	1985	1986	1987	1988
	Value (1,000 dollars) 2/			
<b>Wool headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	***	***	***	***
<b>Straw headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	***	9,826	10,898	***
<b>Felt headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
U.S. consumption.....	13,535	12,104	12,738	14,578
	Share of consumption value (percent)			
<b>Wool headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<b>Straw headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***
<b>Felt headwear:</b>				
U.S. producers' shipments.....	***	***	***	***
Shipments of imports from--				
China.....	***	***	***	***
All other countries.....	***	***	***	***
Total.....	***	***	***	***

1/ There were no reported shipments of imports of fur headwear.

2/ F.o.b. point-of-shipment.

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

