

CERTAIN MOTOR VEHICLES AND CERTAIN CHASSIS AND BODIES THEREFOR

**Report to the President on
Investigation TA-201-44
Under Section 201 of the
Trade Act of 1974**

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UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Bill Alberger, Chairman
Michael J. Calhoun, Vice Chairman
George M. Moore
Catherine Bedell
Paula Stern

Kenneth R. Mason, Secretary to the Commission

This report was prepared by
Larry Reavis (Office of Investigations)
with
Jim McElroy (Office of Industries)
Barbara Dudeck (Office of Industries)
Clark Workman (Office of Economics)
Roger Pomeroy (Office of Economics)
Bill Gearhart (Office of the General Counsel)
Chandrakant Mehta (Office of Investigations)

John M. MacHatton, Supervisory Investigator

Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436

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Note.--The whole of the Commission's report to the President may not be made public since it contains certain information that would result in the disclosure of the operations of individual concerns. This published report is the same as the report to the President, except that the above-mentioned information has been omitted. Such omissions are indicated by asterisks.

REPORT TO THE PRESIDENT
ON INVESTIGATION NO. TA-201-44

CERTAIN MOTOR VEHICLES AND CERTAIN CHASSIS
AND BODIES THEREFOR

UNITED STATES INTERNATIONAL TRADE COMMISSION
December 3, 1980

Determination

On the basis of the information developed in the course of the investigation, the Commission has determined (Commissioners Moore and Bedell dissenting in part 1/) that automobile trucks, on-the-highway passenger automobiles, and bodies (including cabs) and chassis for automobile trucks, provided for in items 692.02, 692.03, 692.10, 692.11, 692.20, and 692.21 of the Tariff Schedules of the United States (TSUS), are not 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 industries producing articles like or directly competitive with the imported articles.

Background

The Commission instituted the present investigation, No. TA-201-44, on June 30, 1980, following the receipt, on June 12, 1980, of a petition for import relief filed by the International Union, United Automobile, Aerospace,

1/ Commissioners Moore and Bedell determined that on-the-highway passenger automobiles, provided for in items 629.10 and 692.11 of the Tariff Schedules of the United States, are 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 articles like or directly competitive with the imported articles.

and Agricultural Implement Workers of America (UAW). The investigation was instituted pursuant to section 201(b)(1) of the Trade Act of 1974 (19 U.S.C. 2251(b)(1)) in order to determine whether--

automobile trucks (except automobile truck tractors and truck trailers imported together); on-the-highway passenger automobiles; and bodies (including cabs) and chassis for automobile trucks (except truck tractors); provided for in items 692.02 and 692.03; 692.10 and 692.11; and 692.20 and 692.21 of the TSUS;

are 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.

Notice of the Commission's investigation was published in the Federal Register of July 7, 1980 (45 F.R. 45731), and a notice of changed Commission procedures, accelerating the investigation, was published in the Federal Register of July 22, 1980 (45 F.R. 48996). On August 4, 1980, the Commission received a petition for similar import relief from the Ford Motor Company. Notice of the receipt of the Ford petition and the Commission's consideration of Ford to be a copetitioner in the investigation already under way was published in the Federal Register of August 21, 1980 (45 F.R. 55873).

A public hearing in this investigation was held in the Great Hall of the U.S. Department of Justice Building in Washington, D.C., and extended from Wednesday, October 8, 1980, through Saturday, October 11, 1980. All interested parties were afforded an opportunity to be present, to present evidence, and to be heard.

This report is being furnished to the President in accordance with section 201(d)(1) of the Trade Act. The information in the report was obtained from fieldwork and interviews by members of the Commission's staff, and from other Federal agencies, responses to Commission questionnaires, information presented at the public hearing, briefs submitted by interested parties, the Commission's files, and other sources.

VIEWS OF CHAIRMAN BILL ALBERGER

Section 201(b) of the Trade Act of 1974 requires that each of the following conditions be met before an affirmative determination can be made:

- (1) There are increased imports (either actual or relative to domestic production) of an article into the United States;
- (2) The domestic industry producing an article like or directly competitive with the imported article is being seriously injured, or threatened with serious injury; and
- (3) Such increased imports of an article are 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.

While I find the first two conditions met for both passenger automobiles and light trucks, I do not find the third to be satisfied, and therefore my determination with respect to these items is in the negative. Medium and heavy trucks do not satisfy the first criterion, and therefore also mandate a negative determination.

In analyzing the above criteria, it is first necessary to define the scope of the domestic industries against which each imported article should be assessed. The issue raised by petitioners of how to treat Canadian imports must then be resolved. Finally, it is possible to analyze whether imports of each particular article have increased within the meaning of the statute, whether the corresponding industry is being seriously injured and whether such increased imports constitute a substantial cause of such harm.

THE DOMESTIC INDUSTRY

This case raises a number of issues with respect to the scope of the industry or industries to be analyzed. The judgment of how to define an

industry depends largely upon the nature of the imported products, the competitive conditions in the domestic market, and the nature of U.S. production. It is therefore difficult to rely exclusively on general legal prescriptions for ascertaining the appropriate industry definition; rather, each determination will necessarily depend heavily on our perceptions of the particular facts of each case. The definition of industry can have a major impact on the question of serious injury, however, and must be made with a clear understanding of both the statutory scheme and Commission precedent relating to the particular fact situation.

The language of section 201 is straightforward. It requires an examination of serious injury to "the domestic industry producing an article like or directly competitive with the imported article;" 1/ but as the Commission majority observed in our most recent ruling under section 201, 2/ the problems attending the application of this language are substantial. Reasonable persons are bound to differ on the ultimate issue of how to apply this seemingly simple phrase to a particular set of facts. This is especially true in the case of products as multifarious as automobiles and trucks. But the important thing to emphasize is that the definition of an industry under section 201 is based on precise legal standards, and may not necessarily coincide with the generic description everyone uses when they refer to "the auto industry."

1/ Trade Act of 1974, Section 201(b)(1), 19 U.S.C. 2251(b)(1).

2/ Mushrooms, Inv. TA-201-43, USITC Pub. 1089, Views of Chairman Alberger, Vice Chairman Calhoun and Commissioner Stern, 6-14 (1980).

The methodology which I believe to be appropriate for delimiting the relevant industries was fully described in TA-201-43 (Mushrooms). 3/ Briefly stated, it is as follows:

Since the phrase "like or directly competitive" is clearly expressed in the disjunctive, and since the adjectives "like" and "directly competitive" were not intended to be synonymous or explanatory of each other, 4/ the escape clause may be invoked where either type of producers satisfies the statutory requirements of injury under section 201. Thus, our initial task is to draw distinctions where possible between the "like product" to the imported article (i.e., that which is "the same or nearly the same in inherent or intrinsic characteristics") 5/ and those which are "directly competitive" with it (i.e., "substantially equivalent for commercial purposes, that is, . . . adapted to the same uses and . . . essentially interchangeable therefor"). 6/ If these groups of producers can clearly be treated as separate and distinct industries in terms of production, sales, employment, etc., and if such action is consistent with the realities of the marketplace, then a showing of serious injury to either group (assuming increased imports were a substantial cause of such injury) will satisfy the criteria for relief and mandate an affirmative result.

Applying these principles to the facts at hand, I believe we are faced with three separate and distinct industries--in essence any combination of groupings with respect to products either "like" or "directly competitive"

3/ Id.

4/ S. Rep. 93-1298, 93d Cong., 2d Sess., 121-22 (1974).

5/ Id.

6/ Id.

with the imported articles yields only three possibilities. These industries could be defined as firms and facilities devoted to the production of (1) all passenger automobiles of the type classified under items 692.10 and 692.11 of the TSUS, (2) light trucks of under 10,000 lbs. gvw (of the type classified as automobile trucks under items 692.02 and 692.03 of the TSUS) and (3) medium and heavy trucks (also of the type classified under 692.02 and 692.03) but not truck tractors and trailers imported together, which we specifically excluded from the scope of our investigation. Since our report covers bodies (including chassis) for automobile trucks, it is also important to point out that we would consider domestic producers of these articles to fall within the same general industry definition (either light trucks or medium/heavy trucks) as the assembled product. I reach this industry segmentation on the basis of the following rationale:

1. There is no persuasive basis on which to segment passenger automobiles into more than one industry, as requested by several importers. While there may be an endless variety of sizes and characteristics, there is no clear dividing line between "large autos" and "small autos" for example. Furthermore, all passenger automobiles have substantially similar uses, and there is certainly ample evidence that all are--to a greater or lesser extent--directly competitive. While various government bodies, industry groups and trade publications do subdivide cars into different groups, these classifications are somewhat arbitrary and vary considerably.

2. Light trucks are inherently distinct from passenger vehicles in terms of their characteristics and principal uses. All

types are, to some extent, able to carry substantial quantities of freight, materials or supplies. While many are also adapted to passenger transport, they are purchased by a wide variety of consumers for utilitarian purposes. I believe this is enough of a qualitative difference to make them unlike passenger vehicles. Moreover, there is insufficient evidence to conclude that they compete "directly" with passenger vehicles, although they are produced by the major auto manufacturers and sold through automobile dealerships.

3. Medium and heavy trucks, which are not the main focus of this investigation, are essentially distinct from either passenger vehicles or light trucks. The vast majority are commercial vehicles designed for specific commercial purposes. They are produced by a different group of firms and marketed separately (although the major auto companies do have heavy truck divisions).

The testimony and written submissions extensively discussed the question of whether large cars, small cars and various types of light trucks should be classified in separate industries. Some European importers even contend that their products are unique and do not compete with domestic products of any sort. The importers point to the great number of differences between "large" and "small" passenger vehicles. Most propose a classification based upon weight, size, engine specifications, wheelbase and other factors. They contend that it is logical to draw a line somewhere between "large" and "small" cars on this basis--that the auto industry itself draws several

classifications based upon these criteria. Furthermore, they purport to demonstrate through consumer surveys and other cross-elasticity studies how demand for these two basic vehicle types differs, thus suggesting that they are not "directly competitive."

I believe that the reasoning which would lead to a subdivision of passenger autos into two or more industries is flawed in many respects. First, the very uncertainty about where to draw the dividing line illustrates vividly that what really exists is a full continuum of products. There is an endless choice of sizes and features. The same basic car body can be given a larger engine and a few optional features, thereby transforming it into a substantially larger car than the stripped-down model. Most domestic producers offer a "full line" of products, from subcompact to large and luxury cars, and all have a range of options that might change their classification. In reviewing the classification of "small" versus "large" autos suggested by the importer, 7/ it becomes obvious that one can find more similarity between the largest small car and the smallest large car than between products at either end of the small car spectrum. 8/

Another factor which militates against the segmentation of large and small cars is that all are designed as private vehicles for the principal purpose of transporting passengers. The fact that some might be faster, hold more passengers, or consume less fuel is not something which alters their basic similarity of uses.

7/ Prehearing brief of Toyota Motor Sales, U.S.A., Inc., Exhibit 1.

8/ An example would be the Ford Granada, which is classified as a small car, but which is closer to the Dodge Diplomat--a large car--than it is to the subcompact Chevette in terms of size and gas mileage.

Importers also seek to create meaningful distinctions between small and large cars in terms of competitiveness, arguing essentially that consumer surveys show a marked lack of direct competitiveness between these classes. There appears to be an inherent contradiction here, because the same parties cite the shift in demand from large to small cars as an important cause of injury. This shift merely demonstrates why these goods are "directly competitive." In essence, an increase in the cost of owning one size car--brought on by rising fuel costs--has led to increased demand for the other. This suggests a high degree of cross-elasticity. It is true that importers have focused primarily on the "small" end of the market while domestic producers previously seemed content with concentrating primarily on large autos, but this does not alter the fact that these products are "substantially equivalent for commercial purposes" and are "essentially interchangeable." 9/ Both importers and domestic producers serve a single--admittedly heterogeneous but nevertheless unitary--domestic market.

A final argument in favor of treating passenger autos as one industry is the notion, referred to in our last decision, 10/ that it is difficult to analyze profit and loss data, employment, costs and other factors on a model-by-model basis. While few production lines turn out more than one type of vehicle, some produce a particular type with different options that may lead to different classifications. As already noted, the major domestic firms produce a full line, and this leads to nightmarish problems in attempting to

9/ S. Rep. 93-1298, 93d Cong. 2d sess. 122 (1974).

10/ Mushrooms, Inv. TA-201-43, USITC Pub. 1089 at 11 (1980).

allocate profits, production costs and employment data (many of the executive and product development personnel work on both groups of products). Given that no other factors argue in favor of further segmentation, this practical difficulty merely emphasizes the inappropriateness of such a recommendation.

With respect to trucks, I am not persuaded by the petitioners' arguments regarding the likeness of small trucks, vans and light utility vehicles to passenger automobiles. Not only do they differ from passenger autos in design, shape and engineering, but most of these vehicles have as a primary use the transportation of materials. While they may also be used quite frequently for the sole purpose of carrying passengers, the capacity for use in carrying supplies or equipment is the obvious feature which prompts ordinary consumers to purchase a truck-like vehicle. A dealer with experience in truck sales acknowledged in our hearings that light trucks and passenger vehicles had little if any interchangeability. 11/ Moreover, the record before us is insufficient to conclude that there is high cross-elasticity of demand between cars and light trucks or that the products are "commercially equivalent." Therefore, I cannot find them to be "like or directly competitive" with passenger autos.

Medium and heavy trucks are overwhelmingly used as commercial vehicles, sold through separate outlets and purchased by an entirely different class of consumers than light trucks. I find them to constitute a separate industry, although the precise scope and definition are not essential in this case because they are not alleged to be the recipient of any injury.

11/ Hearing Transcript at 505-07.

THE QUESTION OF CANADIAN IMPORTS

Petitioners argued that imports from Canada, which are produced almost entirely by subsidiaries of the major U.S. firms, should be excluded from the scope of this investigation. They maintain that U.S. and Canadian manufacturing operations are part of a single industry, and that the Automotive Products Trade Act of 1965 (APTA), 12/ implementing the U.S.-Canadian automotive agreement, 13/ recognizes this fact.

While the United Auto Workers witnesses acknowledged that exclusion of Canadian imports from the investigation itself was not necessarily required, 14/ their position throughout the investigation was that Canadian imports should be excluded from any remedy recommendation either in explicit terms or by virtue of the nature of the goods subject to relief, because such imports are noninjurious and because of the APTA, the U.S.-Canadian agreement, and the specific GATT waiver pertaining to such agreement. Ford Motor Co., on the other hand, maintains that "In determining the degree to which imports have increased and the extent to which imports are a cause of the U.S. industry's serious injury, vehicles produced in Canada and shipped to the United States should not be considered "imports." 15/

Had the Commission made an affirmative determination, it could have fashioned a remedy recommendation that, in effect, did not reduce the volume of imports from Canada or increase tariff levels on such goods. Since

12/ 19 U.S.C. 2001.

13/ Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada, 17 U.S.T. 1372, T.I.A.S. No. 6093 (1965).

14/ Hearing Transcript at 112.

15/ Prehearing brief of Ford Motor Co., at 24.

Canadian imports have declined in recent years, this could have been accomplished by recommending tariff-rate quotas or quantitative restrictions allocated on a country-by-country basis and based upon imports during the most recent representative period. Such a recommendation would be permissible and consistent with Commission precedent. ^{16/} Moreover, the purpose of our recommendation is to provide guidance for the President and either of these recommendations would be consistent with his powers to proclaim effective relief under section 203(a).

Despite the Commission's implied power to adopt a remedy recommendation that disproportionately affects goods of a particular foreign origin because they are perceived to be more injurious, I do not believe we have authority to propose a remedy which expressly discriminates. Section 203(k)(1) empowers the President to take discriminatory actions which do not comply with the Most Favored Nation requirements of the Trade Act, but he is first required to consider the effect of such action on our foreign relations, both economic and political. Obviously, such considerations by the Commission are wholly inappropriate.

With respect to the more important question of whether Canadian imports should be considered imports for the purposes of assessing the merits of this case, I believe the answer must be affirmative. Nothing in the APTA or the automotive agreement itself specifically exempts Canadian products from the scope of Section 201. The APTA authorized the President to remove all customs duties on specified Canadian motor vehicles and original equipment and parts.

^{16/} See, e.g., Nonelectric Cooking Ware, Inv. TA-201-39, USITC Pub. 1008 (1979).

Since this applied discriminatorily to Canadian imports alone, a waiver of MFN obligations under Article I of GATT was necessary. 17/ This waiver did not address the question of exemptions from escape clause actions. Therefore, the contention that any of these provisions eliminate distinctions between Canadian and domestic automotive products for all purposes of U.S. trade law is simply not justified. While the automotive agreement and the APTA were clearly designed to eliminate unnecessary restraints on the creation of what is essentially a common market, section 301 of the Act made it plain that the elimination of duties was to be considered a tariff concession that would not preclude imposition of import relief. 18/ The Report of the Senate Committee on Finance on the APTA seems to endorse this position. It states that:

The agreement permits either Government to take action consistent with its obligations under Part II of the General Agreement on Tariffs and Trade (GATT) (art. III). Part II of the GATT includes provisions permitting contracting parties to take antidumping measures and escape clause actions. In this connection it should be made clear that nothing in this agreement nor in the enabling legislation acts to dull the operation of our remedial statutes. 19/

Commission precedent under Section 201 generally supports the conclusion that all imports should be treated alike for purposes of our investigation. Although imports by domestic producers have been considered differently in some cases with respect to the issue of causation, it has always been the practice of this Commission to consider all imports in determining whether there are "increased imports," and not to count them as domestic production in considering injury. This approach is consistent with the scheme of Section

17/ GATT, Basic Instruments and Selected Documents (14th Supp.) 38 (1966).

18/ 19 USC 2011.

19/ S. Rep. 782, 89th Cong. 1st Sess., 7 (1965).

201, which is based upon GATT concepts and is intended to be nondiscriminatory in nature. Moreover, the overall purpose of Sections 201-203 is to protect domestic productive resources--i.e., employees, physical facilities and capital. 20/ Much of the legislative history of these sections is replete with expressions of concern for American workers and the utilization of domestic productive resources. In fact, the legislative history states that the Commission must "necessarily take into account imports from all countries." 21/ Of course, if the products were only exported for final assembly and were actually manufactured domestically, they could be counted as domestic production rather than imports. That is not the case here.

INCREASED IMPORTS

Total U.S. imports of the types of motor vehicles included in the scope of this investigation increased substantially from 1975 through January-June 1980. From just over 2.4 million units in 1975, imports of those vehicles peaked in 1978 at just under 3.8 million units, but then declined to 3.6 million units in 1979. During January-June 1980 imports of all such vehicles were about 9.5 percent higher than the levels recorded in the corresponding period of 1979.

Trends in imports of both passenger automobiles and light trucks reveal an overall increase during 1975-79. Imports of passenger automobiles rose from just over 2 million units in 1975 to over 2.9 million units in 1978, an increase of 43 percent. In 1979 imports of passenger automobiles fell by

20/ H. Rep. 93-571, 93rd Cong., 1st Sess., 46 (1973).

21/ Id.

about 4 percent from 1978 levels to about 2.8 million units. Imports of light trucks and cab/chassis increased from 374,609 in 1975 to a peak of 859,500 units in 1978, before falling by about 6.5 percent in 1979 to 803,700 units.

Comparison of U.S. imports of automobiles and light trucks and cab/chassis during January-September 1979 with the corresponding period of 1980 reveal similar trends for the two motor vehicles segments. Imports of passenger automobiles increased from 2.2 million units in January-September 1979 to 2.5 million units in the corresponding period of 1980 or by 13.6 percent. Imports of trucks and cab/chassis increased from 472,320 units during January-September of 1979 to 531,012 units in the corresponding period of 1980, or by 12.4 percent.

Clearly, imports of automobiles and light trucks (including cab chassis) are each increasing in terms of the statute. Imports of medium and heavy trucks, on the other hand, have declined significantly throughout the period of investigation, both absolutely and relative to domestic production. The market share of imports has steadily declined from about 18 percent in 1976 to below 8 percent in 1979. Thus, with respect to this industry, the first criterion is not met.

SERIOUS INJURY

To determine serious injury, Section 201(b)(2) of the Trade Act requires that "the Commission shall take into account all economic factors which it considers relevant, including (but not limited to)--

the significant idling of productive facilities in the industry, the inability of a significant number of firms to operate at a reasonable level of profit, and significant unemployment or underemployment within the industry.

We have also considered the decline in domestic sales and the increases in inventories.

There can be little argument that the two domestic industries under primary investigation (passenger autos and light trucks) manifest serious injury when all of these factors are analyzed. While most importers argued that only the "large car" segment is being injured, the facts and testimony before us overwhelmingly demonstrate that the passenger automobile industry in the aggregate is in serious difficulty. Data for light truck production yields a similar analysis. The injury which I find to exist commenced in early 1979, but has become most pronounced in the first six months of 1980. When this latter period is examined, the declines in production, employment, profitability and sales are devastating. While sales have rebounded slightly in the most recent quarter, third quarter losses are reported to be of record proportions. Thus, I find both industries to be suffering "serious injury" within the meaning of the statute. The following facts lend support to this finding:

In the aggregate most of the indices of the U.S. automobile producers' performance during the period of investigation reveal a healthy picture from 1976 through 1978 and rapidly declining trends thereafter. Domestic production of passenger automobiles reached a peak of slightly over 9.1 million units in 1978, but by 1979 production had declined to 8.4 million units and continued to decline during January-June 1980. Domestic production of light trucks declined from 3.3 million units in 1978 to 2.7 million units in 1979, or by 17 percent, and further declined by 60 percent in January-June

1980. Domestic sales, as reflected in data on total shipments, followed the trends in production--increasing substantially until 1978 and then declining. The decline in shipments for passenger autos was almost entirely due to the drop in sales of large cars. Subcompact and compact car shipments actually increased throughout 1979-80.

Trends in domestic capacity to produce passenger automobiles as compared to those for light trucks differed somewhat during the period of investigation. Domestic capacity to produce passenger automobiles of all sizes fluctuated very little from 1975 through January-June 1980. Capacity to produce automobiles increased slightly from 10.7 million units in 1975 to a peak of 10.8 million units in 1977, but then declined slightly in every period through the first half of 1980. During the period of investigation there were notable shifts in capacity to produce different sizes of automobiles. The capacity of domestic producers to build larger-size cars declined, while their ability to produce smaller-size cars, especially subcompacts, increased in response to the shift in demand toward smaller, more fuel-efficient cars. Domestic capacity to produce light trucks increased steadily from 2.7 million units in 1975 to 3.2 million units in 1979. However, during January-June 1980, capacity to produce such vehicles declined by about 9.3 percent from the corresponding period of 1979.

Capacity utilization figures indicate significant idling of productive facilities during the period of investigation. Utilization of domestic capacity to produce passenger automobiles reached a high of 86.2 percent in 1978, declined to 79.5 percent in 1979, and continued to fall to 66.5 percent

during January-June 1980. Utilization of domestic capacity to produce light trucks followed a trend similar to that for automobiles, but the downturn in utilization of light truck facilities after 1977 is even more pronounced than for automobiles. Capacity utilization of domestic light truck facilities was over 100 percent as recently as 1977, but by January-June 1980 had dropped markedly to 41.5 percent.

Since most U.S. producers do not maintain inventories, it is necessary to look at dealers' inventories of new vehicles if this factor is to be assessed. While the absolute figures do not reveal any particular trend, the ratio of inventories to annual shipments has been increasing since 1978. This is particularly true of large cars, the vehicles which cost the most to carry on inventory because of their higher sales prices.

Financial data provided by domestic firms clearly reveal the inability of a significant number of firms to operate at a reasonable level of profit. From 1978 to 1979, the net operating profit for U.S. producers on their U.S. automotive operations fell by 76 percent from \$5.6 billion to \$1.3 billion, and continued to fall to a net loss of \$2.9 billion in January-June 1980. The major losses recorded in these recent periods are indicative of the financial status of most of the producers of passenger automobiles and light trucks. During January-June 1980 the only U.S. producer to report a profit was Volkswagen of America. The declining financial position of the U.S. motor vehicle manufacturers is also revealed in the substantial drop in cash flow. U.S. producers' cash flow from operations declined from \$8.9 billion in 1978

to \$5.1 billion in 1979, and then to a negative \$356 million in January-June 1980.

Similarly, employment patterns declined during 1979 and the first half of 1980. The average number of all employees in U.S. establishments producing passenger automobiles and light trucks declined from 1,003,430 in 1978 to 971,929 in 1979 and then in January-June 1980 declined again by about 22 percent below the level recorded for the corresponding period of 1979. Other employment indices, including the average number of production workers, man-hours worked, and output per 1,000 man-hours, mirror trends for all employees.

In April 1980, the U.S. Department of Transportation issued projections of employment changes in the auto industry based on several assumptions, including peak consumption levels of 11 million units per year, employment levels reached in 1978/79, and a return to a 15 percent import penetration level. Based on these assumptions, the report indicates that a decline in employment of auto manufacturers due to productivity gains could be as great as 150,000 by 1985. Employment gains of about 48,000 jobs due to changes in the market by 1985 offset somewhat the 150,000 loss related to increased productivity, indicating a total projected decline in employment resulting from both productivity gains and changes in the market of about 100,000 from 1978/79 levels. Thus, with increased demand for automobiles and light trucks and substantially reduced imports, employment in these industries would still not return to previous levels.

There is no doubt that both the passenger automobile and light truck industries are seriously injured.

IBSTANTIAL CAUSE

While I find the domestic industries producing passenger automobiles and light trucks to be suffering serious injury within the meaning of Section 201(b)(1), I do not find that increased imports are a substantial cause of such injury. The statute defines the term "substantial cause" as "a cause which is important and not less than any other cause." 22/ Applying this test, I have found the decline in demand for new automobiles and light trucks resulting from the general recessionary conditions in the United States economy to be a far greater cause of the domestic industries' plight than the increase in imports. While I also believe that the rapid change in product mix necessitated by the shift of consumer preference away from large, less fuel-efficient vehicles is an important cause of the present injury, I do not view this factor to be a more important cause than increased imports.

a Decline in Overall Demand

One noticeable factor in this case is the apparent lack of correlation between the growth in import volume and the state of health of domestic producers. Our investigation reveals that the period 1976-78 was characterized by strong domestic sales and record profits. 23/ Yet it was during this period that the largest increase in total imports occurred. Passenger automobile imports increased from 2 million units in 1975 to 2.9 million in 1978, while light truck imports grew from 375,000 in 1975 to

22/ Trade Act of 1975, Section 201(b)(4), 19 U.S.C. 2251(b)(4).

23/ This fact was essentially acknowledged by domestic industry representatives during the hearing.

859,000 in 1978.) Imports actually declined in 1979, when the recession began in earnest. Even Japanese imports grew most dramatically in the prior period, and remained about steady in 1979. While Japanese imports have increased by a more alarming rate in the first 6 months of 1980 (by about 200,000 units over the comparable period of 1979), imports from other sources have declined. This juxtaposition of events becomes even more curious when we consider the testimony of petitioners that the injury began in early 1979 and has deepened over the past 18 months. 24/ Given the relatively slight import growth in that period, and considering how healthy the monthly sales figures were before 1979, one obviously begins to look for other explanations of the current injury.

One figure that stands out in stark contrast to the rather marginal import increases for 1979-80 is the very large decline in overall consumption of both passenger autos and light trucks. Consumption of passenger autos fell by almost 1 million units in 1979, a decline of 7.8 percent. Moreover, consumption in January-June 1980 was 1.1 million units or 18.5 percent below the figure for January-June 1979. For light trucks the decline in 1980 was over 700,000 units or 19.3 percent, and the January-June 1980 figure was 47 percent below the comparable figure in 1979. It is therefore clear that domestic producers faced seriously declining demand in the period January 1979-June 1980. While imports did improve their market share substantially during this period by maintaining constant or slightly increasing volume in the face of falling demand, the downturn in demand itself is obviously a

24/ Hearing transcript at 124-125, 177-78.

variable factor which must be independently assessed for its impact on U.S. producers.

At the most fundamental level, then, it is useful to allocate the decline in domestic producers' shipments in 1979 and 1980 into two basic components: that portion accounted for by the reduced overall consumption of autos and light trucks because of general economic conditions, and that portion attributable to the increasing market share of import vehicles. The relative magnitude of these two causes can be assessed by comparing the actual decline in domestic shipments to the decline that might have occurred if imports had not increased their market share in 1979-80, i.e., if imports and domestic vehicles had shared equally in the overall decline in sales. The difference between these two figures represents the maximum potential loss in sales due to increased imports. This amount can then be compared to the volume of loss attributable solely to reduced demand. The following tables, based upon data available in the Commission's report, reveal the results of this exercise for 1979 and for January-June 1980:

Table 1.--Passenger automobiles: U.S. apparent consumption, U.S. producers' domestic shipments, imports for consumption, imports' share of consumption, 1978 and 1979, and relative increases or declines in imports and producers' shipments in 1979, if the share of imports is held constant at the 1978 level

Item	1978	1979
Actual 1978 and 1979 data:		
Apparent consumption-----1,000 units--:	11,185.0	10,315.3
U.S. producers' domestic shipments-----do--:	8,256.9	7,518.2
Imports for consumption-----do--:	2,928.1	2,797.1
Ratio of imports to consumption-----percent--:	26.2	27.1
Estimated data for 1979, holding import share of consumption constant at 1978 level and using actual 1979 consumption data:		
Imports, if held at 1978 share of consumption-----1,000 units--:	1/	2,702.6
U.S. producers' domestic shipments, if held at 1978 share of consumption-----1,000 units--:	1/	7,612.7
Net change from 1978 to 1979:		
Total actual decline in U.S. producers' shipments-----1,000 units--:	1/	738.7
Net decline due to increasing import share---do--:	1/	94.5
Net decline due to declining demand-----do--:	1/	644.2
Share of declining shipments due to declining demand-----percent--:	1/	87.2

1/ Not applicable.

23

Source: Compiled from data presented in table 19 of the staff report.

Table 2.--Passenger automobiles: U.S. apparent consumption, U.S. producers' domestic shipments, imports for consumption, imports' share of consumption, January-June 1979 and January-June 1980, and relative increases or declines in imports and producers' shipments in January-June 1980, if the share of imports is held constant at the January-June 1979 level

Item	: January-June : : 1979 : :	: January-June : : 1980 : :
Actual January-June 1979 and January-June 1980 data:	:	:
Apparent consumption-----1,000 units--:	5,807.7 :	4,731.7
U.S. producers' domestic shipments-----do--:	4,369.8 :	3,099.9
Imports for consumption-----do--:	1,437.9 :	1,631.8
Ratio of imports to consumption-----percent--:	24.7 :	34.5
Estimated data for January-June 1980, holding import :	:	:
share of consumption constant at January-June 1979 :	:	:
level and using actual January-June 1980 :	:	:
consumption data:	:	:
Imports, if held at January-June 1979 share of :	:	:
consumption-----1,000 units--:	<u>1/</u> :	1,168.7
U.S. producers' domestic shipments, if held at :	:	:
January-June 1979 share of consumption-----do--:	<u>1/</u> :	3,563.0
Net change from January-June 1979 to January-June 1980:	:	:
Total actual decline in U.S. producers' :	:	:
shipments-----1,000 units--:	<u>1/</u> :	1,269.9
Net decline due to increasing import share of :	:	:
consumption-----1,000 units--:	<u>1/</u> :	463.1
Net decline due to declining demand-----do--:	<u>1/</u> :	806.8
Share of declining shipments due to declining :	:	:
demand-----percent--:	<u>1/</u> :	63.5

1/ Not applicable.

Source: Compiled from data presented in table 19 of the staff report.

Table 3.--Light trucks and cab/chassis therefor: U.S. apparent consumption, U.S. producers' domestic shipments, imports for consumption, imports' share of consumption, 1978 and 1979, and relative increases or declines in imports and producers' shipments in 1979, if the share of imports is held constant at the 1978 level.

Item	: 1978 : :	: 1979 : :
Actual 1978 and 1979 data:	:	:
Apparent consumption-----1,000 units--:	3,909.3 :	3,155.1
U.S. producers' domestic shipments-----do--:	3,049.8 :	2,351.4
Imports for consumption-----do--:	859.5 :	803.7
Ratio of imports to consumption-----percent--:	21.9 :	25.5
Estimated data for 1979, holding import share of :	:	:
consumption constant at 1978 level and using :	:	:
actual 1979 consumption data:	:	:
Imports, if held at 1978 share of :	:	:
consumption-----1,000 units--:	<u>1/</u> :	691.0
U.S. producers' domestic shipments, if held :	:	:
at 1978 share of consumption-----1,000 units--:	<u>1/</u> :	2,464.1
Net change from 1978 to 1979:	:	:
Total actual decline in U.S. producers' :	:	:
shipments-----1,000 units--:	<u>1/</u> :	698.4
Net decline due to increasing import share--do--:	<u>1/</u> :	112.7
Net decline due to declining demand-----do--:	<u>1/</u> :	585.7
Share of declining shipments due to declining :	:	:
demand-----percent--:	<u>1/</u> :	83.9

1/ Not applicable.

24

Source: Compiled from data presented in table 20 of the staff report.

Table 4.--Light trucks and cab/chassis therefor: U.S. apparent consumption, U.S. producers' domestic shipments, imports for consumption, imports' share of consumption, January-June 1979 and January-June 1980, and relative increases or declines in imports and producers' shipments in January-June 1980, if the share of imports is held constant at the January-June 1979 level

Item	:January-June:	
	: 1979	: 1980
Actual January-June 1979 and January-June 1980 data:	:	:
Apparent consumption-----1,000 units--:	1,943.0	1,014.7
U.S. producers' domestic shipments-----do--:	1,181.1	587.9
Imports for consumption-----do--:	442.3	426.8
Ratio of imports to consumption-----percent--:	22.7	42.1
Estimated data for January-June 1980, holding import	:	:
share of consumption constant at January-June 1979	:	:
level and using actual January-June 1980	:	:
consumption data:	:	:
Imports, if held at January-June 1979 share of	:	:
consumption-----1,000 units--:	<u>1/</u>	230.3
U.S. producers' domestic shipments, if held at	:	:
January-June 1979 share of consumption-----do--:	<u>1/</u>	784.4
Net change from January-June 1979 to January-June 1980:	:	:
Total actual decline in U.S. producers'	:	:
shipments-----1,000 units--:	<u>1/</u>	593.2
Net decline due to increasing import share of	:	:
consumption-----1,000 units--:	<u>1/</u>	196.5
Net decline due to declining demand-----do--:	<u>1/</u>	396.7
Share of declining shipments due to declining	:	:
demand-----percent--:	<u>1/</u>	66.9
	:	:

1/ Not applicable.

Source: Compiled from data presented in table 20 of the staff report.

I believe that these tables demonstrate graphically why imports are not a "substantial cause" of either industry's present malaise. They suggest that declining demand accounted for over 80 percent of the net decline in U.S. producers' domestic shipments of both automobiles and trucks from 1978 to 1979, as compared with less than 20 percent of the decline in U.S. producers' domestic shipments being attributable to imports' increasing share of U.S. consumption. Between January-June 1979 and January-June 1980, about two-thirds of the decline in U.S. producers' domestic shipments was

attributable to declining demand and only a third was due to the increased share of the U.S. market accounted for by imports. Thus, even if the import share had been held constant during these critical 18 months, and even if all of those sales which went into the increased import share had instead gone to U.S. producers, domestic firms' sales still would have fallen by over 80 percent of their actual decline in 1979 and by over 60 percent of their actual decline in January-June 1980. While the legislative history cautions against the application of a pure mathematical test, it is necessary to assess the relative impact of these factors, and I think these percentages reveal why one is so overwhelmingly greater than the other.

Petitioners would perhaps dispute the conclusions I draw from the above tables because the tables fail to allow for the theory that an import increase in the earlier period of 1976-78 could be accountable for injury which did not become manifest until 1979. However, even if average imports, consumption and domestic shipments for 1976-78 are compared to the 1979 figures, the decline in demand is still greater than the import factor. Moreover, the above tables really account for the overall import increase since 1975, because they postulate the overall effect of the increased market share of imports caused by a drop in domestic sales after three years of steady import growth. Thus, the above analysis gives an accurate picture of the demand and import factors since 1975.

It has been argued in this case that the downturn in demand is itself a result of several factors, and that each should be assessed individually to determine whether any single factor is greater than increasing imports. To

consider demand in the aggregate, the argument goes, is to cumulate artificially what are clearly separate causal elements in a manner inconsistent with the purposes or legislative history of Section 201. Among the separate and identifiable causes mentioned in this case are inflation, unemployment, rising interest rates, and higher energy costs. Undoubtedly, all of these factors played a part in bringing about the present recession in new vehicle sales. Supporters of the petition contend that none of these factors alone played as great a role in bringing about the injury as increasing imports. In fact, the UAW brief contends that increasing imports brought on much of the recession, and so the recession should be viewed as an effect rather than a cause.

All of these contentions seek to isolate and weigh separately the various components of a general economic downturn. In reality, most of the factors mentioned above have worked in unison to bring about what is commonly termed a recession." Inflation in new vehicle prices coupled with higher credit rates have acted together to drive up the total costs of new motor vehicles. Interest rates have played a particularly important part in the volume of auto sales, because these are long-term consumer durable purchases where credit financing is the norm. Not only have transaction prices for new vehicles and monthly payments for loans increased, but credit has become "tighter," and the refusal rate on auto credit applications has grown. Unemployment and general inflation have acted to reduce the real disposable income of the average consumer, and a normal reaction has been to delay many long-term capital outlays.

All of these phenomena are part and parcel of a generalized recession, which is normally defined as a period of reduced economic activity, and which can be brought on by a multitude of factors. Recessions are often characterized by rising prices, high interest rates and unemployment. But to say they are comprised of a multitude of causes is not to say that reduced demand in a recession cannot be cited as a single cause for purposes of section 201. In fact, I have cited this very factor in several past cases, 25/ particularly where we were considering highly cyclical industries which fluctuate with the general economy. The reason for such a policy is readily apparent; if decline in demand for the product is a consequence of a general economic downturn, then the inevitable recovery from the recession will restore health to the industry. This is precisely what happened to the automobile industry after the downturn in 1974-75. Cyclical downturns in the economy are to be expected, and must not force a reliance on unnecessary import remedies. The problem which auto producers confront is one which confronts many sectors of the economy (the building industry, for example), and it cannot be solved by import relief.

Of course, it is possible for imports to be a "substantial cause" of serious injury or threat thereof during a recession, but only where the absolute or relative increase is of sufficient magnitude to outweigh or equal the effects of the recession itself. As the previously cited tables demonstrate, that is not the case in the present investigation.

25/ See, e.g., Machine Needles, Inv. TA-201-38, USITC Pub. 936 at 22 (1974), Unalloyed Unwrought Zinc, Inv. TA-201-31, USITC Pub. 894 at 17, 19 (1978), Citizens Band (CB) Radio Transceivers, Inv. TA-201-29, USITC Pub. 852 at 29 (1978).

The Shift In Demand

A general understanding of how purchasers are reacting to changes in the marketplace is helpful in assessing the significance of the shift in demand and Detroit's reaction to it. With the high cost of new cars and high interest rates seriously affecting consumer confidence, it appears that a number of would-be purchasers are keeping their vehicles longer. This is verified by our information regarding the average age of motor vehicles. 26/ Such data shows a substantial change in buying habits from the days when trade-ins were encouraged every 2 or 3 years. At the same time, the rising cost of fuel creates a shift in demand, so that consumers who do have the economic means to make purchases want a more fuel-efficient model. Some consumers perhaps see the rapid improvements in fuel economy and decide to delay purchases another year or two until their favorite models have substantially better mileage ratings. In short, the rapid changes in product mix may be creating some of the buying uncertainty. The shift to smaller cars also affects the trade-in value of used cars, which in turn increases the cost of purchasing a new model. All of these problems result in a general reluctance to enter the market until prices and credit rates stabilize, general economic conditions improve, and buyers become convinced that the new generation of products are sufficiently fuel-efficient and well made.

This theory of consumer behavior explains much of the current recessionary difficulty, but it also raises the inevitable question of whether shift in demand to smaller cars is itself a more important cause of serious

26/ Prehearing Report to the Commission and Parties, issued September 10, 1980, at A-134.

injury than increased imports. The facts speak for themselves about the size of this change in consumer preference. 27/ One of the difficulties in assessing such a factor quantitatively is that it is inextricably bound together with the increase in imports. While a shift from big to small is conceptually different than a change from domestic to imported, the fact is that two-thirds of the recent increase in small car sales has accrued to the benefit of importers. Ultimately, one becomes involved in a tautological debate about whether increased imports of small cars are an effect of the shift in demand or the explanation for it. Thus, it is only possible to make certain qualitative judgments about the shifting product mix within the domestic industry itself.

Ordinarily, the shift to another product within the same industry should not necessarily be injurious to that industry. However, the lead times associated with introducing new models and the magnitude of capital investments required make the auto industry unique. In order to be able to accommodate a shift, they must anticipate it by 3 to 5 years. Industry estimates of the need to alter production between 1975 and 1980 did not accurately predict how fast Americans would abandon their large cars. Due largely to unforeseen events such as the Iranian revolution and subsequent oil shortage, and because of the lead-time problem associated with auto production, U.S. producers' plans for expanding small car output lagged far behind the market and its needs. In fact, Ford Motor Co. had made a conscious decision not to downsize its entire fleet as far back as 1976, and instead

27/ Infra A-70 through A-71.

concentrated on creating the entirely new Escort/Lynx model. Thus, Ford found itself with little flexibility to expand small car production when market forces changed, and in addition found itself needing to accelerate capital expenditures and squeeze them into a shorter time-frame in order to react to sweeping changes in consumer preference. Chrysler found itself in much the same situation, but it received substantial federal support which helped to offset some of its capital expenditures. Moreover, its small car plans were further along than Ford's, although Chrysler still had excess large car capacity. Only General Motors, with superior capital resources, was in a position to face the trend toward smaller cars. Its downsizing was well along, and it had substantial numbers of small car models in production.

Clearly then, the rapid transition to smaller autos and trucks disturbed U.S. producers' plans for a slow, orderly transition. They had hoped to finance their plans for new, fuel-efficient models through the profits on large autos. Without these profits being generated, they found themselves incurring huge capital costs when they could least afford them. Our investigation also reveals that the profit margin on small cars has traditionally been much less, so the industry found itself shifting into a product line which resulted in a lower ratio of net profits to sales. Yet they were not producing such models on sufficient economies of scale to yield the type of profits that sales of large cars--loaded with expensive "extras"--could produce.

All of these factors unquestionably affected the profit picture of U.S. firms. Moreover, the carrying costs to dealers incurred from having high

inventories of large cars has also been injurious, especially with the higher interest rates. A record number of dealers have gone out of business since 1979. Thus, the shift in demand must be viewed as an "important cause" of injury separate and apart from the shift to imports. Many of the industries' costs would have been incurred even if import competition had not existed, because simple economics dictated the change in consumer preference. However, I do not believe that the problems associated with this shift in demand should be considered more important than the relative increase in imported products. First, there is the previously mentioned fact that two-thirds of the growth in small cars has accrued to the benefit of imports. Some have suggested that this merely means imports, particularly Japanese vehicles, were better situated to capitalize on the shift in demand. While this is certainly true, it does not alter the fact that the transition of domestic producers to smaller vehicles was much less profitable in the short run because a disproportionate number of small car sales were going to importers. Were it not for the growing volume of imported small cars, Detroit could have undergone its present transformation more profitably and perhaps more dramatically. But the awareness that expanding small car output might not have expanded new car sales certainly impacted upon corporate decision-making regarding small vehicles. Also, U.S. firms have found themselves unable to charge sufficient markups on their small models because of import competition. Thus, I believe imports were an equal or greater problem for the industry to confront than the mere transition to small cars.

I recognize that in numerical terms the shift to smaller models has been greater than the increase in imports. Our own staff has concluded that this is so. 28/ However, I think this is a statistic which is highly unreliable and misleading. It depends upon what one classifies as "small cars," an issue on which there are a number of viewpoints. Some U.S. compacts are not really comparable in terms of size or fuel mileage with imported models, so the comparison is not altogether justified. This is why I have relied on a qualitative rather than a quantitative assessment of the relative importance of these two causal factors.

Finally, there may be some implication from the record in this investigation that we should give greater weight to the shift in demand as a cause because the industry brought injury upon itself by refusing to recognize in a timely manner the long-term change in consumer preference away from "gas guzzlers." This "self inflicted injury" theory has superficial appeal. It appears to be popular among a large segment of the public. However, it ignores the fact that large car sales were exceedingly healthy in the period 1976-78. Events such as the revolution in Iran and the sudden changes in our nation's energy policy after decades of price regulation are what disturbed the pattern. The auto producers now see the inevitability of the future and are adjusting to meet it, but I cannot find their own management misjudgments or lack of planning to be superseding causes of injury. The long-standing obsession in the United States with large automobiles has many explanations. It resulted in large part from federal price controls that held the price of

28/ Prehearing Report to the Commission and Parties, issued September 10, 1980, at A-66.

gasoline at a fraction of the world price, a federally funded highway system that encouraged use of large, comfortable vehicles, and a national affluence that led us to lose sight of our true resource limitations. After the initial scare of gasoline lines and shortages in 1974, the American consumer flirted with a shift to small cars. The government considered higher gasoline taxes, tough fuel economy standards and an overall national energy policy. Most logical steps were deferred, and the average American consumer went back to demanding large, fuel-inefficient vehicles. The auto companies had shifted some production to smaller cars, but were forced to use large rebates to sell many of those models in the face of a quick shift in consumer tastes back to larger cars. Thus, the auto industry has had considerable difficulty in judging fickle consumers wishes. While it is possible to criticize the auto industry for a lack of total commitment in advertising and merchandising of smaller cars or a failure to recognize the inevitable long term consequences of energy scarcity, the fact remains that the American consumer was not ready for the change until 1979. When gas prices abruptly doubled to beyond the magic \$1.00 per gallon barrier and long lines returned, the average consumer reacted. Sales of big cars plummeted. Sales of small cars increased, but not in sufficient quantities to approach the decline in large car sales. This time everyone seems to agree that fuel efficiency has become one of the most important criteria for potential car buyers, and will probably remain so.

Summary

I find the overall decline in consumption brought about by the current recession to be a greater cause of serious injury than increased imports. I

also find that the shift in consumer demand is an important cause of the present injury, but it is not in and of itself a greater cause than the relative import increase. Increased imports made it difficult for U.S. firms to conduct the transition to smaller vehicles, thus impairing their competitiveness and inhibiting a faster shift to meet changing demand. But by far the greatest explanation of the damage suffered in the past 18 months has been the recession itself. Without it, there would be no serious injury today.

Undoubtedly, there will be debate about the appropriateness of the majority's causation determination. This is an area of legal policy that is by its very nature controversial and subjective. There are those who might disagree with the policy of treating demand as a separate cause, but I believe this policy makes good sense. It is our task under the statute to find "substantial cause," and despite the fact that I realize imports are an "important" cause of the problem, they do not satisfy the strict criteria of Section 201. Perhaps the dilemma which this determination posed for me was best summed up by the court in the famous case of Palsgraf v. Long Island Railway. 29/

The proximate cause, involved as it may be with many other causes, must be, at the least, something without which the event would not happen. The court must ask itself whether there was a natural and continuous sequence between cause and effect. Was the one a substantial factor in producing the other? Was there a direct connection between them, without too many intervening causes? Is the effect of cause on result not too attenuated? Is the cause likely, in the usual judgment of mankind, to produce the result? Or, by the exercise of prudent foresight, could the result be foreseen? Is the result too remote from the cause, and here we consider remoteness in time and space? . . . We draw an uncertain line, but draw it we must as best we can.

29/ 248 N.Y. 339, 162 N.E. 99 (1928) (Andrews, J., dissenting) (emphasis supplied).

In addition to concluding that increased imports are not a substantial cause of the serious injury which presently exists, I also believe they could not be a substantial cause of any threat thereof. U.S. small car production is steadily increasing. The three major manufacturers have begun introducing their new generation of front wheel drive, fuel efficient vehicles. We received extensive testimony that such products were fully competitive and would revolutionize the automobile industry. 30/ As such products come on stream the import share of the small car market should decline, particularly if demand picks up. Of course, if we remain in a deep recession with high interest rates it is probable that the present critical state of the industry will continue for some time. However, the adjustment already made by domestic firms to changing consumer demand should act to reduce the import share. Thus, imports should not become a greater causal factor in the next year or two. It is also worth noting that monthly import sales have actually declined since August, 1980. 31/ This seems to suggest that import volume has peaked, and that there would only be a noticeably higher import market share if demand for automobiles continued to decline. Such a decline in demand would only dramatize the causal link to recessionary factors which I have already cited as the major problem.

30/ The prehearing brief of the UAW quotes a report that the domestic industry will increase its production of the smaller, more fuel-efficient cars from 1,750,000 vehicles in 1980 to 7,210,000 vehicles in 1983. Prehearing Brief of United Auto Workers at 70.

31/ Data compiled by USITC staff from public sources.

VIEWS OF VICE CHAIRMAN MICHAEL J. CALHOUN

In this investigation under section 201 of the Trade Act of 1974, we are called upon to determine

whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. 1/

After reviewing the record and considering the statute and the legislative history, I have determined that the requirements of section 201 have not been met and, thus, cannot recommend relief for the industry.

I reach this conclusion because I do not find that imports are a substantial cause of serious injury as substantial cause is defined in section 201(b)(4). The reasons for this determination are discussed below.

Imported Article

The June 12, 1980 petition filed in this investigation by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") requested "relief from import competition from passenger cars, light trucks, vans and general utility vehicles from Japan, West Germany, and countries other than Canada." 2/

Subsequently, the Commission initiated this investigation

to determine whether automobile trucks, except automobile truck tractors and truck trailers imported together; on-the-highway, passenger automobiles; and bodies (including cabs) and chassis for automobile trucks except truck tractors 3/

1/ Section 201(b)(1), 19 U.S.C. 2251(b)(1).

2/ Petition for Relief Under Section 201 of the Trade Act of 1974 from Import Competition from Imported Passenger Cars, Light Trucks, Vans, and Utility Vehicles (hereinafter "UAW Petition"), p. 2,

3/ 45 F.R. 45731, July 7, 1980. The Federal Register notice delineates the broad category of imported articles which are subject to an investigation, but the notice does not define the domestic industry. The determination of which companies are producers of articles like or directly competitive with the imported article is made by the Commission at a much later stage in the investigation. 37

are being imported in such a way as to be cognizable under section 201.

Subsequently, on August 4, the Ford Motor Company, Inc., "Ford", filed a petition which stated,

[t]he imported articles which have caused serious injury and are threatening more serious injury, to the U.S. automotive industry are passenger cars, including station wagons,...and light trucks, vans, and general utility vehicles.... 1/

The Commission's Notice of Receipt of the Ford petition 2/ did not change the scope of the investigation instituted pursuant to the UAW petition. Thus, to determine the framework for an analysis of whether the criteria under section 201 have been met, it is necessary first to determine the relevant article or articles being imported.

No legislative history guides us in defining the article being imported. Giving the word its plain meaning, using Webster's Third New International Dictionary, an article is "a thing of a particular class or kind as distinct from a thing of another class or kind." Since the definition of the imported article focuses the investigation and since relief under section 201 is a derogation from our international commitments, it would seem apparent that the Congress intended the scope of the investigation to be narrowed to permit an assessment of the impact of as specifically described a "thing" as practicable. 3/

1/ Petition for Relief from Increased Imports of Passenger Cars, Light Trucks, Vans, and Utility Vehicles under Section 201 of the Trade Act of 1974 (Ford Petition) p. 10.

2/ 45 F.R. 55873, August 21, 1980.

3/ When Congress uses the term "articles" it sometimes intends it to have a broad meaning, including almost every separate substance or material, and at other times to have a narrower or more restricted meaning. Its significance in each case must be determined from the context. *Marshall Co., Inc., et al. vs. U.S.*, 320 F. Supp. 1003, 65 Cust. Ct. 629, C.D. 4148 (1970).

Article, then, should be defined as narrowly and precisely as possible, more so than simply a TSUS category if necessary so as to allow the greatest precision in assessing impact.

For the reasons discussed in this section, I conclude that the items subject to this investigation form three broad classes or kinds, and, thus, can be divided into three articles: (1) on-the-highway passenger automobiles; (2) light automobile trucks 10,000 pounds gross vehicle weight ("gvw") or less (except automobile truck tractors and truck trailers imported together), bodies (including cabs), and chassis for such automobile trucks; (3) medium and heavy trucks of over 1000 pounds gvw (except automobile truck tractors and truck trailers imported together), bodies (including cabs), and chassis for such automobile trucks.

On-the-highway passenger automobiles are described in TSUS item 692.10 with a special item 692.11 for these articles when imported from Canada under the Automotive Products Trade Act of 1965 ("APTA") (19 U.S.C. 2001). The column 1 rate of duty is being reduced from 3 percent ad valorem to 2.5 percent ad valorem in 5 annual stages beginning January 1, 1980. ^{1/} The Canadian vehicles are imported free of duty. A very important characteristic of these on-the-highway passenger automobiles being imported into the United States is that, conservatively, 80 percent tend to be smaller, more fuel-efficient automobiles largely

^{1/} Pres. Proc. 4707, 44 F.R. 72348, December 11, 1979. Thus the rate is currently 2.9 percent ad valorem.

from Japan while the remaining 20 percent tend to be larger, less fuel-efficient automobiles largely from United States subsidiaries in Canada. 1/

Automobile trucks are described in TSUS item 692.02, with a special item 692.03 for vehicles imported from Canada under the APTA. The column 1 rate of duty on TSUS item 692.02, when valued at \$1,000 or more, is 8.5 percent ad valorem. However, as a result of a trade dispute between the United States and the European Economic Community, these trucks are temporarily subject to duties at a rate of 25 percent ad valorem. 2/ The Canadian vehicles are imported free of duty.

Although the scope of this investigation included medium and large trucks (except automobile truck tractors and truck trailers imported together) which are heavy duty commercial vehicles, the petitioners were particularly concerned with finished or unfinished automobile trucks with a gross vehicle weight of 10,000 pounds or less, popularly termed "light trucks." Light trucks include pickups, vans, general utility vehicles and certain wagons. In contrast to on-the-highway passenger automobiles, which are designed for the transportation of passengers, these light trucks traditionally have been designed primarily for the transportation of cargo and a driver.

Because of the concern with unfinished trucks, our investigation also encompassed bodies (including cabs) and chassis for trucks. A cab/chassis is a pickup cab on a chassis to which a number of different

1/ For a discussion of these categorizations see the treatment of Industry, infra.

2/ Pres. Proc. 3564, 28 F.R. 13247, December 6, 1963, shown at item 945.69 of the TSUS.

types of cargo or passenger containers may be attached. The cab/chassis are imported under TSUS item 692.20, with a special item 692.21 for these items imported under the APTA. The column 1 rate of duty on these items is 4 percent ad valorem. However, to implement a decision of the United States Court of Customs and Patent Appeals, 1/ the United States Customs Service reclassified imported lightweight cab/chassis under item 692.02, making them dutiable at the temporary rate of 25 percent ad valorem. 2/ The Canadian items are imported free of duty under item 692.03 of the TSUS.

Being Imported into the United States

Under the statute, the article whose impact is being assessed must be "imported into the United States." In this context, Ford has made a novel argument concerning articles entering the country under the APTA. It is Ford's position that these items are not being imported into the United States because there is a single, unified North American common market for the manufacture and distribution of new cars and trucks. The level of shipments of automobiles from Canada is, to some

1/ Daisy-Heddon, Div. Victor Comptometer Corp. v. U.S., 600 F. 2d 799 (CCPA 1979).

2/ T.D. 80-137, 45 F.R. 35057, May 23, 1980.

extent, coordinated by the domestic parent companies who are the purchasers of most of the Canadian items. The average Ford vehicle entering the United States from Canada has an aggregate United States content, as a percentage of dealer wholesale price, in excess of 75 percent. Further, Ford argues that the special status of these items is recognized under APTA and the relevant waiver obtained by the United States under Article XXV of the General Agreement on Tariffs and Trade (the "General Agreement"). ^{1/} In short, Ford contends that these captive imports, as distinct from others, ought not to be considered as imports for purposes of this investigation. ^{2/}

I find no basis for supporting this argument. Because of the importance of the automotive trade between the United States and Canada, I shall address Ford's position in some detail. I should note, however, that even if Canadian imports were not included as imports, my determination would be no different.

General Motors Corporation ("GM"), Ford, Chrysler Corporation ("Chrysler"), and the American Motors Corporation ("AMC") have Canadian subsidiaries which operate assembly plants in Canada. The vehicles produced in those plants before 1980 were mostly those large vehicles which have difficulty competing with other imports.

^{1/} Ford Petition, pp. 16-21.

^{2/} Ford received no support for its position. Even Ford did not make a similar argument concerning captive imports from other countries.

Clearly there is a significant cross-border trade between the United States and Canada, with domestic producers responsible for that trade and its impact. Each U.S. manufacturer has a significant role in the operations of its Canadian subsidiary and, consequently, may direct those operations in a manner which is not harmful to the parent. Nevertheless, those very operations might have an adverse impact on another U.S. manufacturer or on the workers formerly involved in production operations transferred from the U.S. parent to the Canadian subsidiary. Because of the significance in volume and value of these captive imports, any investigation which excluded them from the definition of imports would be severely distorted.

Furthermore, there is no support for Ford's contention that there is a legal basis for determining that these articles are not being imported into the United States. 1/

Ford cites the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada 2/ (the "Autopact") as legal support for excluding the captive imports from Canada from our definition of imports. Basic to Ford's argument is the notion that the Autopact is more than a bilateral agreement concerning tariffs and that it creates a common market for trade in certain automotive vehicles and parts.

The fact is that the Autopact has been implemented as a tariff agreement although it is a logical extension of the integration of the U.S. and Canadian automotive industries. Moreover, it expressly permits

1/ Contrast section 201(b)(3)(A), which seems to assume that captive imports will be included in the domestic industry.

2/ 606 U.N.T.S. 31, 17 U.S.T. 1372, T.I.A.S. No. 6093 (1965).

the application of section 201 to duty-free automotive imports from Canada by providing that each country may enforce its rights 1/ under Article XIX of the General Agreement, the international escape clause upon which section 201 is based.

The Autopact is a brief bilateral agreement of unlimited duration. The preamble begins with a statement that describes the two governments as "determined to strengthen the economic relations between their two countries" and

Recognizing that an expansion of trade can best be achieved through the reduction or elimination of tariff and all other barriers to trade operating to impede or distort the full and efficient development of each country's trade and industrial potential;...(emphasis added).

The substantive provisions of the Autopact are contained in its Articles I-V and its annexes. Article I is most germane. It stops short, however, of mentioning a common market:

1/ Under Article III of the Autopact "The commitments made by the two Governments in this Agreement shall not preclude action by either Government consistent with its obligation under Part II of the General Agreement on Tariffs and Trade." Part II of the General Agreement contains the provisions which relate to nontariff barriers to international trade, including Article XIX. Concerning Article III of the Autopact, the GATT Working Party which examined the Autopact was told that the parties

had wished to reserve their right to take certain action vis-a-vis each other in accordance with the articles of the GATT referred to and that the formulation in Article III had appeared the simplest way of doing this. This article was not intended to affect the rights and obligations of third countries under the General Agreement. (BISD, Thirteenth Supplement, 112, 115.)

The Report of the Committee on Finance on the Automotive Products Trade Act of 1965 is supportive of this interpretation: "The agreement permits either government to take action consistent with its obligations under Part II of the General Agreement on Tariffs and Trade (GATT) Art. III. Part II of the GATT includes provisions permitting contracting parties to take antidumping measures and escape clause actions. In this connection it should be made clear that nothing in this agreement nor in this enabling legislation acts to dull the operation of our remedial statutes." ⁴⁴ Sen. Rep. 782, 89th Cong., 1st Sess., 7 (1965), 1965 USCAN 3670, 3676.

The Governments of the United States and Canada, pursuant to the above principles [in the Preamble], shall seek the early achievement of the following objectives:

(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;... (emphasis added)

Although Article I speaks of broad objectives, Article II limits the immediate impact of the Autopact to the granting of duty-free treatment to the imports specified in the annexes.

The United States implemented the Autopact in the Automotive Products Trade Act of 1965 (19 U.S.C. 2001). The implementing provisions refer to proclamations and modifications of tariff treatment:

The President is authorized to proclaim the modification of the Tariff Schedules of the United States provided for in Title IV of this Act. 1/

The only general reference to the broader objectives of Article I of the Autopact is contained in section 205 2/ of the legislation concerning special reports by the President to the Congress. The President was required to advise the Congress of the progress made toward the achievement of the objectives of Article I of the Autopact and recommend those further steps, including legislation, necessary for the achievement of the purposes of the Autopact and the implementing legislation.

1/ 19 U.S.C. 2011(a).

2/ Id. at 2015.

Pursuant to the authority granted by Congress, the President has issued two proclamations concerning tariff treatment, 1/ which is shown in Subpart B, Part 6, Schedule 6 of the TSUS and headnote 2 thereof.

The legislative history 2/ of the Automotive Products Trade Act of 1965 provides no more helpful explanation of the Autopact and Congressional intent. It is noteworthy, though, that strong minority views were submitted by Senators Ribicoff, Hartke and Gore. 3/ Their primary concern was that,

this legislation is special interest legislation of the most restrictive sort, the opposite of free trade, detrimental to our balance-of-payment situation and harmful to American industry and jobs. 4/

The waiver 5/ granted by the contracting parties to the United States for its discriminatory implementation of the Autopact was clearly a waiver of the obligations concerning customs treatment imposed upon the United States under Article I:1 of the General Agreement. The contracting parties seemed to consider the Autopact to be limited to tariff treatment. No mention was made of Article XXIV (relating to customs unions and free-trade areas). The preamble to the waiver and the waiver itself repeatedly refer to "duty-free

1/ Proc. No. 3682, 30 F.R. 13683, October 21, 1965 and Proc. No. 3743, 31 F.R. 12003, September 8, 1966.

2/ 1965 U.S.C.C.A.N. 3670

3/ Id. at p. 3705.

4/ Ibid.

5/ BISD, Fourteenth Supplement, 37.

treatment" and "customs duties." Further reading leads to the conclusion that the waiver was granted to further the international rationalization of production, provided the rights of other Contracting Parties are protected. 1/

As further support for its position, Ford cited the Commission's determination in Bolts, Nuts, and Large Screws of Iron or Steel, Investigation No. TA-201-37, USITC Pub. No. 924 (1978). Certain of the imported articles in that investigation were imported from Canada under the Autopact. In that investigation, in which only three Commissioners participated, Commissioners Moore and Bedell found in the affirmative (threat and serious injury, respectively). In the Determination of the Commission it was stated:

1/ "Having been notified that the Governments of the United States of America and Canada concluded, ...an agreement providing for duty-free treatment for trade in automotive products between their two countries;... Considering that the automotive industries of the United States and Canada are characterized by an exceptionally high degree of integration, and Considering that by reason of the close similarity of market conditions in the two countries and the close relationship which exists and could be further developed in their production facilities of automotive products, there are special factors which offer exceptional opportunities further both to rationalize the production of automotive products in the two countries and integrate production facilities and to increase the efficiency of United States/Canadian production; Considering, moreover, that the Government of the United States accepts that the facilities granted in paragraph 1 below [relating to the discriminatory duty-free treatment] should not be used in a way to prejudice the interests of other contracting parties and that it is not its intention to cause imports into the United States market of automotive products imported from Canada to replace imports of like products from other sources;...." (emphasis added) Substantively, the waiver contains the waiver itself (Article I) and several consultation/dispute resolution provisions designed to protect the trade interests of third party Contracting Parties, particularly if problems of trade diversion develop. An annex lists, in terms of TSUS item numbers, the automotive products which may receive the duty-free treatment.

The Commission makes no determination with respect to imports of the subject articles from Canada admitted free of duty as original equipment for motor vehicles under item 646.79 of the TSUS. 1/

Commissioner Bedell, in separate views explained,

[t]here is insufficient information at this time, in my opinion, for me to make a determination with respect to these Canadian articles. 2/

Moreover, Commissioner Alberger, voting in the negative, made his determination

with respect to all the imported articles under investigation, including these Canadian articles. 3/

Thus, it is not correct to state that the Commission excluded the Canadian items from its consideration because of the Autopact and the implementing legislation.

In sum, this treatment of Ford's argument leads to the simple conclusion that those articles entering the United States from Canada, the Autopact and APTA notwithstanding, are, under the statute, being imported into the United States.

Increased Quantities

The statute further requires the Commission to determine whether an article is being imported into the United States "in such increased quantities" as to be a substantial cause of serious injury or the threat thereof to the domestic industry. The increase in quantity may be either actual or relative to domestic production. It is my view that imports of automobiles and light trucks satisfy this requirement and imports of heavy trucks do not.

1/ TA-201-37, p. 4.

2/ Id. p. 9.

3/ Id. p. 4.

It is undisputed that the quantity of imports of automobiles and light trucks has increased since 1975 both in actual numbers and relative to domestic production. The contrary is true with regard to medium and heavy trucks. When the data are reviewed, two facts are striking: The increase in imports from Japan and the extent of captive imports by United States producers.

Regarding automobiles, total imports for consumption of passenger automobiles increased in actual numbers from 2,047,702 in 1975 to a peak of 2,928,055 in 1978, before dropping to 2,797,063 in 1979. During the first 6 months of 1980, 1,631,767 automobiles were imported, an increase of about 200,000 cars or about 13 percent over the same period in 1979. Of the 4 percent decrease in 1979 compared with 1978, Canada's decrease was the largest (19 percent) even surpassing that of the Federal Republic of Germany (12 percent). ^{1/} In contrast, imports from Japan increased 4 percent from 1978 to 1979, but increased 31 percent in the 6 month period January-June 1980 compared with the same period in 1979, probably because of the large inventories held in 1979 had been depleted.

As a percentage of total imports for consumption of passenger automobiles, Japan's share has steadily increased from 33.6 percent in 1975 to 52.2 percent in 1978, 56.9 percent in 1979 and 61.9 percent in the first 6 months of 1980.

^{1/} Certain Motor Vehicles and Certain Chassis and Bodies Therefor, Report to the President on Investigation No. TA-201-44, Dec. 21, 1980 (the "Report"), p. A-23. (The figures in the table are slightly distorted by the inclusion of Taiwan and Hong Kong.) The decline in imports from the Federal Republic of Germany can be accounted for, at least in part, by the opening of the Volkswagen of America, Inc., plant at New Stanton, Pa.

In 1979, of the 3,101,990 automobiles exported from Japan, 1,546,740 or 50 percent were exported to the United States.^{1/} In contrast 630,216 or 20 percent were exported to the nine member states of the European Economic Community and 342,690 or only 11 percent were exported to all of nearby Asia. During the same period, Japanese domestic consumption was about 3.1 million automobiles or about 100 percent of that country's automobile exports. In contrast to the marked increase in imports from Japan, there was a slight decrease in the volume of imports entering this country from the Federal Republic of Germany and the United Kingdom. There was a slight increase in the amount entering from Italy, Sweden and France. ^{2/}

U.S. producers' imports for consumption of passenger automobiles increased from 830,000 in 1975 to 1,045,000 in 1977 and decreased to 779,000 in 1979. Thus, captive imports accounted for a declining but constantly significant share of total imports: 41 percent in 1975, 39 percent in 1976, 38 percent in 1977, 35 percent in 1978, 28 percent in 1979, and 26 percent in the first six months of 1980.

Imports of passenger automobiles as a percentage of domestic production increased steadily from 30.9 percent in 1975 to 33 percent in 1979. A sharp contrast is evident in comparing these ratios for the first 6 months of 1979 with the same period in 1980: 29.7 percent for 1979 versus an all-time high of 47.5 percent for 1980. The ratio of imports from Japan to domestic production ranged from 10 percent in 1975 to 19 percent in 1979 and 29 percent for the first 6 months of 1980.

^{1/} Motor Vehicle Statistics of Japan, 1980, Japan Automobile Manufacturers Association.

^{2/} Report, p: A-23.

A similar increase in imports occurred with regard to imports of light trucks and cab/chassis. Total imports for consumption of light trucks and cab/chassis increased in actual numbers from 374,620 in 1975 to 803,690 in 1979, or by 47 percent. For the first 6 months of 1980, there was a decrease of over 15,000 or 4 percent from the first half of 1979. This decrease was accounted for by the 42 percent decline in imports from Canada. However, 84 percent of that decline was taken up by imports from Japan, which increased by 40 percent.

As a percentage of total imports of light trucks and cab/chassis for consumption, the share of imports from Japan ranged from 54 percent in 1975 to 51 percent in 1976, 47 percent in 1977, 50 percent in 1978 and 55 percent in 1979. The ratio of 46 percent in the first 6 months of 1979 contrasts with a high of 67 percent in the same period of 1980.

United States producers' captive imports of light trucks and cab/chassis are significant. All of the imports from Canada during the period 1975 through the first 6 months of 1980 were captive imports. There was a slight overall decrease in the percentage of the imports from Japan that were captive: 50 percent in 1975, 43 percent in 1976, 40 percent in 1977 and 1978, and 48 percent in 1979 and the first 6 months of 1980. In sum, of the total imports of these articles, a significant percentage was caused each year by domestic producers, from 67.5 percent in 1975 to a high of 74.8 percent in the first 6

months of 1979. That ratio decreased to 63.7 percent in the first half of 1980. 1/

Imports of light trucks and cab/chassis as a percentage of domestic production increased steadily from 18.5 percent in 1975 to 26 percent in 1978 and 29 percent in 1979. The ratio jumped to 62.5 percent in the first 6 months of 1980 in contrast to 25.9 percent for the same period in 1979.

Total imports for consumption of medium and heavy trucks and cab/chassis declined erratically from 1975 to 1979. The decline continued into the first 6 months of 1980. 2/ Imports of this article as a percentage of domestic production also declined, as did the ratio of these imports to domestic consumption. 3/

Three criteria must be fulfilled before the Commission may make an affirmative determination under section 201. There must be an increase in imports, serious injury or the threat thereof, and a substantial causal link between the imports and the injury. A failure to make a positive showing concerning any single criterion defeats a petition. At this point, I am able to find that medium and heavy trucks are not being imported into the United States in the increased quantities contemplated by the statute. Consequently, my analysis of their impact ends here. Automobiles and light trucks are being imported in quantities sufficient to satisfy the increased imports requirement.

1/ Report, p. A-28

2/ Id. pp. A-103 and A-105.

3/ Id. p.105 .

Domestic Industry

The definition of the domestic industry is the first step in the analysis of serious injury or the threat thereof. The group of domestic producers of the article like or directly competitive with the imported article comprises the domestic industry. In its analysis of injury, the Commission takes into account the financial and economic impact of the imported article under investigation on these producers. Thus, the proper identification of the domestic industry is a critical finding since, in any investigation, by varying the composition of the domestic industry we could likely reach varying results with regard to the question of injury.

At the outset of each investigation, the Commission considers all of the producers of an article which is possibly like or directly competitive with the imported article. Following the statutory guidelines, and considering economic and marketing data, we then determine the relevant domestic industry or industries. ^{1/} Finally, the Commission may exclude from the scope of the domestic industry certain parts of producers when the inclusion of their full activities would tend to distort the analysis of injury. ^{2/} I have concluded that there are

^{1/} With respect to the problem of whether the language "like or directly competitive" implies the existence and characteristics of one industry as opposed to two distinct industries, the legislative history of section 201 and the court's ruling in United Shoe Workers v. Bedell 506 F.2d 174 (D.C. Cir. 1974) provide useful guidance. In observing that "like" and "directly" competitive are concepts which are neither synonymous with nor explanatory of each other, both the House and the Senate strongly imply that these terms could, indeed, refer to separate groups of producers. See also the majority views in Mushrooms, Investigation No. TA-201-43, USITC Pub. No. 1089 (1980) at pp. 6-14.

^{2/} Sec. 201(b)(3)(A) and (B), 19 U.S.C. 2251(b)(3)(A) and (B).

two industries at issue here: Those producers and facilities producing automobiles and those producers and facilities producing light trucks and cab/chassis.

Section 201(b)(1) requires that we consider the question of serious injury or threat thereof to the domestic industry producing an article "like or directly competitive with the imported article." There is no statutory definition of the term "domestic industry," but there is legislative guidance concerning the term "like or directly competitive with the imported article."

The phrase "like or directly competitive" derives from language in Article XIX of the General Agreement,^{1/} the so-called "escape clause." It has been used in U.S. escape clause legislation since 1951.^{2/} In light of the legislative history and judicial guidance, the appropriate task in cases arising under section 201 is to draw a distinction between the "like" product and the "directly competitive" product.^{3/} Then, as we discussed in Mushrooms,^{4/} if the producers of the article like and the producers of the article directly competitive with the imports can be clearly treated as separate and distinct industries, we must look to whichever industry presents the most compelling case for relief. The industry, in all cases, must be a rationally defined

^{1/} See General Agreement on Tariffs and Trade, 61 Stat. (5), (6), 55 U.N.T.S. 194 (1948), Vol. IV, BISD.

^{2/} Trade Agreements Extension Act of 1951, sec. 7, 65 Stat. 72 (1951).

^{3/} See my opinion in Mushrooms, supra.

^{4/} Mushrooms, supra, at pp. 6-14.

distinct entity in accordance with current business and marketing practices.

Where the producers of the "like" product may easily constitute an apparent industry for the purposes of section 201, such a classification must be capable of analysis under the pertinent statutory criteria. In this connection, there may be instances in which it is impossible or inappropriate to segregate an industry. For example, when the same group of firms uses the same production facilities to produce both "like" and "directly competitive" articles or, otherwise, when it is impossible to break out statistics on production, consumption, sales, profits, or employment on the basis of the "like" product, then we might be compelled to aggregate.

With regard to the differences between products that are "like" and products that are "directly competitive," the legislative history of section 201, judicial precedent, and the majority view in Mushrooms offer guidance. The House and Senate Reports relating to the Trade Act of 1974 address this question directly with virtually identical language:

[T]he words "like" and "directly competitive," as used previously and in this bill, are not to be regarded as synonymous or explanatory of each other, but rather to distinguish between "like" articles and articles which, although not "like", are nevertheless "directly competitive." In such context, "like" articles are those which are substantially identical in inherent or intrinsic characteristics (i.e., materials from which made, appearance, quality, texture, etc.), and "directly competitive" articles are those which, although not substantially identical in their inherent or intrinsic characteristics, are substantially equivalent for commercial purposes, that is, are adapted to the same uses and are essentially interchangeable therefor. ^{1/}

^{1/} Trade Reform Act of 1974: Report of the Committee on Finance, S. Rept. No. 93-1298 (93rd Cong., 2d Sess. 1974), ("Sen. Rept."), pp. 121-122.

It is plain, therefore, that the intent of the drafting committees was that "like" has to do with the physical identity of the articles themselves, while "directly competitive" relates more to the notion of commercial interchangeability. Judicial guidance on the distinction between the two terms can be found in the leading case of United Shoe Workers of America, AFL-CIO v. Bedell, 1/ in which the court gave its view of the phrase, relying almost entirely on legislative history and case law regarding escape clause legislation. The court noted that,

[A]n imported product that is "like" a domestic product will ordinarily be directly competitive with that product. Unless Congress, by using "directly competitive" alternatively, intended to embrace articles not within the scope of "like," the "directly competitive" language is superfluous. From daily experiences, however, we know that many products can be directly competitive without having identical or nearly identical physical characteristics. Normally, the term "directly competitive" invites, in the first instance, a comparison of the commercial uses of the products and not their characteristics; the word "like," in common parlance, does the reverse. 2/

The court added that "one must approach the question whether an imported article is 'like' a domestic article with the knowledge that 'like' is the more restrictive of the two terms." 3/

The UAW contends that there is a single domestic industry because,

[a]ll U.S. produced passenger cars, light trucks, vans, and general utility vehicles (and wagons) are like or directly

1/ 506 F. 2d 174 (D.C. Cir. 1974) concerning a petition for adjustment assistance under the Trade Expansion Act of 1962 (76 Stat. 883).

2/ 506 F. 2d 174, 185-186.

3/ Id. at p. 186.

competitive with all imported passenger cars, imported light trucks, imported vans, and imported general utility vehicles (and wagons) respectively within the meaning of Section 201(b)(1) of the Trade Act of 1974. For example, compacts, subcompacts, intermediates and standard passenger cars compete against each other, with price (and price differential) often being an important factor in the final choice....

Moreover, the UAW submits that each separately identified category (passenger cars; light trucks; vans; general utility vehicles) is like or directly competitive with every other identified category. 1/

Further, the UAW cites section 601(5) of the Trade Act of 1974 2/ as support for the assertion that cab/chassis and their cargo boxes or flatbeds are directly competitive with U.S. manufactured automotive products (e.g., U.S. manufactured light pickup trucks). 3/

Ford also contends that there is a single domestic industry. 4/

According to Ford,

[e]ach of these articles is adapted to the same basic use of providing transportation over both long and short distances, and they are all essentially interchangeable for that purpose....

Similarly, although a station wagon, a van, and a light pickup truck have different characteristics, a person who wanted a vehicle for both basic transportation and light hauling would be likely to consider all three. During the period 1976-1979, many trucks were sold to families as a substitute for the traditional second car. 5/

1/ UAW Petition, pp. 34-35.
2/ 19 U.S.C. 2481 (5).
3/ UAW Petition, pp. 36-37.
4/ Ford Petition, pp. 11-14.
5/ Id. pp. 12-13.

Additionally, Ford argues that automobiles and light trucks are generally produced by the same companies, in many of the same facilities, with the same workforce, utilizing many of the same components. They are marketed through the same distribution channels and displayed on many of the same dealer floors. They are often produced in the same assembly plants and use many common components. They also have hourly workers who, to a large extent, are members of the same union, the UAW. 1/

Generally, the importers argued that there are several domestic industries. 2/ Many also argued that some or all imports are not like or directly competitive with any U.S. produced article. 3/

1/ Id. at pp. 13-14.

2/ See, e.g., Prehearing Brief of Toyota Motor Sales, U.S.A., Inc. (5 industries: small passenger cars, large passenger cars, light trucks, general utility vehicles and vans). pp. 8-18; Brief of the American International Automobile Dealers Association (domestic industry producing small cars is the only relevant industry), pp. 21-37.

3/ See, e.g., Statement on Behalf of Alfa Romeo, Inc. and Alfa Romeo S.p.A. (Alfa Romeo's are a specialty product different in terms of inherent and intrinsic characteristics from any U.S. product and compete with only one U.S. automobile, the Chevrolet Corvette), pp. 18-19; Statement on Behalf of Mercedes-Benz of North America, Inc. (because of its high quality, Mercedes Benz are not like any U.S. produced automobile and because of its substantially higher price, they are not directly competitive), pp. 5-8; Prehearing Brief of Fiat Motors of North America, Inc. (each imported automobile is distinguishable from any other imported or domestic automobile by size, weight, appearance, parts, component materials, engine size, appointments, and engineering details), pp. 6-10.

In view of all of this, and in view of my reading of the statute and the legislative history, I am convinced, first, that Congress did not intend for this agency to undertake analysis and decisionmaking in a vacuum, ignoring the plain behavior in the marketplace. Application of the statutory criteria must be made against circumstances that exist in fact rather than on the basis of neat, conceptual constructs. Otherwise, our work here becomes useless and cloistered.

Furthermore, my understanding of the operation of section 201 is that, in general, the more broadly an industry is defined the greater is the likelihood of diluting the indicia of injury. I do not think it can be seriously challenged that Congress intended section 201 to be a relaxation of the criteria for an industry to win relief. 1/ Thus, if our analysis of industry is to be consistent with the intent of Congress, in each case we must attempt to define industry as narrowly as is reasonable to provide a petitioner with the best basis for a showing of serious injury or threat. Recognizing that there might be some cases where this practice might result in a reduction of the likelihood of a finding of injury, we must apply a uniform standard that is designed over the long term to further this legislative intent. Consequently, the task before us in section 201 cases is to glean from the record what, in reality, is taking place in the market so that in applying the statutory criteria we can make the most realistic and precise finding as to what domestic articles are truly like or are truly directly competitive with the imported article.

1/ See, Senate Report, supra, at p. 120. See also, Trade Reform Act of 1973: Report of the Committee on Ways and Means, House Report No. 93-571(93rd Cong., 1st Session, 1973), ("House Report") p. 44.

In this case, there can be little doubt that all automobiles, in a rather broad sense, are substantially identical for the reasons posited by petitioners. However, based on the record in this case, it is very difficult for me to accept that, as a matter of law, a Toyota Corolla, for example, is substantially identical in such particular intrinsic characteristics as appearance or quality to a Cadillac Seville, for example. Neither the marketing strategy of the domestic industry nor the discernable behavior of the consumer in the marketplace can be used to support such a proposition. As well, while each of these automobiles may well be substitutable for the other in nearly all the uses to which automobiles as a class are put, I am hard pressed to find any convincing data that this kind of substitution takes place, in fact.

Based on the evidence before us, what appears to be happening in the marketplace, with increasing frequency, is that the consumer is differentiating among automobiles based upon subjective and highly individualized compromises between size and fuel economy. Thus, to the consumer, the greater distance there is between particular models of automobiles based on this assessment of size versus fuel economy the less like they are and the less competitive they are.

Despite the high level of subjectivity involved in this decision-making, it is observable that a consensus is emerging and that the consumer is increasingly preferring automobiles that are smaller and more fuel-efficient than previous models. Were this not the case, each of the domestic producers of automobiles would

not be engaged in the substantial retooling they are undertaking. Nor would they be involved in the significant changes in product line mix that they are pursuing. 1/ Consequently, in terms of the statute, what is developing with respect to automobiles is the addition of new intrinsic characteristics which are available for determining whether one type of automobile is like another or is competitive with another.

Based upon this assessment, it only follows that the definition of industry in this case should be made using these additional characteristics as well. And, to be sure, the Department of Transportation, the Environmental Protection Agency, industry related publications, and the industry itself use various categorizations based, in large part, on this phenomenon. 2/ The problem for me, however, is that this plainly observable trend in the marketplace is not yet complete and has not yet stabilized. Therefore, any attempt to synthesize it or, otherwise, to develop analytical tools based on it lacks sufficient objective basis for me to rely on in making an industry finding. Moreover, the kinds of data we use to measure serious injury are not available on the basis of an industry finding that would differentiate small fuel-efficient cars from those that tend to be larger and less fuel-efficient. 3/

1/ As a further matter in this connection, it cannot be ignored that, at the least, 80 percent of the imports and all of those imports that are increasing are of the smaller, more fuel-efficient type. As well, it is this rough category of domestic automobiles that is and has been experiencing an increase in sales.

2/ See Report, at pp. A-7

3/ It is worth noting, under section 201(b)(3)(B), particularly in light of the legislative reports (See House Report, supra, at pp. 45-46. See also Senate Report, supra, at p. 122) that I am not entirely sure what practical effect such an industry definition would have had on a serious injury analysis or substantial cause analysis. In the House Report, if the domestic article in question were produced by an independent operating division, those divisions not producing that article would be excluded from the industry finding. However, if the domestic article were produced in a "multiproduct plant" or a "subdivision" where there is production of several different product lines, the industry would include the operating unit as a whole.

While I think the assessment of smaller, more fuel-efficient imported automobiles ought to be made against a domestic industry producing the same, for the reasons stated, I find that the domestic article like or directly competitive with the imported automobiles is the domestic automobile. Thus, the relevant industry, taking into account section 201(b)(3)(B), is those producers and facilities engaged in the production of automobiles. 1/

With regard to imported light trucks, 2/ I am not able to find that light trucks are, as a matter of law, substantially identical in intrinsic characteristics or interchangeable for commercial purposes with domestic automobiles. In addition to the reasons discussed above, petitioners' arguments in this connection simply do not, in my mind, outweigh those of the respondents. In terms of substantial identity, while trucks and automobiles share the features stated by petitioners as a practical matter they simply are not identical. Truck designs make plain that they are structured less for passenger transport and more for bulk haulage. This is not to say that both objectives are not intended or that passenger transport is not accommodated. But the plain fact is that from appearance, trucks are primarily structured for haulage. They have a flatbed where automobiles allocate comparable space between haulage and passenger seating. Trucks allocate space so as to limit passenger space, whereas automobiles allocate space so as to maximize passenger space.

1/ My reasons for not including domestic trucks as like or directly competitive with imported automobiles are the same as those discussed in the following treatment of domestic articles like or directly competitive with imported trucks.

2/ I found, infra, that imported heavy trucks were not properly before us because there are no increasing imports of these articles.

In terms of commercial interchangeability, evidence was presented that there is the practice in the marketplace for automobile purchasers to purchase light trucks instead, but the evidence, at best, establishes a limited practice largely localized in certain geographic regions. There is no basis on the record to find that this substitution is substantial. In short, with regard either to like or directly competitive with, petitioners have failed to provide us with sufficiently compelling arguments in theory or in fact that overcome evidence on the record to the contrary and to overcome long-standing perceptions in the marketplace that trucks are simply not the same as automobiles.

I, therefore, find that the domestic article which is like or directly competitive with imports of light trucks is the domestically produced light truck. As a result, the relevant industry, taking into account section 201(b)(3)(B), is those producers and facilities engaged in the production of light trucks.

Having found these two industries, there are two matters related to the discussion of industry that have been raised and that deserve to be addressed. First, the UAW has argued that under section 601(5), imported cab/chassis are directly competitive with light trucks. Upon import, with only minimal application of labor and other resources, these items are converted to products that are, as a practical matter, substantially identical to the domestically produced article. Therefore, these items must be regarded under section 601(5) as directly competitive. I have accounted for this fact in defining the imported article, whose impact on the domestic industry is the subject of this investigation, as light trucks and cab/chassis.

The second matter is the question of whether dealers and independent suppliers are part of an industry under review here.^{1/} Under section 201 we are to consider serious injury with regard to the "domestic industry producing an article like or directly competitive with the imported article." Insofar as dealers as concerned, then, since they produce no article at all, I can see no basis for including them in either domestic industry. Regarding parts suppliers, my reading of United Shoe Workers v. Bedell is that the court found that a producer of component parts had no standing to petition for relief because their components were not "like or directly competitive with" the finished article. If under that case there can be no standing to petition, then I cannot understand how such individuals can be part of the industry for purposes of assessing serious injury. This is especially so since the standard for standing is much lower than that for industry. Moreover, our discussion in Mushrooms of the relationship between producers of fresh mushrooms and producers of canned mushrooms further supports my finding that independent suppliers to the automotive industry are not part of the industry for purposes of section 201.

^{1/} See Posthearing Brief Submitted on Behalf of Robert P. Mallon and Other Interested Domestic Automotive Dealers (auto dealers are "interested parties"), pp. 3-5; Posthearing Brief Submitted by the Automotive Materials Industry Council of the United States (the role of supplier companies is relevant in evaluating the ability of the automobile industry to adjust to new conditions of competition), pp. 5-6; and Posthearing Brief Submitted by Coalition of Automotive Component and Supply Workers (the suppliers are "a proper participant"), pp. 2-6.

Substantial Cause 1/

The Trade Act of 1974 defines substantial cause and lists factors we are to consider in determining whether increased imports are a substantial cause of serious injury or the threat of serious injury. Under section 201(b)(4), substantial cause is "a cause which is important and not less than any other cause." Under section 201(b)(2)(C), we are to take into account all economic factors we consider relevant including, in the case of substantial cause,

an increase in imports (either actual or relative to domestic production) and a decline in the proportion of the domestic market supplied by domestic producers.

The reports of the Committee on Finance and the Committee on Ways and Means, are largely repetitive of the language in the statute. 2/ But two policies are clear from the treatment of this issue by both Committees. First, the change made by the Trade Act of 1974 in the causality standard from one requiring imports to be a "major cause" to one requiring them to be a "substantial cause" was intended to make the nexus between imports and serious injury easier to establish. It was felt that the former standard "proved in many

1/ Ordinarily my treatment of serious injury and the threat of serious injury would come before a discussion of substantial cause. In this regard, I associate myself completely with the views of Chairman Alberger on the matters of serious injury and the threat thereof to both industries. I also associate myself with the views of the Chairman regarding substantial cause as it relates to the light truck industry.

2/ See Senate Report, supra, at pp. 120-121. See also House Report, supra, at pp. 46-47.

cases to be unreasonably difficult. 1/ The second policy, which is more relevant here, is that the Commission has broad discretion in analyzing causality because cases differ. The economic factors pertinent in one investigation may not be relevant in others. The Commission has amassed a substantive expertise upon which to draw in making the difficult judgments about what factors are relevant and what factors are more important than others in each investigation. Thus the authority, indeed the requirement, for us to reflect upon all factors we consider relevant is plain in both reports. The House report succinctly states this intent and underlying policy.

A new section has been added concerning the factors to be taken into account by the Tariff Commission [now the United States International Trade Commission] in determining serious injury, threat of serious injury, and substantial cause. These factors are not intended to be exclusive. It is important to note that the Commission is directed to take into account all economic factors it considers relevant. The committee did not intend that an industry automatically would satisfy the eligibility criteria for import relief by showing that all, or some of the enumerated factors, were present at the time of its petition to the Tariff Commission. That is a judgment to be made by the Tariff Commission on the basis of all factors it considers relevant. 2/ (emphasis added)

Taking into account all economic factors I consider relevant and for the reasons discussed below, I have concluded that under the

1/ See Senate Report, supra, at p. 120, See also House Report, supra, at p. 44. It should be noted, however, that this relaxation was not intended to be open-ended. The Senate Report, at p. 121, observes that "[i]t is not intended that the escape clause criteria go from one extreme of excessive rigidity to complete laxity." Both Committees emphasize that the standard has two criteria that must be met in all cases: (a) imports must be an important cause of serious injury and (b) imports must be no less important than any other single cause. See House Report, supra, at p. 46 and the Senate Report, supra, at p. 120.

2/ House Report, supra, at p. 47.

law, imports are not a substantial cause of serious injury. That imports are an important cause of serious injury is a fact that cannot be seriously challenged, indeed, it has not been. Thus I have not separately addressed it. The heart of the analysis of the requisite nexus between imports and serious injury is, however, whether there are factors which are more important than imports. I have found two factors which seem to be more important causes of the industry's problems than are increased imports.

First, the demand for the type of automobile desired by a significant portion of the buying public is shifting from a product line roughly described as larger, less fuel-efficient automobiles to smaller, more fuel-efficient automobiles. 1/ As has been discussed, I have great difficulty as a practical matter in defining with precision the line of demarcation between these two product lines. While such a distinction is difficult to formulate and thus precludes my basing an industry definition on it, the fact of the difference is plain, the consequence is palpable, and the phenomenon of this shift, as distinct from a shift to imports, is demonstrable.

Second, there has been an overall decline in demand for automobiles that is largely associated with the general decline in the economy. When the impact of this decline in demand is weighed against the increase in imports, the conclusion, to me, is clear that its impact on the industry of the decline in demand has been noticeably greater than has been the impact of imports.

1/ See discussion under Industry, infra.

A. Shift in demand

With regard to the shift in consumer preference from one type of automobile to another, petitioners argued that if such a shift exists it is nothing more than a shift from the purchase of domestic cars to the purchase of imported cars with a resulting increase in imported automobiles. The reason for the increase in imports, they argued, is unimportant to our determination under section 201. Moreover, their view continued, section 201 is specifically designed to provide a remedy in precisely those circumstances in which domestic sales are displaced by sales of imports. While I do not refute this view of the policy underlying section 201 I must take exception, both in concept and in fact, with the view that in this case the shift in consumer preference merely explains why imports might have increased and is not cognizable as an independent source of injury to the domestic industry.

In concept, the Commission has specifically relied upon a shift in consumer preference from one type of product to another as a phenomenon distinct from a shift to imports qua imports. The most attenuated support for this proposition is Unalloyed, Unwrought Zinc, Investigation No. TA-201-31, USITC Pub. No. 894 (1978). In that investigation the Commission found that imports were not a substantial cause of serious injury because a decline in demand was a more important cause of the injury to the industry. An important element in the

decline in demand for the domestic article was, despite increasing imports, the replacement of the domestic article by a substitute article. Another investigation in which the Commission recognized and relied upon the concept of demand shift as distinct from a shift to imports in assessing causality was Low-Carbon Ferrochromium, Investigation No. TA-201-20, USITC Pub. No. 825 (1977). In that case, the Commission found that a technological innovation had caused a fundamental change in the production process employed by the industry and, hence, a drastic shift from the use of low-carbon ferrochromium to the use of high-carbon ferrochromium. As a result the majority concluded that, despite increasing imports, the injury the low-carbon ferrochromium industry might have been suffering was due more to the decline in demand for its product.

For me the decisive precedent for the integrity of demand shift as a concept distinct from a shift to imports in a circumstance of increasing and competitive imports is Wrapper Tobacco, Investigation No. TA-201-3, USITC, Pub. No. 746 (1975). Wrapper Tobacco has a particular precedential appeal because the behavior of imports in the marketplace was especially strong. First, imports had more than tripled their market penetration over a four-year period while domestic production and total consumption were in decline. ^{1/} Second, the prices of the

^{1/} See Wrapper Tobacco, supra, at pp. A-37 and A-46.

bulk of the imported articles tended to be below the price of the domestic articles, but certain high-grade imports were priced considerably higher than the domestic product. 1/ Third, while some of the imports were considered to be of higher quality than the domestic article, most of the imports were used to produce product lines that competed with those using the domestic product.

In the face of this extremely competitive position of imports, the Commission in Wrapper Tobacco made a unanimous negative determination. Four Commissioners relied upon the change in consumer tastes from larger cigars to smaller cigars and other tobacco products as the primary reason for the decline in demand they viewed as a cause of injury more important than increasing imports. 2/ Thus, the majority of the Commission had no difficulty in concept or in fact in differentiating between a shift from the domestic article and a shift to imports.

But there are, however, important areas in which these cases are deficient as support for the proposition that a shift in demand is a distinct factor to be weighed by itself against increasing imports in deciding substantial cause. First, in no case was there a shift in demand to another item produced within what was found to be the relevant industry. The shifts that occurred were all to items outside

1/ See Wrapper Tobacco, supra, at pp. A-28-29.

2/ See views of Chairman Will E. Leonard and Vice Chairman Daniel Minchew at pp. 8-9. See also views of Commissioners Catherine Bedell and Joseph O. Parker at pp. 12-14.

the industry that was found, thus, implying that there was a decline of an entire industry because of changes in the marketplace rather than because of increasing imports. Second, in each of these cases the specific Commission finding was that the decline in demand/consumption was the cause greater than imports for the injury sustained. Thus while the cases do differentiate between shift in demand and shift to imports, neither of them has specifically relied upon a shift in demand as a separate factor to be weighed against imports.

To the extent the use of a shift in demand as a separate factor in assessing substantial cause is a matter of first impression, I do not think it too great a departure from well-established Commission practice. Nor do I see it as doing violence to the underlying policy of section 201. Without belaboring the point, the essence of section 201 is to provide relief in those cases in which increasing imports are an important contributing cause of serious injury and there are no contributing causes more important. It follows then that if causes can be found that, in our judgment, have contributed more so than imports to the industry's problems, section 201 cannot be used to remedy the situation. A shift in demand is a phenomenon distinguishable in concept from a shift to imports, as this Commission has treated it thus far. If there is no conceptual basis for denying the shift theory status as a separate factor ultimately explaining the decline of an industry, surely it is cognizable as a factor directly explaining a structural change taking place within an industry.

Moreover, where in both concept and in fact a shift in demand is distinguishable from a shift to imports, not to make it a factor in the consideration of causality transforms section 201 from an import relief provision to an industrial relief provision. Under such a view, whenever an industry is in decline because of internal structural changes or exogenous occurrences in the society independent of imports, an industry need only show that imports are increasing concomitant with its difficulty and it could receive relief. While one could make very good arguments supporting the need for an industrial policy which would provide assistance to worthy industries suffering generalized difficulty unassociated with imports, section 201 cannot be so construed. It is plainly and simply an import relief provision and, therefore, our fundamental task on the face of it and from the legislative history is to determine that imports are an important cause of the injury and to determine that no other cause is more important than imports. Thus, any other factors that may have contributed to injury must be measured against the contribution made by imports.

Having established the validity of the concept of a product line shift as a factor to be assessed in this case, establishing the fact of the shift and assessing what weight it ought to be given is not difficult. Several preliminary factors make this exercise particularly valuable in finding the substantial cause in this case.

First, there is a significant difference between the level of profit earned by the industry on sales of larger automobiles compared with profits on smaller ones. 1/ Indeed, a fundamental strategy for the industry, for years, has been that the great majority of profits on sales of automobiles would be earned on larger automobiles. Smaller cars would be marketed to fill out the product line and, ultimately, to win over larger car purchasers. Thus, the product mix of larger and smaller automobiles has been a particularly important factor in the industry's profitability.

Second, as a practical matter a change in the product mix requires not only a considerable lead time, but also an exceptionally high capital investment.

Together, these two special features of the industry render it especially vulnerable to a relatively quick and sustained shift in consumer preference. Further, they explain why such a shift is an important factor in assessing the substantial cause.

That such a shift has taken place in consumer taste is readily demonstrable. 2/ Between 1975 and 1979, large domestic car sales

1/ See Report, at pp. A-43

2/ As I discussed infra, the differentiation between automobiles that are larger and less fuel-efficient and those that are smaller and more fuel-efficient is too imprecise a construct on which to base an industry analysis. Nevertheless, for purposes of differentiating among product lines, the various categorizations currently in use provide reasonable distinctions for the purpose of demonstrating that changes are occurring in the type of automobile being purchased. For my discussion I shall use the categories employed by Ward's Automotive Reports, Automotive News, the industry itself, and in the staff report to the Commission. (See Report, pp. A-7 and A-31.) In my analysis I have combined the large and intermediate category into one category called large cars. I have combined the compact and sub-compact categories into a small car category. I have used the word imports to include all imports and assumed that approximately 20 percent or so of them that are, in fact, not small cars are small cars.

grew at an annual rate of 2.4 percent while sales of imports grew at an annual rate of 6.4 percent. Eclipsing both of these were sales of small domestic cars which grew 9.6 percent during this period. Comparing the first half of 1980 to the first half of 1979, in 1980 sales of large domestic cars declined 48.5 percent, and sales of imports and domestic small cars each grew 1.8 percent. The failure of small domestic cars to keep pace with their earlier rate of sales growth and with the growth rate of imports for the first half of 1980 might be viewed as proof that consumption has, in fact, shifted to imports qua imports. But precisely the opposite is the case.

The significant growth in demand for domestic small cars caught up with production during the first half of 1980, exceeding the ability of the domestic producer to supply the market. During the first six months of 1980, several producers were at or above their full capacity for small cars. Others were either experiencing serious recall problems on their major small car models or were suffering from major adverse publicity on their products' quality and safety. 1/ Both of these factors had a considerable impact on sales.

The change in consumer purchasing patterns from buying large cars to buying smaller cars is even more striking when measuring car sales as a percent of apparent consumption. In 1975 small domestic car sales were 26.6 percent of total apparent consumption, large

1/ See Report, at pp. A-63-66

domestic cars were 47.6 percent, and imports were 26 percent. 1/ In the same year, small domestic cars were 36.1 percent of domestic producers' sales while larger cars accounted for the balance. 2/ By 1979, small domestic cars had grown to 31.5 percent of apparent consumption, large domestic cars fell to 41.4 percent and imports were 27 percent. Small domestic cars were 44.1 percent of domestic producer sales. For the first half of 1980, despite the problems of domestic supply shortfalls and quality problems with small domestic cars, this category grew to 36.3 percent of apparent consumption, large domestic cars abruptly fell to 29.2 percent and imports, taking up the slack caused by domestic supply problems, grew to 34 percent of apparent consumption. Small domestic cars, for this period, represented 55.4 percent of domestic producer sales.

These figures convince me that a fundamental demand side structural change is occurring in the automobile industry. They further convince me that this change is not one characterized simply as a shift to imports, even though for the first half of 1980 imports have benefited from the change more than have domestic small cars. This aberration for early 1980 is a result of domestic supply and quality problems. By all measures, consumption has been shifting to smaller cars and domestic smaller cars have benefited from the shift more than have imports. This fact can be further demonstrated by marshalling the data in a slightly different way.

1/ See Report, at p. A-72 .

2/ See Report, at p. A- 34.

Charts 1 and 2 below show the actual shift in demand that took place between 1978, the first year it became apparent and 1979. Chart 1 shows the shift in demand from large cars to small cars for that period. Chart 2 reflects, rather plainly, that domestic small car producers were the major benefactors by far of the shift to small car purchases. 1/

CHART 1

Apparent Consumption

(1,000 units)

<u>Year</u>	<u>Large Domestic Cars</u>	<u>Small Cars</u>	<u>Total</u>
1978	5259.6	5925.4	11185.0
1979	4202.7	6112.6	10315.3
Change in Consumption	(1056.9)	187.2	(869.7)
Expected Change in Consumption Due to Change in Economic Activity	(409.0)	(460.7)	(869.7)
Actual Change Due to Shift in Demand	(647.9)	647.9	0.0

Source: Compiled from data presented in Tables 17 and 19 of the Report. Figures in parentheses represent decline.

1/ In charts 1 and 2 small cars are a combination of domestic small cars plus all imports.

In Chart 1, total apparent consumption between 1978 and 1979 declined by 869,700 units, or 7.8 percent. All of this decline was due to the 1,056,900 unit fall in consumption of large domestic cars. However, if consumers had no preference as to which type of automobile they purchased and if there would have been a 7.8 percent decline in sales anyway, each type of car would have suffered a 7.8 percent decline. This would have resulted in an expected domestic large car decline of 411,400 units.

In contrast, consumption of small cars between 1978 and 1979 increased 187,200 units, but there would have been an expected decline of 460,300 units. Thus, consumption of small cars was 647,900 units more than would have been indicated by the annual change in demand and is also the amount by which demand for large cars declined in excess of that accounted for by the overall decline in demand. This amount represents the quantum of the shift in demand from large cars to small cars between 1978 and 1979.

Chart 2

Small Car Apparent Consumption
(1,000 Units)

Year	Domestic Cars	Imports	Total
1978	2997.3	2928.1	5925.4
1979	3315.5	2797.1	6112.6
Change in Consumption	318.2	(131.0)	187.2
Expected change in consumption due to change in economic activity	94.7	92.5	187.2
Actual change due to shift in demand	223.5	(223.5)	-

Source: Compiled from data presented in Tables 17 and 19 of the Report. Figures in parentheses represent decline.

Chart 2 shows that between 1978 and 1979, small car consumption increased 187,200 units, or 3.2 percent. Of that total increase in apparent consumption of small cars, domestic small cars increased 318,200 units while imports actually declined 131,000 units, which accounts for the net increase in small car consumption of 187,200 units. Applying the same logic as used in chart 1, if the consumer was indifferent as to whether domestic small cars or imports were purchased, each would have shared equally in the effects of the net growth in the consumption of small cars.

Thus, domestic small cars would have increased 94,700 units and imports 91,600 units. In stark contrast, however, consumption of small domestic cars increased 223,500 units more than can be accounted for by the overall growth in small car consumption. These 223,500 additional units of domestic small cars represent the quantum of shift to domestic small cars over imported small cars. Taken together, these charts show that in the period 1978 to 1979 there was, in fact, a shift from consumption of large cars to small cars and that shift was distinct from a shift to imports. Indeed, chart 2 shows that the shift benefited domestic small cars more so than imports. ^{1/}

Charts 3 and 4 repeat the analyses in charts 1 and 2, respectively, for the first half of 1980 compared with the first half of 1979.

^{1/} It should be recalled that imports as used here include all imports, even those 20 percent or so that might not be included in the small car category used here. Therefore, the extent of the benefit to domestic small cars is understated to some extent.

Chart 3

(1000 Units)		Apparent Consumption (1000 Units)	
<u>Year</u>	<u>Large Cars</u>	<u>Small Cars</u>	<u>Total</u>
Jan.-June 1979	2683.1	3124.6	5807.7
Jan.-June 1980	1382.6	3349.1	4731.7
Change in Consumption	(1300.5)	224.5	(1076.0)
Expected change in consumption due to change in economic activity (497.1)		(578.9)	(1076.0)
Actual change due to shift in demand	(803.4)	803.4	

Source: Compiled from data presented in Tables 7 and 19 of the Report. Figures in parentheses represent decline.

Chart 3 well reflects that the trend to small cars which began in earnest in 1978 is continuing into 1980. In the second half of 1980 the total 18.5 percent decline in apparent consumption was more than accounted for by the fall in consumption of large cars. The decline in demand for large cars was 1.3 million units against an expected decline of 497,100 units. Small cars, on the other hand, increased 224,500 units in contrast to the expected decline of 578,900 units. Therefore, the actual growth in consumption of small cars was 803,300 units, which is the amount by which larger cars declined in excess of the decline accounted for by the overall decline in demand. This is the quantum of the continuation of the shift in demand from large cars to small cars in the first half of 1980 compared with the same period in 1979.

Chart 4
Domestic Small Car Apparent Consumption
(1000 Units)

<u>Year</u>	<u>Domestic Small Cars</u>	<u>Imports</u>	<u>Total</u>
Jan. -June 1979	1686.7	1437.9	3124.6
Jan. -June 1980	1717.3	1631.8	3349.1
Change in consumption	30.6	193.9	224.5
Expected change in consumption due to change in economic activity	121.8	102.7	224.5
Actual change due to shift in demand	(91.2)	91.2	

Source: Compiled from data presented in Tables 17 and 19 of the Report. Figures in parentheses represent decline.

Chart 4 shows how the continued shift in demand was apportioned between small domestic cars and imports. As shown in Chart 3, the consumption of small cars increased 224,500 units or by 7.2 percent. However, unlike the shift from 1978 to 1979, the domestic small car producers were not the major recipients of the shift. Consumption of domestic small cars increased by 30,600 units. But, as a reflection of the growth in total consumption, domestic small cars should have increased 121,800 units. This represents a shortfall of 91,200 units. Imports, on the other hand, had an actual increase of 193,600 units which was 91,200 units more than expected. This amount represents the extent to which imports have won more of the shift in demand for the first half of 1980 compared with the same period in 1979.

In the first half of 1980 there appears to be a shift in demand to imports rather than a shift in demand to small domestic cars. My analysis of data submitted to us in confidence leads me to conclude that during this period the failure of small domestic cars to continue the trend firmly established in 1979 is due in large part to two factors.

The first factor is the inability of some domestic producers to produce enough small cars for demand because of capacity constraints. Some domestic producers were operating at and, in some cases, above maximum capacity. The other factor is the inability of some domestic producers to sell their product due to adverse perceptions by the consumer about the product resulting from product recalls and safety problems associated with them.

Ford's low production and capacity utilization rate, to me, is due

to the adverse publicity that Ford received due to the product recall and safety problem associated with the Pinto. However, for the 1980 model year Ford ceased production of the Pinto and introduced the new Lynx/Escort Series which will be subject to a maximum production limit of only 485,000 cars in the first year.

In my view, Chrysler compact production has also suffered from adverse publicity due to the unprecedented volume of product recalls of the Volare and Aspen models. These models were discontinued in the 1980 model year and replaced by the K-car series which has a maximum production capacity of 550,000 cars this model year.

B. Decline in Demand

With regard to decline in demand, there can be no serious question as to the Commission's authority to consider it a separate factor to be weighed against imports. ^{1/} If there is any legal issue here, it is as to whether the constituent elements of the decline in demand are to be weighed separately against imports in assessing substantial cause or whether they are to be "cumulated" into one factor, decline in demand.

^{1/} There are at least six cases in the six year history of section 201 in which the Commission has found a decline in demand to have been a greater cause of serious injury than had been imports: Birch Plywood Door Skins, Inv. No. TA-201-1, USITC Pub. No. 743 (1975); Wrapper Tobacco, Inv. No. TA-201-3, USITC Pub. No. 746 (1975); Plant Hangers, Inv. No. TA-201-15, USITC Pub. No. 797 (1976); Low-Carbon Ferrochromium, Inv. No. TA-201-20, USITC Pub. No. 825 (1977); Unalloyed, Unwrought Zinc, Inv. No. TA-201-31, USITC Pub. No. 894 (1978); and Certain Machine Needles, Inv. No. TA-201-38, USITC Pub. No. 936 (1979).

In this connection, I associate myself with the views of Chairman Alberger. In short, decline in demand, in this investigation, is the result of the recessionary pressures on the economy over the past year to year-and-a-half. Even under the most imprecise usage, a recession, or economic downturn, is regarded as the result of the complex interaction of several elements: Unemployment, high interest rates, restrictive credit policies, and slowdown in the growth of GNP to name the major ones. To separate out any one of these elements as a factor for comparison against imports, even if it could be done with acceptable precision, is without meaning and provides no serious economic assessment of what is actually taking place in the market. Because I believe Congress expects an analysis from this agency based on matters as they are in reality, I find it appropriate here to view a decline in demand as a discrete factor for comparison with imports in assessing substantial cause.

During the latter part of 1979 and the first half of 1980, interest rates rose to a record 20 percent, industrial production fell 7.5 percent, the unemployment rate jumped 1.5 percentage points, real GNP

declined a near record 9.1 percent, and crude oil prices nearly doubled. 1/ Also, in the first half of 1980, retail sales fell more than 9.5 percent in real terms. 2/

Consistent with this general decline in retail sales, sales of automobiles, in particular, also declined. In 1979 total consumption of automobiles fell 7.8 percent from 1978 and, for the first six months of 1980, overall demand was down 18.5 percent from the same period in 1979. 3/ That this decline in demand for automobiles is associated with the downturn in the economy is further apparent from the fact that total consumption grew by 9.1 percent from 1975 until 1978 after the first decline became apparent. The point of this decline coincides with the period in which the economic downturn began.

Taking this analysis a step further demonstrates the greater significance of this decline in demand relative to imports. Charts 5 and 6 below analyze this decline for the period 1978 to 1979 and for the first half of 1980 compared with the same period in 1979.

1/ Federal Reserve Bulletin, July 1980, pp. 536-540.

2/ Ibid.

3/ Ibid.

Chart 5

Apparent Consumption
(1000 Units)

<u>Year</u>	<u>Domestic Cars</u>	<u>Imports</u>	<u>Total</u>
1978	8256.9	2928.1	11,185.0
1979	7518.2	2797.1	10,315.3
Change in consumption	(738.7)	(131.0)	(869.7)
Expected change in consumption due to change in economic activity	(642.0)	(227.7)	(869.7)
Decline in demand due to increasing imports	96.7	--	-

Source: Compiled from data presented in Tables 17 and 19 of the Report. Figures in parentheses represent decline.

Chart 5 shows that apparent consumption declined 869,700 units, 7.8 percent, between 1978 and 1979. Of this amount, 738,700 units are accounted for by a fall in the consumption of domestic cars, a decline of 8.9 percent. The remaining 131,000 units is a decline in consumption of imports, a decline of 4.5 percent. If consumers did not differentiate between domestic and foreign cars in their purchasing, and the decline in demand remained at 7.8 percent, the expected change in consumption of domestic cars overall would have been 642,000 units

rather than the 738,700 units which were lost. By the same theory, the decline of imports would have been 227,700 units rather than the 131,000 units which were lost. The shift from domestic cars to imports, then, was 96,700 units because the decline in domestic cars was 96,700 units more than expected and the decline of imports was 96,700 units less than expected. In comparison, however, the decline of 642,000 units for domestic cars associated with the overall decline in demand for automobiles is much greater than the 96,700 units lost that are attributable to a combination of increased imports.

Chart 6

Apparent Consumption
(1000 Units)

<u>Year</u>	<u>Domestic Cars</u>	<u>Imports</u>	<u>Total</u>
Jan.-June 1979	4369.8	1437.9	5807.7
Jan.-June 1980	3099.9	1631.8	4731.7
Change in consumption	(1269.9)	193.9	(1076.0)
Expected change due to decline in economic activity	(809.6)	(266.4)	(1076.0)
Change due to imports	(460.3)	--	-

Source: Compiled from data presented in Tables 17 and 19 of the Report. Figures in parentheses represent decline.

Chart 6 undertakes the same analysis as that in Chart 5 except the period compared is the first half of 1980 with the first half of 1979. For the first half of 1980, the recession was still evident

as is reflected in the further decline in consumption of automobiles. Apparent consumption in the first half of 1980 declined 1,076,000 units, or 18.5 percent, from the comparable period in 1979. The consumption of domestic cars declined 1,269,900 units, or 29.1 percent, but the expected decline was 809,600 units. Imports increased 193,900 units against an expected decline of 266,400 units. Of the 1,269,900 unit decline in domestic car consumption, 809,600 units, or 63.8 percent, occurred as a result of the decline in economic activity and 460,300 units, or 36.2 percent occurred as a result of a combination of increased imports and some of the noneconomic factors that are affecting some producers. I cannot imagine a clearer demonstration that the decline in demand was and is a more important cause of serious injury than increased imports.

C. General

Both petitioners and respondents, in this case, relied heavily on quantitative analytical techniques in support of their arguments. In my review of the record, I spent some time examining these submissions. As a result, I feel that some brief comment is in order regarding the major submissions.

The "Shift Share" Analysis submitted in this investigation by a group of importers 1/ seeks to explain economic changes in a particular segment of an economy by looking at changes in the general level of economic activity. In simple terms, the shift share analysis looks

1/ Prehearing statement of John G. Reilly of ICF Incorporated on Behalf of the Automobile Importers of America, Inc.

at an industry as a closed system and assumes that any economic growth or shrinkage of an industry is related to or can be explained by the change(s) in the economy as a whole. Applying this to the domestic automotive industry, these importers contend that the decline in domestic car and light truck sales is a result of the overall decline in demand for passenger vehicles and light trucks from the downturn in economic activity, and the structural shift in the automotive market that increased the proportion of small fuel-efficient vehicles demanded in relation to total vehicles demanded. The importers argue that this structural shift was a direct result of gasoline price increases and consumer concern about fuel availability.

Their analysis segmented the total industry into large and small vehicles. It was conducted on the basis of unit sales of domestic passenger vehicles versus all passenger vehicles, small cars versus all passenger cars and domestic small cars versus all small cars. The analysis of sales of domestic passenger vehicles and all passenger vehicles measures the change in domestic demand due to the change in overall passenger demand. The analysis of sales of small cars and all passenger cars measures the structural shift in small car demand relative to total car demand. The analysis of domestic small car demand and total small car demand measures the changes in domestic sales as a result of imports.

My basic criticism of the shift share analysis is that it assumes that consumer preferences, spending habits, and similar factors are homogeneous and that the general level of economic activity

affects each consumer's demand for cars in the same way. Furthermore, the shift share analysis is a residual approach in that once the basic change on the industry in question has been calculated, the residual decline in sales is assigned to increased imports. However, in spite of these shortcomings, I feel that this model along with the Wharton model, does help to explain the change that took place in the automotive industry from 1979 through the first half of 1980. Indeed, both petitioners, Ford 1/ and AIA, used this basic methodology and theory in support of their respective arguments.

The Wharton Econometric Vehicle Demand Model is a stock adjustment model based on the theory that demand for automobiles is a function of the need for transportation or vehicle miles. To obtain these vehicle miles or satisfy the need for transportation, a stock or level of vehicles is required. This desired level of automobiles is a long-run adjustment concept and depends on demographic factors, age, vehicle miles traveled, income, and costs of buying and operating a vehicle.

First, the model determines a value for the number of cars to be sold, in aggregate and by category, for the 1979-80 period. It then looks at three scenarios and their effect on the domestic sale of automobiles. They are the effect of the gasoline crisis, economic activity, and imports. In each of these three cases, the Wharton model takes as a base case the solution values 2/ and key inputs (gasoline prices, economic activity, imports) for car sales in the 1979-80 period and makes adjustments to determine what effects these three factors have on unit sales.

1/ In its submission, Ford employed an analysis which heavily relied upon principles and assumptions which are very similar to the shift analysis discussed here. 89

2/ Solution values are values for total new car sales and each of its components: large and small domestic cars and imports.

The Wharton model is the most comprehensive model submitted in this investigation. Its choice of demographic variables (personal income, car ownership costs, and new car prices) adds much to the model in helping to predict and explain the movement of domestic sales and the factors that affect those sales. Of the three models reviewed, the Wharton model, in my opinion, was the most reliable.

In Ford's analysis, the decline in domestic sales and production is a result of three factors: the downturn in economic activity, rising gasoline prices, and imports. They go on to state that the increase in imports is the greatest single cause of injury to the domestic industry. Injury to the domestic industry is defined as the difference between actual domestic sales and expected trend sales.

The trend line for expected industry sales was derived by using the least squares regression technique. In the model, Ford used the Federal Reserve Board Index of Industrial Production as a proxy for economic activity, and gasoline prices as the variable to explain the sale of both domestically produced and imported cars.

My criticism of Ford's model concentrates just on the regression model. In the regression equation, Ford omits the use of variables that have been shown, in the Wharton and Chase Econometric models, to be important determinants of automobile demand. Factors such as the unemployment rate and credit availability are not reflected in Ford's results.

The analysis is based on projected 1980 sales volume rather than on an actual observed value. To test the explanatory and predictive ability of the model, Ford should have demonstrated how well the model works against

actual results in 1978 and 1979. In one case, I found that the model predicted sales volume to be 13.8 million units when the actual volume was 11.3 million units, a 20 percent error.

Ford's use of the FRB Index of Industrial Production as a variable to explain the changes in new car sales raises further doubts about the validity of the results. Automobile production accounts for 4.5 percent of the industrial production that is measured by the Index, but other industries such as steel, glass, and rubber which provide a substantial amount of their output to the auto industry are also included in the Index. This gives rise to the question of bias in using the FRB Index which Ford has not addressed.

In conclusion, I feel that the Ford regression not only suffers from a flawed choice of variables for determining new car sales, but the regression itself, which Ford contends is statistically significant, is nothing more than a curve-fitting exercise with little or no economic meaning. It does little of significance in explaining or predicting new car sales or changes in new car demand in the 1979-80 period.

Thus, on the basis of the record developed in investigation TA-201-44, for the reasons outlined above, I find that increased imports are not a substantial cause of this serious injury.

Postscript

Having reached these conclusions, however, I am compelled to add that imports have, nevertheless, been a significant thorn in the industry's side. Indeed, the condition caused by these factors has been grossly exacerbated by the increase in imports. Moreover, my analysis of this case and my concern for the integrity of the international trading system require me to make one final observation about imports. At a time when so important an industry to the United States economy, as is the automobile industry, was experiencing clear and significant trouble, certain foreign automobile manufacturers appreciably expanded their sales in this market.

While, as a general proposition, I heartily embrace the notion of a competitive and so-called "free" international trading system, I also feel that participants in the international trading system, both public and private alike, owe to sovereign nations a measure of regard, a certain sensitivity so as to avoid achieving their success at too high a cost to the host society. I have found a disturbing absence of such regard and sensitivity on the part of particular foreign automobile manufacturers.

I do not think it hyperbole to suggest that the United States' market is the most pursued market in the world. As a result, we often fall victim to the excesses of this pursuit. It is a disappointment to me that in my reading of section 201 it fails, in this case, to protect our automobile industry from just such an excess at the hands of these manufacturers.

VIEWS OF COMMISSIONER PAULA STERN

I. INTRODUCTION

The automotive industry import relief case comes before the United States International Trade Commission (the Commission) under section 201(b) of the Trade Act of 1974. This law establishes three conditions which must be fulfilled before the Commission can make an affirmative finding and recommend a remedy to the President. They are:

(1) There must be increased imports -- either actual or relative to domestic production -- of an article into the United States.

(2) The domestic industry producing an article like or directly competitive with the imported one must be seriously injured or threatened with serious injury.

(3) The increased imports must be a substantial cause of the serious injury, or the threat thereof, to the domestic industry making the article in question.

As befits the largest industry to ever appear before the Commission virtually every possible question of legal and economic analysis was at issue.

The following outlines the organization of my views on the issues of this case:

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* * *

I have determined that the U.S. heavy truck industry does not satisfy the first criterion for an affirmative decision and that although the passenger automobile and light truck industries are seriously injured, increased imports have not been a substantial cause. Therefore my determinations are negative for all three domestic industries.⁹⁴

II. THE DOMESTIC AUTOMOTIVE INDUSTRIES

Analyzing the scope of the industry or industries can have a major impact on the questions of injury and causation. My findings in this case, however, have not been critically dependent on the technicalities of defining the industries involved. In general, the judgment on scope depends on the nature of the imported products, the competitive conditions in the domestic market, and the character of U.S. production.

Section 201 requires an examination of "the domestic industry producing an article like or directly competitive with the imported article" In our most recent ruling under section 201, some of the problems in applying this language were aired. */ In the majority views, we fully described the appropriate methodology and discussed a major tension between legal and economic analysis which bears on all section 201 cases: industry definition is based on precise legal standards which do not necessarily coincide with the popular understanding of a particular industry, e.g., the auto industry. One cannot rely exclusively on general legal prescriptions; the particular facts of each case cannot be ignored.

*/ Mushrooms, Inv. No. TA-201-43, USITC Pub. No. 1089 (1980). See "Views of Chairman Bill Alberger, Vice Chairman Michael Calhoun and Commissioner Paula Stern" at 6-14.

Three Industries

I have concluded that this investigation requires findings with respect to three separate and distinct industries -- the firms and facilities devoted to the production of:

- (1) all passenger automobiles;
- (2) light trucks of under 10,000 pounds gross vehicle weight (GVW);
- (3) heavy trucks.

Since our report covers bodies (including cabs and chassis) for automobile trucks, it is also important to point out that I consider domestic producers of these articles to fall within the same general industry definition (either light trucks or heavy trucks) as the final assembled product.

I have defined the passenger auto industry in its entirety because there is no justifiable basis on which to segment its scope at this time. Costs of converting production lines from one type of auto to another can be huge. Despite this fact, I have found one passenger auto industry because of the significant shifting and confusion in the market during the present period. Were it not for this shifting, it might have been reasonable to identify a number of constituent industries. As for light trucks, they are inherently distinct from passenger vehicles in their characteristics and principal uses. Finally, heavy trucks are produced separately and aimed for strictly commercial uses.

Components Producers

It is my view that producers of automobile and truck parts are part of the respective domestic automobile and truck industries. The "industry" in a section 201 investigation can be like a pyramid. In this case, at the very top of the pyramid are the domestic producers of the finished product, but also included in the pyramid are all the productive resources (both capital and labor) employed in the production of the article. */ The primary purpose of section 201 is the protection of domestic resources engaged in the production of goods. This protection extends beyond the corporate structures (and resources employed therein) performing the final work on a product. Thus, for example, I believe that a person employed by an independent firm producing engine parts for new cars is as much a part of the domestic industry as a worker performing the same task in a Ford engine plant or, for that matter, a worker on a Ford final assembly line.

One should not confuse the issue of who is part of the domestic industry with the issue of who may petition for import relief. Clearly,

*/ U.S. auto producers include General Motors Corp. (GM), Ford Motor Co. (Ford), Chrysler Corp. (Chrysler), American Motors Corp. (AMC), and Volkswagen of America, Inc. (VW of America).

as the U.S. Court of Appeals held in the case of United Shoe Workers v. Bedell */ , component parts producers would not be proper petitioners in this case because they would not be producers of a like or directly competitive article; automobile parts are not like or directly competitive with finished automobiles.

While the Commission does not have complete data regarding components parts producers, the data we do have show parts producers experiencing difficulties similar to those of the big automobile and truck manufacturers. As suppliers, their production and shipments are tied directly to the demand for parts by the big auto and truck makers. Supplier shipments, profits, and employment have all fallen along with assembled automobile and truck production. In analyzing the domestic industry, I have discussed aggregate data including only components production within firms producing assembled motor vehicles covered by the investigation.^{**/} Since the imported products are in general not components parts, any injury to domestic components parts producers occur via vehicle imports. Therefore, the findings regarding serious injury and causation based on the data the Commission has assembled

*/ 506 F.2d 174 (D.C. Cir. 1974).

**/This was done for the following reasons: (1) the Commission lacks complete data on components producers; (2) if such data were available, aggregating much of it with data collected for final producers would be questionable; (3) most crucially, such data are not of critical value to an import relief finding in this case.

apply to components parts producers as well. Absent a petition and investigation on increased imports of motor vehicles parts there is no possibility of relief for components producers separate from relief accorded the final industry.

Captive Imports

Section 201(b)(3) of the Trade Act, which is concerned with what constitutes "the domestic industry," is the only provision in section 201 to address expressly the question of Commission treatment of articles imported by domestic producers. It provides that:

. . . in determining the domestic industry producing an article like or directly competitive with an imported article, the Commission--

(A) may, in the case of a domestic producer which also imports, treat as part of such domestic industry only its domestic production

The reports of the House Ways and Means Committee and the Senate Finance Committee on the provisions of the bill which became the Trade Act offer no additional guidance. */

Section 201(b)(3), in effect, codified prior Commission practice on the subject of "domestic industry." In essence, it suggests that the Commission should, when appropriate, narrow the scope of the domestic industry against which the impact of increased imports is to be measured to those establishments or parts of an establishment which are actually producing the like or directly competitive article. I believe that Congress used the word "may" rather than "shall" in section 201(b)(3)(A) to provide the Commission with some latitude in considering data

*/ See the report of the U.S. House of Representatives, Committee on Ways and Means, Trade Reform Act of 1973, H. Rept. No. 93-571, 93d Cong., 1st Sess. (1973) at 45 (Ways and Means Committee Report); and U.S. Senate Committee on Finance, Trade Reform Act of 1974, S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 122 (Finance Committee Report). 100

relating to the question of injury. Section 201(b)(3) thus permits the Commission, for example, to exclude from aggregate industry profit data, profits in the industry deriving from its import business. Where such data are incapable of being segregated, profits from an import business or from the sale of other products may be included.

I have concluded that the only time at which the Commission should consider adjusting the import statistics would be when the imports are imports in technical terms only, e.g., when the domestic products have been exported for certain minor finishing work and then reimported. Motor vehicles assembled in Canada largely from U.S.-made parts do not appear to fall into this category. Such vehicles are at least 40 percent Canadian in value.

Canadian Products

In their hearing testimony and briefs, the International Union, United Automobile Workers (UAW) and Ford Motor Co. (Ford) argued that imports from Canada by U.S. motor vehicle manufacturers should not be treated as imports in view of the Automotive Products Trade Act of 1965 (APTA), the U.S.-Canadian Automotive Agreement */, and the integrated

*/ Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada, 17 UST 1372 (1965) (the Agreement). It was implemented by the APTA.

U.S.-Canadian market. It is my view that the automobiles and trucks imported by U.S. producers from Canada and other countries are also "imports" for the purpose of this investigation. Nothing in section 201, the APTA, the Agreement, or the General Agreement on Tariffs and Trade (GATT) suggests otherwise.

The APTA -- APTA section 301 clearly permits either party to invoke escape clause import relief. */

The GATT -- The concept of "increased imports" is taken from Article XIX, the GATT's so-called "escape clause." **/ The principal clause of Article XIX provides that certain protection action can be taken --

(i)f, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products ***/

*/ 19 U.S.C. 2021.

**/ Done October 30, 1947, 61 Stat. Pt. 5, T.I.A.S. No. 1700, 55 U.N.T.S. 187.

***/ GATT Art. XIX, para. 1(a).

Because the APTA authorized the President to remove all customs duties on specified automotive products from Canada alone, a waiver of most-favored-nation (MFN) obligations under GATT Article I was necessary. This waiver does not reach the question of exceptions from escape clause actions under Article XIX. If the United States were to conclude that Canadian or other captive imports were not imports and were to exclude them from a remedy on that basis, such action might be judged as discriminatory within the meaning of GATT. The GATT requires that any remedy apply to all imports from all MFN countries on a non-discriminatory basis. The exclusion from "imports" of most of the imports from a given country, such as Canada, and the imposition of import restrictions on all other imports would appear to constitute an action discriminating in favor of one MFN country and against other MFN countries.

III. IMPORTS IN THE U.S. MARKET

Heavy Trucks

Imports of trucks over 10,000 pounds GVW declined very irregularly from 38,000 units in 1975 to 14,600 in 1979. First-half year statistics for 1980 are more than ten percent below those of the similar period a year earlier. The ratio of imports to U.S. production likewise fell irregularly from 17 percent (1975) to 8 percent (1979), although it was up by four percentage points during the first half of 1980.

Light Trucks

U.S. imports of light trucks and cab/chassis more than doubled between 1975 and 1978, rising from nearly 375,000 units to nearly 860,000 units. In 1979 imports of light trucks declined to about 804,000 units and continued to decline in the first six months of 1980 by more than 3.5 percent from the corresponding period in 1979.

Japan and Canada have been the dominant suppliers of light truck and cab/chassis imports, accounting for more than 95 percent of the total in recent years. Imports from Japan rose rapidly between 1975 and 1979; its share of total imports ranged from a low of 47 percent in 1977 to a high of 55 percent in 1979. In the first six months of

1980, however, Japan's share of light trucks and cab/chassis rose to 67 percent. After increasing from 41 percent in 1975 to 49 percent in 1977, Canada's share of imports fell to 43 percent in 1979 and further declined to 31 percent in January-June 1980. Imports from West Germany, the only other source of imports of light trucks, steadily declined relative to total imports during 1975-1979. */

U.S. producers' captive imports consistently accounted for nearly 70 percent of imports of light trucks and cab/chassis during 1975-1979. All light trucks imported from Canada were captive imports of U. S. producers, and from 40 to 50 percent of light truck imports from Japan were captive as well.

Imports of light trucks also increased relative to production. Imports of light trucks and cab/chassis increased from 19 percent of U.S. production in 1975 to 29 percent in 1979 and then grew markedly to 62.5 percent in January-June 1980.

Passenger Automobiles

Imports of passenger automobiles grew steadily by 43 percent, from slightly more than two million units in 1975 to more than 2.9 million

*/ Including as imports Volkswagen light trucks that are assembled in a free-trade zone in Pennsylvania results in nearly a doubling of the share of imports accounted for by West Germany in January-June 1980 in comparison to the like period of 1979. While they are only 30 percent, by value, of foreign origin, the U.S. Customs Service classifies them as imports from West Germany.

units in 1978. In 1979, car imports fell by about four percent to 2.8 million units, primarily as a result of sharp reduction in imports from Canada. In January-June 1980, auto imports increased thirteen percent from the corresponding period of 1979; imports from Canada, however, which had declined from 850,000 units in 1977 to 678,000 in 1979, continued to decline.

Japan, the leading source of U.S. imports in recent years, has seen its share of imports grow from 34 percent in 1975 to 57 percent in 1979 and to 62 percent in January-June 1980. Much of Japan's growth has been at the expense of other countries' shares of U.S. imports. Canadian import penetration declined steadily from 36 percent in 1975 to 24 percent in 1979, and West Germany's share declined irregularly from 17 percent to 11 percent in the same period. */ The combined imports of passenger automobiles from countries other than Japan, West Germany, and Canada consistently amounted to less than ten percent of total imports in recent years.

U.S. producers' captive imports of automobiles accounted for a significant share of total imports of automobiles, although the share has steadily declined since 1975. As a share of total automobile imports the combined imports of GM, Ford, Chrysler and AMC declined from 41 percent in 1975 to 28 percent in 1979 and further declined to 27 percent in January-June 1980.

*/ VW of America's imports into U.S. customs territory from the free-trade zone at New Stanton, Pa., are not included in the Commission's data as imports since 70 percent of the value of the vehicle is added in the United States (However, the Customs Service treats such vehicles as imports from West Germany.) Inclusion of VW's New Stanton production in the Commission's import data gives West Germany an increasing share of U.S. imports from 1978 through January-June 1980, when West Germany accounted for 17 percent of the total.

Determination on Heavy Trucks

Heavy truck imports cannot possibly be causing injury to the domestic industry within the meaning of the Act. No party to this investigation claimed import-related injury to the domestic heavy truck industry. Indeed, the section 201 requisite that imports be increasing has not been satisfied in a meaningful manner. */ Therefore, I have made a negative determination with respect to imports of heavy trucks. By contrast, U.S. imports of light trucks and automobiles have been increasing in both absolute and relative terms.

*/ I shall, therefore, not give further consideration to the heavy truck industry in these views.

IV. THE U.S. LIGHT TRUCK INDUSTRY

During the last two years the light truck industry has sustained serious injury but imports have not been a substantial cause of this injury. In any event, a recent tariff reclassification has mooted much of this discussion because it is so significant as to remove any possibility that light trucks might be imported into the United States in such increased quantities as to be or threaten to become a substantial cause of serious injury to the domestic light truck industry.

Economic Indicators */

Domestic production of light trucks increased from two million units in 1975 to 3.3 million units in 1978, but declined to 2.7 million units in 1979. The declining trend in light truck production continued in the first half of 1980, when production fell to 683,000 units, a decrease of 60 percent from the corresponding period in 1979. Domestic production of light trucks weighing over 6,000 pounds remained higher than production of trucks weighing less than 6,000 pounds for this period. However, as total domestic production of light trucks increased during

*/ A full discussion of the standards and framework for my determinations in the investigation is included in my examination of the passenger auto industry which follows.

1975-1978, production of the larger light trucks gained a greater share of the total. During 1979 and the first half of 1980 production of such larger trucks fell much more rapidly than production of small light trucks.

Total domestic capacity to produce light trucks increased steadily from 2.7 million units in 1975 to 3.2 million units in 1979. From January-June 1979 to January-June 1980, however, domestic capacity to produce light trucks declined from 1.8 million units to 1.6 million units. Relative to total U.S. light truck capacity, the capacities for producing light trucks over and under 6,000 pounds did not change appreciably.

Domestic capacity utilization for light trucks increased from 74 percent in 1975 to over 100 percent in 1977 and 1978 and fell to 87 percent in 1979. In the first half of 1980 it dropped precipitously from 94 percent (January-June 1979) to 42 percent.

Inventories of domestic light trucks increased steadily from 372,000 units at the end of 1975 to 638,000 units at year-end 1979, but fell to 465,000 units as of June 30, 1980. As a percentage of annual shipments, inventories of U.S.-produced light trucks increased markedly in 1979 and again in 1980. In 1979 the ratio of inventories of light trucks to annual shipments increased to 25 percent from an average of

about 18 percent for the previous four years. It increased again in the first half of 1980 to 35 percent. */

Making price comparisons for automotive vehicles is complicated by the myriad of differences in their physical and subjective attributes and thousands of different product configurations. However, careful examination of the adjusted Japanese export price index and the U.S. producer price index for light trucks suggests that the average price of imported trucks fell substantially relative to the average domestic price during 1979.

In the last two years, the rapid decline in sales in this multi-billion dollar industry, which requires high production runs to cover large fixed costs, indicates that the light truck industry suffered from serious injury in 1979 and the first half of 1980.

The Tariff Change

Prior to August 21, 1980, most light trucks entered the United States unfinished as chassis under TSUS item 692.20 rather than as trucks under

*/ Data for employment and profits cannot be segregated from those for the automotive industry. These important aggregate indicators will be discussed in Section VI.

TSUS item 692.02. Such trucks lacked only their load beds and could be quickly assembled into completed light trucks. Effective August 21, 1980, the U.S. Customs Service corrected a classification error and reclassified them as trucks. Light trucks, which had been classified as truck chassis with an assessed duty of four percent, are now dutiable at 25 percent.

Other Special Considerations

One difference between the automobile and light truck markets is that almost 50 percent of the imports of light trucks from Japan (1979) are captive imports sold by domestic producers under their own brand name. (By comparison, only about ten percent of non-Canadian imports of automobiles are captive imports.) Until November 1979, there was no domestic production of small pickup trucks. However, U.S. production of small pickups now imported by GM, Ford, and Nissan is scheduled to commence within the next few years.

The import relief statute is not designed to protect U.S. industries from self-inflicted injury nor is it intended to interfere with efforts of the industry to adjust to import competition. */ The strategy for development of U.S. production followed by Honda and Volkswagen **/ suggests that as GM and Ford switch to domestic production of small pickups, continued captive imports will be vital if they are to maintain a full selection and develop the market in an orderly fashion. Import relief could interfere with this process. Furthermore, since U.S. producers bring in half the imports of small pickups and enjoy a more extensive dealer network than do non-captive imports, U.S. producers can already control the transition to domestic production of small pickup trucks.

Determination on Light Trucks

The decline in overall demand, exacerbated by a more rapid fall in larger light truck sales, reflected phenomena similar to those we shall observe and discuss in Sections VI and VII. These considerations have led me to conclude that even if there had not been a tariff reclassification, imports would neither be a substantial cause of serious injury to the light truck industry, nor a threat of such.

*/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 122. The Senate Finance Committee Report states:

The escape clause is not intended to protect industries which fail to help themselves become more competitive through reasonable research and investment efforts, steps to improve productivity and other measures that competitive industries must continually undertake. 112

**/ See briefs of Honda Motor Co., Ltd. and VW of America.

V. SERIOUS INJURY TO THE PASSENGER AUTOMOBILE INDUSTRY

Section 201(b)(2)(A) of the Trade Act provides guidelines for determining whether a domestic industry is being seriously injured. The Commission must consider, among other economic factors, whether there is a significant idling of productive facilities in the industry, whether a significant number of firms operate at a reasonable level of profit, and whether there is significant unemployment or underemployment within the industry. Because the Act specifically avoids limiting the Commission to just these criteria, I have also considered all other relevant economic indicators on which the Commission has been able to compile data. As a consequence of the huge scale of the industry and the varying but extensive degree of integration of operations, it has not been possible to compile all data on a strictly comparable basis. I have chosen the best available sources and have endeavored to note any significant limitations.

Economic Indicators

In the aggregate, most of the indices of domestic automobile producers' performance show improvement from 1975 through 1978 and then rapid declines which, based on unofficial data, lasted through the third quarter of 1980. When the aggregate data are broken down by vehicle size, striking differences emerge. Economic performance

of compacts and subcompacts improved after 1978, albeit at slower rates. However, this strengthened performance was more than offset by the sharp drop in all measures of economic health of the intermediate and full-size sectors.

U.S. Production -- U.S. production of automobiles grew from 6.6 million vehicles in 1975 to 9.1 million in 1978 before falling off to 8.4 million in 1979. Figures for the first half of 1980 compared to the same period one year earlier show a further decline of 29 percent. After growing irregularly from 2.4 million units (1975) to 2.6 million (1977), production of small cars (subcompacts and compacts) jumped to 3.7 million (1979). Large (intermediate and full-size) car production peaked at 6.5 million in 1977 and fell sharply to 4.7 million in 1979. For the first half of 1980, these trends continued as small car production grew slightly and that of large cars fell a staggering 48 percent from the same period of 1979.

These dismal trends do not appear to be significantly biased by unusual circumstances such as strikes or unavailability of parts. Nor is there any indication of resource reallocation to foreign subsidiaries or production of other products.

Total Capacity -- Total capacity */ to produce cars fluctuated slightly from January 1975 to June 1980. A small increase of one percent from

*/ Capacity figures are subject to a number of reservations. See accompanying Report at A- 32

1975 to 1977 was offset by a slightly larger decline from 1977 to 1979. The latter was attributable to time lost in plant conversions. However, a further small decline in the first half of 1980 reflects closings of large car plants by Ford and Chrysler. Domestic small car capacity grew 28 percent from 1975 to 1979 before levelling off in the first half of 1980. On a unit-for-unit basis, the growth of capacity to produce small cars has substituted for declines in capacity for large car production. */

Capacity Utilization -- Utilization of total domestic capacity for production of autos increased from 62 percent in 1975 to 86 percent in 1978 before declining to 80 percent in 1979. From a January-June 1979 figure of 91 percent, it fell to 67 percent from January-June 1980. For small cars, however, utilization grew from 72 percent (1977) to 80 percent (1979) and was 84 percent for January-June 1980 compared to a slightly smaller figure one year earlier. Capacity utilization for large cars dropped from 91 percent (1977) to 79 percent (1979). First-half year figures dramatize the sudden collapse of large car production -- down in one year from 79 percent (1979) to 53 percent (1980).

*/ Most of this growth has been concentrated in the previously neglected (by relative standards) subcompact sector.

Inventories -- Inventories as a percentage of annual shipments generally vary inversely with economic health. */ After falling from 21 percent in 1975 to 17 percent in 1976, the ratio grew to 20 percent in 1979 and 23 percent for the first half of 1979. Opposing this trend, the ratio of small car inventories to shipments declined; after one year of stability, it steadily fell from 23 percent in 1976 to 17 percent in 1979.

Employment -- Total employment grew from 793,000 workers in 1975 to more than one million in 1978, and then declined by three percent to 972,000 in 1979. The first half of 1980 saw a further decline by 22 percent from the same period of 1979 to about 804,000. **/ Employment of production workers shows a similar trend. Relative to the end of 1978, there were 300,000 unemployed in June 1980. While 29 percent unemployment is large, previous downturns have been equally disastrous for workers. Similar sharp declines from previous peaks were recorded in 1969-1970 (27 percent) and 1973-1975 (25 percent).

*/ In general, inventories are held by dealers, grow with brisk sales, and run down when sales shrink or credit costs rise.

**/ Corporate statistics are not broken out on the large number of employees of the auto manufacturers engaged in the production of auto parts, components, and trucks. The data given for this indicator are, therefore, industry aggregates for establishments producing assembled motor vehicles.

The grim unemployment situation is exacerbated by underemployment shown in the average weekly hours per worker which dropped below 40 hours for the first time in five years in the first half of 1980. Average weekly overtime and average weekly hours per worker grew from 1975 to 1977 before declining through 1979. Weekly overtime still averages 2.05 hours per worker. This may reflect use of overtime in production areas with bottlenecks and restraint by the firms in immediate rehiring of laid-off workers when prospects for keeping them are not good.

Wages -- Average hourly compensation of auto workers grew at an annual rate of more than nine percent from 1975 to January-June 1980, slightly faster than that for all manufacturing workers. The average gross earnings of \$9.47 (compared to \$7.07 for all manufacturing workers) reflect the rapid growth of wages in years prior to 1977; over the last two decades, the UAW successfully negotiated large wage increases augmented by cost-of-living allowances (COLA) provisions which have tended to guarantee the real income of auto workers. */ Fringe benefits and significant supplemental funds for laid-off workers supported by the

*/ Since 1977, the growth of auto wages has been slower than average growth of all manufacturing workers' wages.

producers have further boosted average total compensation to auto workers to \$16.55 per hour. */

Productivity -- Because of varying labor input requirements, changing product mix of the producers, and wide differences in vertical integration among the firms in the industry, a single aggregate productivity measure may be misleading. Such problems are minimized when many indicators are used to depict the state of the industry. There was little change in output per worker per hour from 1975 to 1978, but a substantial drop in the first half of 1980. That decline is indicative of the large inefficiencies incurred in operating auto plants below optimum level.

Profits -- The financial performance of U.S. producers show drastic changes in recent years. **/ Aggregate net operating profit of U.S. producers on domestic operations rose by over 350 percent from \$1.3 billion in recession-year 1975 to \$6.1 billion in 1977, declined moderately to \$5.6 billion in 1978, and then fell precipitously by 76 percent to \$1.3 billion in 1979. The first half of 1980 saw industry losses of \$2.9 billion

*/ Average total compensation is the sum of average hourly compensation paid to auto-workers plus average non-salary fringe benefits such as employer social security contributions, etc., plus average supplemental benefit contributions. Each of these is quite distinct.

Under the supplemental benefit program, manufacturers contribute at specified rates to the supplemental fund until the target level based on current employment is reached. When no benefits are paid out and the fund is full, the employers' contributions drop to zero. Significant and continued unemployment over the last two years has steadily tapped the funds and increased the employers' contributions -- at a time when companies could least afford it.

**/ The operations of U.S. producers are so highly integrated with their Canadian operations that only estimates compiled on the basis of differing arbitrary allocation methods are available.

compared with a profit of \$2.7 billion in the first half of 1979. The current year will be the first in recent history in which the industry shows aggregate losses. Volkswagen of America is the exception to the rule; its performance improved from 1978 when it incurred large start-up costs through the first half of 1980 when it was the lone U.S. producer reporting profits.

Conclusion

There is no question that the domestic auto industry is seriously injured. The significant idling and underutilization of plant facilities, the inability of all firms except one to make any profits, and significant unemployment and underemployment paint a grim picture. By historical standards, the economic indicators during the present downturn are unique in two respects: improving performance for the small car sector and staggering losses for the industry as a whole.^{*/}

^{*/} The big three (GM, Ford, Chrysler) have never before all reported losses at the same time as they did for the first nine months of 1980.

VI. MANY CAUSES OF INJURY: IMPORTS NOT A SUBSTANTIAL ONE

Although there is serious injury present in the passenger car industry, I have determined that increased imports do not constitute a substantial cause of the existing serious injury.

Standards and Framework

For an affirmative determination, section 201(b)(1) of the Trade Act of 1974 */ requires that serious injury or threat of serious injury found in an import relief investigation be substantially caused by increasing imports. As made clear in section 201(b)(4), the requisite causal linkage is strong.

"Substantial cause" is defined to mean "a cause which is important and not less than any other cause." **/ This dual test has been consistently applied in Commission determinations since 1975. If any cause other than imports is found to be more important than imports, an affirmative determination is unwarranted. Furthermore, were there to be a host of causes of equal significance, each of which was not important standing alone, the law also directs a negative finding.

*/ 19 U.S.C. 2251(b)(1).

**/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 119.

Alternate Causes -- There is scant legislative direction on which alternative causes should be weighed against increased imports.

The Senate Finance Committee Report does direct the Commission to examine the injury attributable to increased imports or of other causes, "such as change in technology or in consumer tastes, domestic competition from substitute products, plant obsolescence, or poor management." */ By not shackling the Commission to an approach so finely detailed as to be unworkable in all potential cases, the statute gives the Commission maximum flexibility and discretion. Within these broad boundaries lies the responsibility for the Commission's determination to be "clear, well documented, and . . . decisive." **/

An analysis of Commission precedent is enlightening only to the extent that it confirms the case-by-case latitude of the ITC. Each party to the present investigation offered its own selection and interpretation of past cases. Some decisions have found causes of injury independent of and greater than increased imports. These have included changes in

*/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 121.

**/ Id., at 121-22.

consumer taste */, introduction of a new technology causing demand to shift to a different product **/, and oversupply of the domestic product accompanied by declining prices. ***/

In affirmative cases, other causes have often been considered and eliminated as less important than imports for various reasons. In affirmative determinations in industries affected by recession, there is a correlation between ruling out recession as a more important cause and imports rising absolutely or relatively in the declining market. ****/ In my view, the ability of imports to perform relatively better than the domestic products in a downturn demands explanation; it cannot ipso facto establish that the imports are an important cause of serious injury as great as any other cause. *****/

*/ Slide Fasteners, Inv. No. TA-201-6, USITC Pub. No. 757 (1975) at 51 and Wrapper Tobacco, Inv. No. TA-201-3, USITC Pub. No. 746 (1975) at 8-9.

**/ Low Carbon Ferrochromium, Inv. No. TA-201-20, USITC Pub. No. 746 (1975) at 8-9.

***/ Certain Fish, Inv. No. TA-201-41 (1980); Live Cattle, Inv. No. TA-201-25, USITC Pub. No. 834 (1977) at 6.

****/ Ford Post-Hearing Brief at 27.

*****/ Findings on such other questions as the scope of the industry can also have an impact on the causal analysis. In Mushrooms, Inv. No. TA-201-42, USITC Pub. No. 1089 (1980), the imported product was canned while a substantial portion of the domestic industry was devoted to marketing fresh mushrooms. Had the two been deemed separate industries, the determination might well have been different.

Ford argued in its submissions that once the Commission finds imports to be among the causes of serious injury, it should stop its inquiry there and not consider the reasons for the increased imports as separate causes. Ford stated that there will always be reasons for an increase in imports. However, in some investigations, as noted above, the Commission has considered as causes of serious injury factors that could arguably have been treated as explanations of the increase in imports -- such as shifts in consumer tastes or rising fuel prices. In other cases the Commission has declined to consider what could have been termed competing causes by considering them instead to be conditions of competition irrelevant to cause.

Never before in the history of section 201 has the issue of how and when to break down causes been so sharply joined. This case gives the Commission the opportunity to be as explicit as possible in its analytic framework and standards. My own reasoning follows.

Shift in Demand -- The statute provides no guidance in dealing with shifts in consumer tastes as a cause of injury. The legislative history touches directly on the issue only once in the Senate Finance Committee's discussion of the factors that the Commission should consider with respect to threat of serious injury. It states that each indication of serious injury should be analyzed to determine whether it is a result of increased imports or one of a variety of other causes, including "changes in . . . consumers' tastes (or) domestic competition from substitute products." */ This is a clear signal that a shift in demand may be deemed a cause alternative to imports. But it offers no help on the question of whether the shift can occur within the industry and still be a separate cause.

In past import relief investigations, shift in demand has tended to be discussed by the Commission where it found an independent "greater cause" than imports (in negative determinations) or where it used the process of elimination to establish that imports were a greater cause of injury than a list of alternate factors, including change in

*/ This consideration accounts in part for the hotly contested issue of how many industries were the subject of this investigation.

**/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 121.

tastes (in affirmative cases). */ In other investigations, the Commission avoided treating the shift in demand as an alternative cause. **/

*/ Thus, in Slide Fasteners and Wrapper Tobacco, changes in consumer tastes were found to be greater causes of injury than increased imports. In both cases, the shift was to a product outside the scope of the industry being investigated. See Inv. No. TA-201-6, USITC Pub. No. 757 (1975) at 51, and Inv. No. TA-201-3, USITC Pub. No. 746 (1975) at 8-9, respectively. In Footwear, for example, the inability to accept and respond to style changes was cited as a possible cause of injury. See Inv. No. TA-201-18, USITC Pub. No. 799 (1977) at 13. In Mushrooms (1976), diversion of tastes from canned to fresh mushrooms was considered to be a lesser cause than increased imports. See Inv. No. TA-201-10, USITC Pub. No. 761 (1976) at 13-14. In both of these investigations, the shift was to a different product.

**/For example, in Sugar, the shift in demand from natural sugars to corn sweeteners might have seemed a more important cause of injury than increased imports. However, the Commission considered corn sweeteners as part of the domestic industry and found affirmatively. See Inv. No. TA-201-16, USITC Pub. No. 807 (1977) at 161-62. Similarly, in Iron Blue Pigments the Commission determined in its definition of the industry that there was no commercial substitute to the like or directly competitive domestic product. See Ferricyanide and Ferrocyanide Pigments (Iron Blue Pigments), Inv. No. TA-201-11, USITC Pub. No. 767 (1976). In Mushrooms (1976) the shift from canned to fresh mushrooms was not treated as a definitional problem, but once serious injury or threat thereof was found, the shift was absorbed as an industry condition irrelevant to substantial cause. The implication of this class of cases may be that shift in demand within the industry should not be considered a competing cause of serious injury. Sugar, in particular, seems analogous to the automobile case. However, the views of individual Commissioners tended to conclude that the shift to corn sweeteners, particularly in industrial applications, was less important than imports as a cause.

On the one hand, Honda argued that the Commission has explicitly considered intra-industry shifts in negative determinations. */ Neither of the cases cited, however, is particularly helpful in analyzing the automobile investigation. **/ There is no clear precedent for considering a shift in consumer taste or demand to a product within the scope of an industry to be an alternative, greater cause of injury than increased imports. However, the Commission has sufficient discretion to do so if supported by the facts.

On the other hand, Ford argued that change in consumer tastes must be a shift to a product outside the scope of the domestic industry before it can be considered as an alternative to increased imports as a cause of serious injury. ***/ If true, this means that the definition of industry could be crucial, depending on the relative importance of the shift. ****/

*/ Honda Post-Hearing Brief at 14-16.

**/ In Live Cattle, it is true that there was an increase in demand for the kind of beef and veal suitable for making ground beef and that this demand favored imported beef disproportionately. However, imports had declined relative to the increase in consumption, even though they had increased in absolute terms. The determination rested on a finding that imports were of "minor impact in comparison with the significant increase in supplies resulting from increased production." Honda's argument with respect to Fishing Tackle rests on analysis of one of the four separate industries identified by the Commission. The negative determination cited turned on a finding that the industry was not seriously injured. See Inv. No. TA-201-25, USITC Pub. No. 834 (1977) and Inv. No. TA-201-34, USITC Pub. No. 917 (1978), respectively.

***/ E.g., Ford Pre-Hearing Brief at 29.

****/ This consideration accounts in part for the hotly contested issue of how many industries were the subject of this investigation.

In the present case the Commission defined the scope of the passenger auto industry in the broadest sense. Despite significant differences in plant facilities for different products and high costs of converting between product lines, any further breakdown would have been arbitrary and obscured fundamental developments of the last decade. Similarly, it would be equally arbitrary to exclude a shift in consumer tastes as a cause worthy of separate consideration simply on the technicality of how the industry has been defined. I can see only one valid reservation to the principle of treating shift in demand within an industry as a separate cause: a shift in consumer tastes that is per se a shift in demand toward imports should not be treated as a cause of injury separate from those imports.

Cyclical Industries -- The historical cyclicity of the auto industry also raised a serious conceptual problem related to both injury and cause. Should a "normal" business cycle decline in overall demand be factored out of the total injury picture? Should only injury beyond that expected be assessed in determining serious injury and causation? The questions cut both ways. By factoring out normal declines, it becomes more difficult for a cyclical industry to demonstrate serious injury; yet, it is less difficult to show substantial causation because an important non-import source of injury has been removed from the picture. The opposite effects occur if you factor in normal declines.

Review of Commission precedent, the arguments of the parties to this investigation, and legislative history revealed that this important conceptual question has never been directly reached in prior Commission decisions on recession-beset industries. Advice elicited from interested parties in questioning at the hearing seemed to be that "cyclical industries should receive no special treatment." But that dictum begs the question as to which treatment is "special" -- factoring in or factoring out normal cyclical behavior.

Commission practice, although not precisely on point and certainly not binding, supports the discretion of the Commission to analyze in any way it deems best the basis of industry performance against which to measure injury. */

*/ For example, in Birch Plywood Doorskins, Inv. No. TA-201-1, USITC Pub. No. 743 (1975), Commissioner Minchew considered the cyclical downturn in the industry as part of the norm against which injury was to be measured. The rest of the Commission, however, looked at the cyclical drop in demand as part of the injury and then weighed the relative importance of causes. In Bolts, Nuts, and Screws of Iron and Steel, Inv. No. TA-201-2, USITC Pub. No. 747 (1975) at 11, Chairman Leonard stated "'present' injury must be found by examining a time span which discounts brief and transitory episodes in the performance of the domestic industry and established a realistic performance for the industry in the present." Chairman Leonard made a similar statement in Stainless Steel and Alloy Tool Steel, Inv. No. TA-201-5, USITC Pub. No. 756 (1976) at 72. In contrast, also in the Stainless Steel and Alloy Tool Steel investigation, Vice Chairman Minchew noted at 47, "The two principal causes of injury to the domestic industry are increased imports and the cyclical nature of the industry." Although he concluded imports to be the most important cause of serious injury, Vice Chairman Minchew clearly analyzed cyclical downturn as part of the serious injury. The variety of approaches used by Commissioners is further emphasized by the separate views of Commissioner Ablondi in the Stainless Steel and Alloy Tool Steel investigation when, in selecting an appropriate period within which to measure injury, he states that, "it has been the established practice of the Commission under section 301 of the Trade Expansion Act as well as under section 201 of the 1974 Trade Act to analyze imports over a period of time of sufficient length to establish trends and thereby put aberrant or temporary conditions into proper perspective." USITC Pub. No. 756 at 53 (citing Ceramic Table and Kitchen Articles, Including Dinnerware, TEA-1-22, TC Pub. 406 (1971); Bagatelle, Billiard, and Pool Balls, TEA-1-19, TC Pub. 347 (1971); Nonrubber Footwear, TEA-1-18, TC Pub. 359 (1971) at 10-11 (Commissioners Clubb and Moore) and 37 (Commissioner Leonard).

Section 201(b)(2) directs the Commission to "take into account all economic factors which it considers relevant" This would tend to support the argument that the Commission may analyze the impact of business cycles in any way it deems appropriate, including isolating their effects. However, section 201(b)(2)(A) states that, "with respect to serious injury, the significant idling of productive facilities in the industry, the inability of a significant number of firms to operate at a reasonable level of profit, and significant underemployment within the industry" are among the factors that the Commission must consider. These appear to be the types of negative indices apparent in business cycle downturns. Thus, it could be argued that section 201(b)(2)(A) envisions no elimination of injury of one sort (i.e., that caused by normal business cycle downturn) from an analysis of whether the industry in question is seriously injured. It is unlikely that Congress intended to make relief more difficult to obtain for industries beset by repetitive cyclical downturns.

Because each recession is individual in its timing, severity and expected recovery, choosing a standard can be hazardous. */ I have,

*/ Indeed, the National Bureau of Economic Research has been at the task for many decades without any definitive conclusions.

therefore, decided to consider injury from all sources including normal recessions in order to avoid tampering with the objective economic indicators which the Commission, as well as private industry, relies on for measuring economic health, */

Mathematical Tests -- No previous case before the Commission has been the subject of so much sophisticated econometric modeling and market analysis. Despite the conflicting testimony, replies and counter-replies, I have found that most parties on all sides made impressive attempts to provide the Commission with scientific analysis. The results of the various presentations were critically dependent on their assumptions and could not be used to resolve which assumptions in fact were correct, e.g., which factors should be treated as separate causes and which merely as explanations of how imports caused injury? Which base period or year should constitute a proper reference in a cyclical industry? Furthermore, the fact that the domestic automotive industry and its components

*/ Congress has recognized that the relative weighing of alternate causes of injury is unquestionably subjective. See S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 120. Professor J. Jackson in World Trade and the Law of the GATT (Section 23.3, p. 561, 1969) stated that "serious" investigation of the term serious injury "has occurred only once in practice" -- the Hatters' Fur Case (1950). The GATT Working Party appointed to investigate the dispute found that even serious injury, no less its causation, "is essentially a matter of economic and social judgment involving a considerable subjective element." (Report on Withdrawal by the United States of a Tariff Concession under Article XIX of the GATT, Geneva, 1951, at 22.)

parts suppliers constitute over five percent of the U.S. gross national product means that any influence on the industry's performance has a significant feedback on national income which, in turn, further affects auto sales. Because the industry tends to lead most recessions, independent modelling of recessionary influences on the industry is theoretically impossible. In a mathematical sense, there are very few truly independent variables here. And because many of the factors important to an understanding of the industry operate simultaneously, any econometric separation of their independent effects becomes a dubious effort. The Senate Finance Committee explicitly recognized this situation:

The Committee recognized that "weighing" causes in a dynamic economy is not always possible. It is not intended that a mathematical test be applied by the Commission. The Commissioners will have to assure themselves that imports represent a substantial cause or threat of injury, and not just one of a multitude of equal causes or threats of injury. It is not intended that the escape clause criteria go from one extreme of excessive rigidity to complete laxity. An industry must be seriously injured or threatened by an absolute increase in imports, and the imports must be deemed to be a substantial cause of the injury before an affirmative determination should be made. */

While these analytical tools are helpful in clarifying the issues and dimensions of the case, their shortcomings prevented me from relying on them for pivotal decisions.

*/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 120-21.

Section 201 and the Case-by-Case Approach -- All relevant economic factors must be considered, but the question remains -- how? Commission precedent suggests that the answer is to be found in the economic rather than the legal sphere.

The fact that when viewed narrowly, precedents may be cited for viewing particular factors either as causes separate from or as explanations of increasing imports should not be disturbing. */ The import relief statute is the broadest jurisdiction assigned to the Commission. The impact of all imports on entire domestic industries is examined. Unlike countervailing duty and dumping cases, there is no well-defined measurable unfair price margin to examine. Section 201 is necessarily broad. It is doubtful that it is theoretically possible for Congress to have made the criteria more specific on the issues of causation that we might have applied in this case and still have an import relief framework applicable to the full range of industries present in the world's largest economy. **/ Each industry has its own structure

*/ The legal doctrine of precedents, stare decisis, does not strictly apply to administrative agencies. An agency is free to change its policy, or even its interpretation of a statute, so long as it explains the reasons. A section 201 decision may be set aside by the courts only if it is shown to be "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." See Administrative Procedure Act, 5 U.S.C. 706(2)(A).

**/ Over the last three decades, Congress has passed three different import relief statutes. Although the thresholds of injury and standards for causation (major, principal, substantial) have been debated and changed, Congress has neither sought to delimit narrowly the factors which the Commission should consider nor direct precisely how the causes should be broken down.

and logic. Each case requires the qualitative judgment and intelligence of the Commissioners who must reach a determination. Were these statements not true, the Commissioner's deliberations might better be replaced by computer simulations. Though I am not without self-interest in this matter, I feel there is no mechanical alternative that could give better results than case-by-case analysis.

Causes of Injury

I have attempted to concentrate on those phenomena that are relatively independent. To the extent that an increase in imports seemed to be merely incidental to a far more fundamental phenomenon, I have decided to analyze that fundamental phenomenon as a separate cause. Under the rubric "imports as an independent cause," I shall treat those sales which imports have captured in head-on competition with domestic autos due to attributes such as price, design, and quality that attract customers.

A full understanding of the industry's problems necessitates an examination of a complex web of events. The injury sustained by the automobile industry can best be explained by analyzing four fundamental phenomena:

(1) A general decline in demand due to rapidly increasing costs of car ownership and operation (added to normal -- if not precisely predictable -- recessionary effects on consumer income and confidence);

(2) A seemingly permanent shift in consumer tastes to relatively smaller, more fuel-efficient autos;

(3) A substantially negative accounting impact on profits resulting from huge investments to transform the industry; and

(4) Success of imports in head-to-head competition.

The decline in demand and shift in demand are more important causes of injury to the auto industry than increasing imports, per se. I have not been able to evaluate fully the relative significance of the massive capital costs of transforming the industry; however, I believe that their impact on domestic industry performance is at least of the same magnitude as that of imports. It is doubtful that in the absence of the first three causes the remaining injury attributable to imports would be serious.

General Decline in Demand -- Recessions are always the subject of much debate. Any discussion of them benefits greatly from hindsight . . . a luxury not yet afforded the Commission in this case. It is clear at this time

that two highly cyclical leading sectors -- housing and autos -- have performed far more poorly than the economy as a whole due to a set of factors already quite apparent. The general decline in automobile consumption by 25 percent from the first half of 1979 to the first half of 1980 is in greatest part due to factors peculiar in their severity to the present recession and quite unrelated to the presence of imports in the American market place.

Consumer demand for automobiles is determined by the need for private transportation, disposable income (essentially take-home pay net of taxes and retirement deductions), the value of trade-in cars, and true price of auto ownership and operation. The total costs of auto ownership consist of depreciation */, finance charges, gasoline, maintenance, insurance, parking, tolls, and taxes such as registration fees. None of the important components have advanced more slowly than general price trends. Studies have been performed for the American Automobile Association which attempt to include most of these components

*/ Depreciation is the appropriate way of moving from the purchase price of a consumer durable to a yearly cost.

(except financing) over the last five years. */ For each class of cars examined, costs between 1975 and 1980 rose rapidly in nominal terms. Surprisingly, the trends were less marked when converted to constant dollars -- a slow decline from 1975 to 1978 and then a more rapid rise from 1978 through 1980. **/

The underlying reasons for the growth of ownership/operation costs of autos have nothing whatever to do with imports; the three main culprits have been the explosion of gasoline prices, the rapid rise in new car prices, and the credit crunch. Gasoline price inflation has been due to several factors: price increases by members of the Organization of Petroleum Exporting Countries (OPEC) in late-1978, which added significantly to the cost of crude oil; the political revolution in Iran in late-1978, which curtailed petroleum production; and the U.S. Government's decontrol of gasoline prices at about the same time, which permits retail prices to rise further -- about two cents per gallon each month over current prices until final decontrol in September 1981.

*/ See Runzheimer and Company, "Domestic Automobile Cost Data" (November 1980). The data prepared for the USITC cover 1975-1980 and are based on a study commissioned by the American Automobile Association.

**/ There is an index number problem here because of the important role of cost of transportation in the consumer price index (C.P.I.) which is used as a deflator. When real auto costs fall relative to the C.P.I., they are falling even more rapidly with respect to other prices which go into calculating the C.P.I. More important, because in the crucial 1978-1980 period real auto costs rose faster than the C.P.I., they have been advancing even faster than other prices.

The combined effect of all these events has been immediate and substantial. Between January 1979 and June 1980 the overall price of gasoline increased from \$0.65 a gallon to about \$1.30 a gallon, a greater increase than had occurred in the entire twenty-year period prior to 1979. The increase, outpacing prices in general, added significantly to the consumer's cost of operating an automobile.

Particularly in 1980, new car prices have advanced significantly. Productivity has been stagnant in the industry due to serious absenteeism and social problems among the workers and delayed introduction of new state-of-the-art production techniques. Technological changes, which bring higher productivity, will likely occur most rapidly once the completely new product lines are in place. Thus, the price savings from productivity increases during the transformation now underway in the industry are yet to be felt.

The unprecedented high cost of consumer credit during 1979 and 1980 has been perhaps the single most serious factor in the decline in demand. With the prime rate in the double digits and consumer credit often available only after states have revoked or revised their usury laws, finance costs both to dealers and ultimate purchasers have skyrocketed. With three-quarters of domestic sales financed */, potential customers

*/ Automotive News, "Annual Data Issue" (1980). The proportion varies over the business cycle but seems to have been slowly rising during the last decade. The source data reflect only traceable credit and not personal loans from friends and relatives.

saw monthly payments balloon. (The phenomenon is quite similar to what has occurred in the housing markets. Houses are not readily imported, however, so the staggering effects of the rise in finance charges has not been obscured by other factors.)

The rise in retail costs during the last two years has been accomplished by an erosion of per capita real disposable income, which declined from \$4,536 (1972 dollars) in first-quarter 1979, to \$4,425 in the second quarter of 1980. While the numbers themselves are not huge, one must remember that Americans are accustomed to an increasing living standard; any decline has a shocking effect. It is not purely psychological; people are poorer than they were two years ago.

Underneath the market phenomena lie changes in the perceived need for private transport. The domestic market in the last decade became principally a replacement market; expanded ownership became primarily a response to slow population growth rather than to growth of two- and three-car families. The development of mass transit systems in certain metropolitan areas and rental car fleets has relieved some of the exigency for every adult to have access to a private automobile. Furthermore, between 1972 and 1979, the average age of passenger cars on the road grew from 5.7 years to 6.4 years, probably reflecting changed buying habits more than improved quality. The penchant for additional per capita auto consumption seems to have been quenched as the domestic market reached maturity.

Caught in the scissors of increasing real prices and declining real income, numerous U.S. customers were cut out of the auto market over the last two years. Although the discussion of price effects has been in real terms (constant dollars), most consumers are not in constant touch with the auto market. New autos are usually kept four or five years before their first resale. Thus, consumers have not been as gradually hardened to recent inflation of the price of cars compared to prices of items bought more frequently. One may reasonably assume that most consumers entered the market during the last two years have not shopped for a car since 1975 when nominal prices were approximately 30 percent lower than they are now. */ The unprecedented inflation in new car prices probably shocked customers as a result of some lingering "money illusion." Adjustment to the new situation has been delayed by the belief that credit costs will come down in the future.

Beyond any general decline in auto sales lies the phenomenal collapse of the market for the traditional large cars which have been the historic mainstay of profits for the industry. Instead of a smooth transition dictated at the margin by changing costs, consumers suddenly lost their appetite for gas guzzlers when the Iranian revolution brought gas lines. Neither larger gas tanks to improve large car cruising range nor even major fuel economy improvements from down-sizing large cars could stem the tide.

*/ Report at A-57. This figure is a lower bound since small car share has increased rapidly and the producer price index is for all cars, not one particular model. Also see Report at A-60.

Reinforcing decline in demand has been a fall in the "blue book" value of large cars. With the increasing disparity between trade-in value and new car prices, most potential buyers seem to have left the market place entirely to wait out a credit squeeze, which saw record interest rates accompanied by a quintupling of the refusal rate on credit applications to almost 50 percent. The prospect of the new generation of fuel-efficient five- or six-passenger cars on the way in 1981 and 1982 gave this segment of the public added reason to wait. */

Shift in Demand -- The general decline in demand has been related to growth in the real costs of auto ownership/operation during the last two years. Such an effect might be viewed as an "income effect"; as the price of a good rises, consumers, feeling relatively poorer, tend to purchase less. But there are also "substitution" effects.

As demand declined in 1979 and 1980, it also shifted: sales of large cars -- the mainstay of the U.S. auto industry -- fell faster than overall consumption from 1975 to 1978. Large cars declined to 29.2

*/ If this thesis is correct, the average age of cars on the road in 1980 should be measurably higher than the figure for 1979. The figure is not yet available.

percent of apparent consumption by January-June 1980. The shift in demand to smaller, more fuel-efficient autos has followed the relative increase in the total cost of operation of large versus small cars. */

As a consequence of the continuing political volatility of the Middle East, the threat of future OPEC price increases, possible increases in State gasoline taxes, and government deregulation of gas prices, many consumers deeply doubt the future stability of gasoline prices. All observers and industry members regard the shift to smaller, more fuel-efficient vehicles as irreversible.

*/ The AAA cost-of-ownership data broken down by size of autos show that between 1975 and 1977, the difference between the annual costs of "full-size" cars and subcompacts narrowed, particularly from 1975 to 1976 when domestic dealers had trouble clearing their smaller cars. However, by 1980 full size cars had opened up a greater differential than they had shown in 1975:

<u>Year</u>	<u>Ratio of annual costs of full-size/sub-compact</u>
1975	1.40
1977	1.23
1980	1.43

The changes in the product mix of U.S. producers that accompanied the shift in demand had a special effect on industry profits. Since the late-1920s when General Motors overtook Ford as the number one producer, the domestic industry has been oriented toward production of high-performance, larger cars with many options */, models with significantly higher profit margins. Until recently, the theme has been that mini cars mean mini profits. **/ By 1979 the domestic mix had shifted toward models that indeed yielded the lowest profits.

A more general phenomenon, of which the shift in mix is but one part, can be observed in the long-term trend of net profits to net sales in the auto industry. ***/ The data for the last twenty years show cyclical behavior for the aggregate profit margins, but there is also an alarming secular trend: from 1960 to 1980 each successive peak (or trough) is lower than the previous peak (or trough). Each year the industry has had to sell more cars to make the same absolute level of profits. Clearly this trend could not go on forever. The years of reckoning were 1979-1980. A readjustment was inevitable, and imports have had little to do with this ominous trend.

*/ Report at A-71.

**/ See, for instance, statements of Ford executive director for business strategy Robert R. Reilly, quoted by Robert J. Samuelson, "The U.S. Auto Industry--Under Foreign Seige," National Journal, March 15, 1980 at 427.

***/ The only data available for more than two business cycles are based on the ratio of consolidated worldwide net profits to net sales of Chrysler, Ford, and General Motors. For the purposes of my point here, I do not believe the inadequacies of these data are critical. 142

Increased Capital Outlays -- Capital expenditures by U.S. producers on their domestic operations increased from 35 percent in 1976 to almost 130 percent in 1979. Much of the decline in the industry's return to its investment after 1974 has been caused by the depreciation and amortization of these rapidly increasing capital expenditures which will not realize their full income potential until future periods. A substantial portion of the forty billion dollar transformation of the domestic industry has already been committed. This effect on one of the few indicators significantly worse in this recession than in previous ones is distinct from the effects on profits of the decline in demand, the collapse of the large car market, and the shift in product mix.

Imports -- Imports, particularly those from Japan, have dramatically increased their market share. The extent to which an imported product has been able to capture sales in direct competition with domestic product to the detriment of the domestic industry is the extent to which they can be considered a cause of injury.

All the pricing information suggests that the success of imported automobiles has not been based on any competitive price advantage. For example, the export price index for Japanese autos grew 38 percent from the beginning of 1976 to the end of 1979 while the producer price index for domestic sales grew only 29 percent during the same period. The price data are quite complex, but there are no indications that Japanese cars or any other imports enjoy any direct price advantage.

Quality is an attribute that can function as a surrogate for price in attracting customers because of the implicit repair cost advantage it represents. And imports, particularly Japanese autos, have enjoyed a definite advantage in the perception of quality they have been able to generate among U.S. customers. Surveys by Wards Auto World, Consumer Reports, J.D. Power and Associates, and Rogers National Research clearly show that domestic cars are viewed as having lower quality than foreign ones. */

A secondary question is whether these perceptions are justified. Useful data to establish objectively the relative quality of automobiles were unavailable. **/ Evaluation of recall statistics is hazardous because it is often necessary to recall large numbers of vehicles for a small number of defects, the defects can vary widely in their significance, and companies with stricter standards might tend to generate higher figures.

*/ Report at A-65 and 89.

**/ Such data might include the cost by car-make of privately-offered extended warranties. Analysis of private extended warranty price data shows little or no difference between costs of such warranties on the basis of whether the car is imported or domestic. Post-Hearing Brief of the American International Automobile Dealers Association, Appendix III. However, two companies have informed the Commission that they are in the process of converting from a price system based on car value to one based on actual repair records. They expect that the results will yield lower premiums for Japanese autos. Such expectations are no more objective than the surveys of consumer perceptions.

Although their value in assessing product safety and quality performance is therefore limited, the data are supportive of the consumer surveys. Although the recall records in the United States of European producers were generally similar to those of General Motors, Ford, Chrysler and American Motors, none of the four largest selling Japanese makers had a recall rate higher than one-third the lowest rate shown by a U.S. producer. */ The documented efforts of the UAW and the producers to improve domestic quality control support a conclusion that the consumer's perceptions have in fact been justified. **/

I have treated quality considerations as an explanation of how imports may have contributed to the injury of the domestic industry because they function in the same manner as a price advantage. I have not treated fuel-economy, a definite factor in the choice of imports, in the same fashion because imports have only been incidental beneficiaries of a more fundamental shift in demand to smaller cars. This shift has also definitely benefitted domestic small cars such as the Chevrolet Chevette, whose production lines have been operating at full capacity during the last two years.

*/ Submission of Automobile Importers of America, November 7, 1980, Letter in response to request of Commissioner Stern (Hearing Transcript at 891).

**/ See Hearing Transcript at 7-8, 142-44, and 612.

The independent contribution of imports to injury must be assessed in relation to other factors such as the decline and shift in demand. The shift/share analysis prepared by ITC staff aided such an evaluation. */ In the period January 1979 to June 1980 (when domestic industry performance was poor) the maximum potential loss to U.S. producers resulting from decline in consumption was almost three times that resulting from increased import penetration. **/ Furthermore, a good portion of import penetration results from shift in demand. Adjustments for this consideration would further increase the importance of declining demand relative to imports as a cause of injury.

Demographic considerations explain part of the dramatic rise in import penetration during this recession. Because imports' appeal has been historically greater to white-collar workers on both the East and West Coasts and because larger domestic cars have had their better markets among blue collar workers, the consumers of domestic cars are more vulnerable to cyclical swings in the economy since their employment tends to concentrate in sectors harder hit by recessions. ***/ Sales of imports are not as prone to cyclical variation, and consequently their market share is counter-cyclical.

*/ The simulation calculations allow consumption and import penetration to change alternately while the other is held constant. Report at A-69, 96.

**/ Report, Table 70.

***/ Nissan Pre-Hearing Brief at 21-26.

Causes Not Found Relevant -- Many observers and even insiders */ have blamed poor management for the industry's failure to lead or even successfully follow the shift in demand. Following the Arab oil boycott of 1973, consumers' demand for small cars outstripped supply in 1974. However, domestic small car sales weakened almost immediately in 1975 as consumers switched back to larger cars. As late as 1978, larger V-8 engines were on back-order.

The explanation for this fickle behavior is surprising for its simplicity. Real gas prices and the relative costs of operating large cars declined. The auto companies followed their customers back to large cars. In 1975, Lee Iacocca thanked Henry Ford II for overruling him on the idea to inaugurate Ford Fiesta production in this country. In the meantime, Ford and General Motors had committed themselves to the development of the Escort and Chevette, respectively. Because the planning and production of a new car requires four to six years, it is extremely fortunate that those plans were not dropped. By late-1978 the fickle customer was back scrambling for small cars. This kind of consumer behavior demonstrates the power of prices and the limits of corporate power in dictating consumer preference.

*/ See John DeLorean, On A Clear Day You Can See General Motors, Grosse Pointe, Mich.: Wright Enterprises, 1979.

Since 1974 the only party to the ITC proceedings that opposed gasoline price increases was the initial petitioner, the UAW. */ By 1975 all domestic auto companies are on record for deregulation of gasoline prices. **/ Leading members of Congress announced to the public that gasoline would rise no more than ten cents a gallon during the remainder of the decade. ***/ Given the response of the consuming public to small cars and that of the UAW and the Congress to proposals for decontrol in 1975, the attacks on management who planned for a slow, gradual changeover to smaller cars prior to 1979 seems unfair.

GM and Ford claimed in submissions and testimony that government safety, environmental and fuel-economy regulations were also causes of injury. The corporate average fuel economy (CAFE) standards enacted in 1975

*/ UAW President Leonard Woodcock in Proposals for Constructive Reform, February 15, 1974, in Hearing before the Committee on Interstate and Foreign Commerce, April 1974, at 283 states: "But we are also completely opposed to seeing gas consumption reduced by massive price increases without any compensation for the low- and middle-income people who are unjustly overburdened We also need to reduce the claim of the private automobile on our energy supplies by raising the fuel efficiency of the typical model on the road What we need are mandatory fuel efficiency requirements just as we have mandatory pollution-control requirements."

**/ Information was not available on Chrysler's positions on the de-control issue.

***/ See W. Tucker, "The Wreck Of The Auto Industry," Harper's, Nov. 1978 at 54-55.

relate to the discussion of demand shift as they were the only impetus for a period of time for domestic companies to produce more fuel-efficient models. Thanks to these regulations, the domestic companies were not caught even less prepared for the shift of the last two years. But as a substitute for decontrol, hindsight allows us to see that they were deficient in two respects. First, if decontrol had gone through earlier, the shift would have been gradual with less sudden battering of the domestic firms. Secondly, fulfilling CAFE standards was not the same as producing the car mix needed by 1978. It was easier to meet the production signals from CAFE regulations by first downsizing the largest cars than by developing all new small cars. Increased overall fleet fuel economy was achieved more rapidly and with smaller investments by raising the largest portion of the market (full-size and intermediate cars) from 15 mpg to 25 mpg. But when the consumer shift finally came, the moderately fuel-efficient, downsized cars were shunned though they were no longer "guzzlers" in the traditional sense. */

*/ Since 1979 the industry has been pushed toward greater fuel economy by consumer demand rather than CAFE standards. In fact the 1983 standards, once termed unrealistic or unachievable, have now been surpassed.

Regarding environmental and safety regulations, no evidence was offered that the standards demanded of U.S. producers are any more onerous than those already in force in many of the imports' home markets.

Because expenditures made to satisfy regulations have been overwhelmingly dominated by those related to fuel economy */, the case is extremely weak that government regulation made an important contribution to generating serious injury in the industry.

*/ Report at A-46.

VII. SERIOUS INJURY WILL CONTINUE: IMPORTS NOT A SUBSTANTIAL CAUSE

The unusual problems suffered by this industry in terms of sales, profits and employment will likely continue. However, imports are not threatening to become a substantial cause of any future injury. The plans underway for restructuring the industry address many of the industry's problems and do not depend in any demonstrable fashion on import relief. If anything, purely domestic factors including continuing difficulties in the cost and availability of consumer credit and unavoidable time lags in the introduction of new fuel-efficient models may retard the industry's recovery. The continued incidence of high capital expenditures will restrain improvements in profits while rapid productivity improvements will prevent employment from ever recovering to former levels. However, in any event, the long-term prospects for the domestic industry as a whole are good as it increasingly focuses on a world rather than national market with competitive, fuel-efficient, downsized automobiles with state-of-the-art technology.

Standards and Framework

The report of the House Committee on Ways and Means states that "threat" of serious injury exists "when serious injury, although not yet existing, is imminent." */ The report of the Senate Committee on Finance

*/ H. Rept. No. 93-571, 93d Cong., 1st Sess. at 47.

supports this interpretation and adds:

The existence of any of these factors such as the growth in inventory would not in itself be relevant to the threat of injury from imports if it resulted from conditions unrelated to imports. Such conditions could arise from a variety of other causes, such as changes in technology or in consumer tastes, domestic competition from substitute products, plant obsolescence, or poor management. It is the intention of the Committee that the threat of serious injury exists when serious injury, although not yet existing, is clearly imminent if import trends continued unabated. */

Commission precedents have not fully and directly explained the meaning of "imminent" with respect to the time frame to be considered under section 201 of the Trade Act. **/ The dictionary is not much help because it shows "imminent" to mean, among other things, "threatening" ***/. There is no other legislative direction beyond what has been cited above.

Since there is apparently little difference between the concepts of "threat" and "likelihood" of injury, it is useful to consider how the time frame for threat or likelihood have been dealt with in other

*/ S. Rept. No. 93-1298, 93d Cong., 2d Sess. (1974) at 121.

**/ Commissioners Alberger, Calhoun and Stern made reference to a "real and imminent" standard in the most recent import relief investigation. See Mushrooms, Inv. No. TA-201-43, USITC Pub. No. 1089 (1980) at 17.

***/ See Webster's Seventh New Collegiate Dictionary, 1963, p. 417.

import relief statutes. The Senate Finance Committee Report on the Trade Act of 1974 concludes without criticism that the Commission in antidumping cases based determinations of likelihood of injury upon "evidence showing that the likelihood is real and imminent and not on mere supposition, speculation, or conjecture." */

I found indications of real and imminent threat based on the latest data (first-half 1980 compared to the same period a year earlier), reliable information on the immediate present, and forecasts over the next year. Beyond this period, I have considered the best tentative information available on expected trends through 1985. Despite the fact that a look into the future becomes more speculative the further from the present one goes, and that 1985 is beyond the "real and imminent" standard Congress intended, I believe that considering the medium term future may be enlightening because there is little prospect for the industry to return to health in the next year.

Factors in Substantial Cause of Threat -- With respect to cause of threat, the statute does not distinguish in section 201(b)(2)(c) between causal examination of present and threatened serious injury. I have

*/ S. Rept. No. 93-2198, op cit. at 180. Commissioners Stern and Alberger noted that the concept of threat appeared uniform in meaning in all Commission import relief jurisdictions in Anhydrous Ammonia from the U.S.S.R., Inv. No. TA-406-5, USITC Pub. No. 1006 (1979) at 32.

considered all factors enumerated in that section plus other relevant information. For example, I have considered whether the alleged cause of injury -- imports -- is sufficiently damaging to produce the predicted effect. Though not transparent in previous Commission determinations, this approach -- a reflection of the potential effectiveness of a remedy -- has been helpful because of the cyclical character of this industry. The principle can be stated: if import relief would significantly ameliorate the problems, then imports must be an important cause. If, on the other hand, the domestic industry's injury would not be remedied by import relief, some other factor must be more important than imports.

The Near Term Future and Threat Determination

The recent negative trends noted in Section IV and V for all indicators in 1979 and the first half of 1980 seem to have moderated recently. The Commission is not in a position to evaluate "trends" based on daily progress reports which abound in the press. But noting developments of the last two months does further reinforce my understanding that imports are not among the most important causes of injury.

Latest Domestic Developments -- October 1980 sales, though down eight percent from those of the same month the previous year, seemed to indicate a gradual recovery from the depths reported at mid-year. Sales of the newly-

introduced cars are proceeding as fast as they can be supplied. */ No plant shutdowns have been reported for the newer, more fuel-efficient models, although minor suspensions of production for inventory adjustment continue for other models. Despite general disappointment that the introduction of the new generation of cars was not sufficient to pull the auto firms out of the slump, overtime continues to be reported for plants producing these cars.

Tight credit is the most pervasive problem preventing recovery in demand. **/ The fall of the prime rate to 11.6 percent in the third quarter of 1980 proved to be a short-term respite. In recent weeks it has once again shot above 17 percent. Given the facts that three-quarters of cars are bought on credit and that the length of repayment periods and rejection rates on loan applications are at historically high levels, consumers continue to be frightened out of the market. This credit crisis shows signs of continuing well into next year. However, while replacement purchases may be delayed, most of these consumers will reenter the market place in the next two years.

*/ There have been some problems in the introduction of Chrysler's new K-cars, but these seem to have been based on a miscalculation of what consumers wanted. The first K-cars were loaded with expensive options that potential purchasers suffering reduced real per capita disposable incomes were not willing to buy. Start-up problems are quite common when new models are first introduced. Furthermore, Chrysler must contend with an image problem created by the uncertainty among consumers about the company's future. Chrysler's problems extend back to 1978 when the industry as a whole was healthy.

**/ Recent data show leading indicators turning around yet both the auto and housing industries remain hampered by high and rising interest rates.

Imports -- Import sales followed their expected October pattern by falling to 22 percent. Furthermore, the Japanese share of imports was down from earlier levels for the 1979-1980 period. The counter-cyclical behavior of import penetration seems to have begun asserting itself. There are no indications that imported automobiles will be able to increase their market share from present levels.

In their confidential submissions, Japanese producers claimed that their investment plans provide for modest expansion of capacity, generally in line with growth of the Japanese home market and expanded sales in developing countries. Japanese producers profess to expect a strong recovery during the next two years in the United States and to hope for increased sales with declining market share. */ Potential problems lie in the growing sensitivity of the European Community (EC) to the improving performance of Japanese exports of automobiles to Europe. Judgments about what export restrictions the EC might apply and whether Japanese producers might divert shipments to the United States are too speculative to give weight in coming to a determination. Part of the speculative character of such a consideration is that any European response would undoubtedly be affected by developments in the United States, including the determination of this Commission.

*/ Nissan confidential submission, October 20, 1980. Also Toyota confidential submission, November 3, 1980.

The Medium Term Future

The key questions about the prospects for recovery are:

- (1) When will the slump in the industry end?
- (2) Will domestic producers supply the kinds of cars U.S. consumers are and will be demanding?
- (3) Will U.S. consumers buy them?
- (4) Will the domestic industry make adequate profits?
- (5) Will unemployment in the industry be reduced?
- (6) Will import relief make a difference?

(1) Growing Demand -- Injury due to decline in demand for autos should diminish. All forecasts show the economy as a whole recovering from the 1980 recession by 1982, with auto sales showing a more sluggish recovery. */ Similar predictions show 1978 peak levels of total sales not returning until 1983. Auto import levels are predicted to remain almost constant, peaking at 2.4 million units in 1983, compared to 1979-1980 levels of about 2.3 million units. Thus, the import share of the U.S. market is expected to decrease steadily from about 25-26 percent in 1980 to 20-22 percent in 1985.

*/ Wharton Econometrics, Chase Econometrics, and Data Resources, Inc. have been consulted.

(2) Restructuring of the Industry -- Plans already well underway will by 1985 have resulted in a completely transformed domestic industry. The shift in demand will no longer be a potential cause of injury because domestic production will have fully shifted to meet it. By 1985 virtually every operating plant in the nation will have been converted or built from scratch to produce new-generation autos at every level of size and/or luxury. In this process, the meaning of terms such as full-size and intermediate will be completely rewritten. The largest cars will accommodate five to six passengers, the smallest only two; however, the largest cars will be significantly lighter and shorter than present full-size cars. With a domestic price tag of \$40 billion, this will constitute the largest peacetime industrial transformation ever attempted. Thus, with the possible exception of minicars, which may become a factor in the end of the period, the cars in demand will be available from U.S. producers.

(3) Consumer Loyalty -- The rapid shift in demand and the chaotic character of the market place in the present period affords little support for the view that consumers, having chosen imports in growing numbers, will not return to domestic cars for their next purchase.

Ford Vice President Bidwell recently stated:

If you have an equal car at a reasonably equal price, people will buy from you rather than from foreigners.

*/ Quoted in the Wall Street Journal, August 25, 1980.

Considerable attention has been focused on Detroit's new offerings. Those purchasing autos in the next two years are unlikely to have bought cars during the most recent two years. When recent purchasers of imports return to the market in four to five years, U.S. producers will be well prepared to woo them if the present strenuous adjustment efforts are continued.

Problems do remain in the price and quality areas. U.S. producers and the UAW have devoted considerable attention to improving the quality of domestic autos, particularly the "fit and finish" for which the Japanese competition is so highly rated.

As for prices, it is completely speculative to predict whether any nation's products will have a price advantage. Costs, excepting for capital */, do not appear to be growing more rapidly for U.S. producers than for their foreign competitors. The UAW is cooperating in the implementation of productivity changes which will close the gap between domestic and Japanese productivity rates. **/ The increased prices of new cars will present a problem until real disposable income of U.S. consumers begins to rise and new entrants to the market become more accustomed to the effects of the last five years of relatively high inflation in the U.S.

*/ This is another area where continued high interest rates threaten domestic producers with injury.

**/ A study commissioned by the Science Council of Canada found some difference in the productivity of the North American (13 cars per man-year) and Japanese (16 per man-year) industries. See: N.B. MacDonald, The Future of the Canadian Automotive Industry in the Context of the North American Industry (November 1980) at 43-51.

(4) Profits -- The price structure of the U.S. automotive industry has long been geared toward higher margins on larger, more expensive cars, with profitable extras like power steering and brakes. In a sense, purchasers of smaller cars and stripped versions have benefitted from the industry's ability to extract disproportionate premiums from purchasers of larger, more luxurious models. As the trend to smaller cars has progressed, greater and greater sales volumes have been required to generate any given level of profit. The collapse of the large car market made the inevitable structural change an immediate order of business. All U.S. auto makers are moving toward a price structure which will allow them to make a reasonable level of profit on all classes of cars. Temporarily, the old pattern has been reversed. Downsized models of larger cars with traditional power trains will sustain lower price increases. The profits will be made on the more fuel-efficient, newer models. Preliminary signs show prices of imported autos also increasing.

(5) Employment -- All forecasts for the future predict a permanently reduced labor force in this industry. Employment will never return to 1978 levels. A study by the Department of Transportation Economic Planning Group suggests that employment growth due to market recovery will be diminished every year through 1975 by losses due to rapid productivity improvements as new production changeovers proceed. For Ford and GM alone, cumulative productivity-induced job losses will grow from 65,000 in

1980 to 137,000 in 1985. */ One may conclude that by 1985 the number of positions lost due to productivity improvements will equal over two-thirds of the number presently laid off in the industry. **/

(6) Remedy Considerations -- Analysis of confidential submissions by Ford and GM demonstrate that the ambitious transformation program they began in 1974 will continue. No tangible link between these plans and any requested import relief has been established. ***/ The transformation of the industry will take place in the absence of any import relief and would not be speeded by relief. ****/ As for employment, the maximum

*/ The study measures losses from 1978/1979 peak employment levels and assumes that no new plant closings occur. Other assumptions tend to understate or overstate employment gains, and so may off-set each other. I use the study simply as a rough indication of the future.

**/ USITC staff study on remedy considerations.

***/ The Ford confidential submission of November 21, 1980, established no persuasive connection between relief and its ability to raise capital during the coming period. The record shows that all investment plans for domestic production are independent of import relief. Furthermore, Ford's present debt/equity ratios as well as those of other producers on whom the Commission obtained information are well within historical ranges.

****/ One of the bottlenecks which prevents any further acceleration of the transformation program is the already overwhelming backlog in the worldwide machine tool industry. American Machinist (Feb. 1980) reported a backlog of 16 months in the United States and shorter but growing backlogs for many U.S. trading partners. Orders in the U.S. are at record levels. In a recent Unfair Import Practices case under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337), a patent infringement remedy that would have excluded imports of crankpin grinders made by a supplier to Ford was precluded for the first time ever because of the public interest in hastening U.S. production of fuel-efficient autos. One of the Commission's reasons for allowing the imports was that in May 1979 the complainant and its domestic licensee had backlogs of two years. See "Opinion of Vice Chairman Alberger and Commissioners Bedell and Stern" in Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, USITC Pub. No. 1022 (December 1979) at 18.

number of jobs generated by such a quota would be less than 33,000 -- less than 17 percent of the number of auto workers now unemployed. Extending a strict relief program over the next five years, using a quota of 1.7 million units */, could generate \$4.0 billion (1979 dollars) -- or less than eight percent of the projected new investment of \$40 billion. **/

Ignoring the huge cost of any remedy to the public of the relatively small potential employment and profit gains, there are further problems which indicate that import relief is not the answer to the domestic industry's problems. The UAW and Ford have professed an interest in encouraging foreign auto producers to locate facilities in the United States. Two firms -- Volkswagen and Honda -- are well down this path. It appears that there is no simple method of designing a remedy that would avoid having just the opposite effect. Both Volkswagen and Honda have shown in confidential submissions that the UAW proposal, however well-meaning, would set up difficult-to-administer local content rules which would make establishing a domestic plant an enormous gamble. Honda has indicated that such a remedy might cause it to cancel its U.S. production plans. ***/

*/ Ford proposed a quota of this level based on 1976 imports.

**/ Our staff study assumes no domestic price increases; any price increases would trade off potential jobs and production for increased profits.

***/ Honda Post-Hearing Brief at 19.

Furthermore, there are good reasons to believe that relief would be inimical to the interests of most other U.S. producers, because they have already become so highly integrated on an international scale. */

*/ A proper analysis of the state of the domestic industry cannot be made without an understanding of the increasingly complex financial relations between U.S. producers and their foreign counterparts.

Part of the problem facing U.S. auto and truck workers is that U.S. producers have elected to source certain of their models from foreign manufacturers rather than to produce all their models domestically. Unfortunately, it has been these types of models which the U.S. public has increasingly sought during the last two years. The reasons for production decisions include efforts to respond to import competition, gaining on other domestic competitors, efforts to avoid paying higher U.S. wage rates, and efforts to reduce the risks inherent in the introduction and possibly short-lived acceptance of a new model.

All five U.S. manufacturers import automobiles and/or small pickup trucks. Some of the firms import vehicles from their wholly-owned subsidiaries. Some domestic firms import vehicles from a foreign country in which it has partial ownership. And one company imports vehicles from a foreign company in which it holds no financial interest.

General Motors Corp. (GM) currently imports only a small pickup truck, the LUV, from Isuzu Motor Co. (Isuzu) of Japan. GM also imported a small automobile, called the Opel, from Isuzu until mid-1979. Prior to importing the Opel from Isuzu, GM imported a small car (also called Opel) from its West German subsidiary during the 1960s and early 1970s. GM currently owns 34 percent of Isuzu.

Ford imports both an automobile and a small pickup truck. The Ford Fiesta auto is produced by a wholly-owned Ford subsidiary in West Germany; the Courier truck is manufactured by Toyo Kyogo Company, Ltd. (Toyo Kyogo) of Japan. Ford owns 25 percent of Toyo Kyogo. During the last fifteen years, Ford has imported other automobiles from its European subsidiaries, including the Cortina from the United Kingdom and the Capri from West Germany.

Chrysler is currently importing two pickup trucks and two automobiles from Mitsubishi Corporation (Mitsubishi) of Japan. The two pickup trucks (D-50 and Arrow) and the two automobiles (Colt and Arrow/Champ) are distributed by two Chrysler dealership networks (Dodge and Plymouth). Chrysler owns 15 percent of Mitsubishi.

AMC imports and distributes two types of automobiles from Regie Nationale des Usines Renault (Renault) of France. AMC does not own part of Renault; rather, Renault purchased 1.5 million shares of AMC stock in 1979, with an option to purchase up to 52 percent of AMC's stock at any time in the future. As a result of the arrangement with Renault, U.S. producers are now responsible for nearly 75 percent of U.S. car imports from France.

VW of America is considered a domestic producer in this investigation to the extent it produces cars in the United States. However, it is a wholly-

General Motors, presently accounting for 63 percent of domestic production, has begun a serious program of worldwide expansion which could very well be threatened by rising trade barriers. GM appears to be in a position to make substantial gains over the next few years. American Motors, in financial crisis, is dependent on completion of major financing plans with the French producer, Renault. These plans could be seriously jeopardized by import relief. Chrysler has been rather silent with respect to relief. Its introduction of new-generation autos was further along than Ford's at the start of 1979. Its financial state seems to have been helped by its captive imports from Japan and its most pressing capital problems have been ameliorated by large federal loan guarantees.

(Footnote continued from previous page)

owned subsidiary of Volkswagen A.G. (VW) of West Germany. VW of America imports Audis, Dashers, Rabbit convertibles, Vans and Sciroccos from its West German parent, and it also imports Porsche automobiles from Dr. Ing. h.c. F. Porsche A.G. (Porsche) of West Germany, a firm which VW of West Germany is affiliated with, but does not own.

Furthermore, GM, Ford, Chrysler and AMC each operate wholly-owned subsidiaries in Canada whose status with respect to the domestic industry has already been discussed in Section III.

Finally, it is not unequivocally clear that even Ford stands to benefit a great deal from the relief it requested of the Commission. Ford is already a diversified world producer. In the short run, it stands to lose less than GM from any growth of barriers to auto trade around the world, but in the longer run the success of the world car will depend on a world market. It is presently the only domestic producer besides GM attempting to maintain a full competitive line of automobiles. Ford has had to engage in this struggle from a far more limited financial base than GM. As a result it has not had the possibility of making the across-the-board redesign commitments GM made for the last half of the previous decade. Its apparent strategy for the late 1970s was to capture large car share from GM by downsizing more slowly at the upper end of its offerings. The decision made sense if Ford discounted the possibility of a second oil crisis like the one experienced in 1978. But when the market place changed abruptly in 1979, Ford lacked the flexibility to react quickly to the shift in consumer tastes. Now its adaptation will take time, and the prospects of Ford continuing as a full line domestic auto producer depend on a rapid end to the credit crunch.

CONCLUSION

The industry is suffering from problems that will continue as long as the credit situation remains tight and recovery is delayed. But this threat of continued injury is not related in any substantial fashion to imports. Import relief may generate a perverse influence on the ability of the United States to attract foreign producers to establish new domestic facilities. It will hurt most if not all U.S. producers' ability to carry out their present expansion plans. And it will not provide jobs of a permanent nature in the industry. Relief directed at one of the symptoms rather than at the cause of the problems may eliminate the exciting possibility the U.S. industry now has to again become the world's auto leader. */

*/ If assistance is deemed appropriate, it should be directed directly at improving the financial condition of U.S. producers during the next two critical years. For instance, this might be accomplished by means of changing amortization and depreciation rules. Section 201 does not provide for the Commission to recommend such a remedy. I make this observation only because imports are not the root problem and assistance in the recovery of the domestic industry should therefore be in a form other than import relief.

VIEWS OF COMMISSIONERS GEORGE M. MOORE AND CATHERINE BEDELL

In order to make an affirmative determination in an investigation under section 201 of the Trade Act of 1974 (19 U.S.C. 2251), we must determine that some or all of the articles described in the notice of investigation are 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.

Thus, in order to make such an affirmative determination, the statute requires that we find--

- (1) that the subject articles are imported in "increased quantities";
- (2) that the appropriate domestic industry is seriously injured or is threatened with serious injury; and
- (3) that the increased imports are a "substantial cause" of the serious injury or threat thereof.

If we find that any one of the above three conditions or criteria is not satisfied, we must make a negative determination.

Determination

In the present investigation we have determined--

- (1) that on-the-highway passenger automobiles, provided for in items 692.10 and 692.11 of the Tariff Schedules of the United States (TSUS), are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry producing articles like or directly competitive with the imported articles; and
- (2) that automobile trucks, and bodies (including cabs) and chassis for automobile trucks, provided for in items 692.02, 692.03, 692.20, and 692.21 of the TSUS, are not 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 articles like or directly competitive with the imported articles.

Domestic industries. In this investigation, we find that there are two domestic industries producing articles like or directly competitive with the imported articles: a domestic industry producing on-the-highway passenger automobiles and another domestic industry producing automobile trucks. In this and prior cases under section 201 we have generally followed a product-line approach in determining what constitutes the appropriate domestic industry. When the scope of an investigation covered two or more different products and there was domestic production of products "like" the imported articles, we found that there are two or more domestic industries. ^{1/} We believe that passenger automobiles and automobile trucks are basically different products, and, in view of the fact that there is domestic production of what we consider articles "like" both of these products, we conclude that there are two domestic industries.

Our views with respect to each of these two industries are set forth immediately below.

Passenger automobile industry

As stated above, we have determined that on-the-highway passenger automobiles are being imported into the United States in such increased quantities

^{1/} See, for example, our views or views in which one or both of us have joined in Bolts, Nuts, and Screws of Iron or Steel: Report to the President on Investigation No. TA-201-2 . . ., USITC Publication 747, November 1975, p. 28; Footwear: Report to the President on Investigation No. TA-201-7 . . ., USITC Publication 758, February 1976, p. 46; and Certain Fishing Tackle: Report to the President on Investigation No. TA-201-34 . . ., USITC Publication 917, September 1978, pp. 4-5, 14.

as to be a substantial cause of serious injury to the domestic industry producing on-the-highway passenger automobiles. We will discuss each of the three elements of this determination immediately below.

Increased imports. Section 201 provides that an article is being imported in "increased quantities" when the increase is "either actual or relative to domestic production" (sec. 201(b)(2)(C)). Imports of passenger automobiles have increased in both actual and relative terms. During 1975-79, imports increased by almost 37 percent, from 2,047,702 units in 1975 to 2,797,063 units in 1979. Imports in the first 6 months of 1980 increased to a level about 13 percent higher than that in the first 6 months of 1979--1,631,767 units compared with 1,437,910 units. The ratio of imports to domestic production increased from 31 percent in 1975 to 33 percent in 1979, and from 30 percent in the first 6 months of 1979 to 47 percent in the corresponding period of 1980. Thus, passenger automobiles are clearly being imported in "increased quantities."

Serious injury. We agree with the Commission majority that the domestic automobile industry is seriously injured. Section 201, while not expressly defining the term "serious injury," requires that the Commission consider all relevant economic factors, including certain enumerated factors, in determining whether there is serious injury (sec. 201(b)(2)). The Commission is expressly directed to consider whether there is significant idling of productive facilities in the industry, whether a significant number of firms in the industry are unable to operate at a reasonable level of profit, and whether there is significant unemployment or underemployment within the industry.

We have concluded that the information before the Commission clearly shows that the domestic automobile industry is seriously injured. There is significant idling of domestic productive facilities in this industry. Capacity utilization for U.S. automobile producers declined sharply from 86 percent in 1978 to 79 percent in 1979 and to 66 percent in the first 6 months of 1980. Overall domestic production capacity declined at the same time. Ford and Chrysler each permanently closed two plants during the period January 1979-June 1980. General Motors has temporarily closed five plants. But for plant closings by Ford and Chrysler, which reduced capacity accordingly, the capacity utilization ratio would be considerably lower.

Four of the five U.S. automobile producers--all except VW of America--are presently operating at a loss. The aggregate performance of the five producers for the first 6 months of 1980 was a loss of \$2.9 billion, compared with a profit of \$2.7 billion in the corresponding period of 1979. The industry's net operating margin, which had been 7.5 percent in 1977, fell to 6.2 percent in 1978 and to 1.5 percent in 1979 before falling sharply to a negative 8.4 percent in the first 6 months of 1980, when the full impact of the passenger car imports occurred. Clearly, a significant number of firms in the industry are presently unable to operate at a reasonable level of profit.

Employment in the industry has fallen sharply. U.S. establishments producing automobiles and light trucks employed slightly more than 1 million persons in 1978. Such employment declined to an average of 972,000 persons in 1979, and then fell sharply in the first 6 months of 1980 to 804,000 persons. The number of workers employed by domestic producers declined 20 percent--by 200,000 persons--between 1978 and 1980. Man-hours worked by production and related workers in these establishments similarly declined, from 1.7₁₀ million

hours in 1978 to 1.6 million hours in 1979, and from 869,000 hours in the first 6 months of 1979 to 605,000 hours in the first 6 months of 1980. During the latter period, approximately 246,000 workers were certified by the Department of Labor as eligible to receive trade adjustment assistance benefits because imports were found to have contributed importantly to their separation or partial separation, or threat thereof, from their places of employment. Clearly, a significant number of persons in the industry are unemployed or underemployed.

There are other important indications of serious injury to this industry. Shipments of passenger automobiles declined from 8.9 million units in 1977 and 1978 to 8.3 million units in 1979, and from 4.8 million units in the first 6 months of 1979 to a sharply lower 3.4 million units in the first 6 months of 1980. Wages paid to employees are down, from \$12.1 billion in the first 6 months of 1979 to \$10.0 billion in the first 6 months of 1980, despite higher hourly wage rates.

Substantial cause of serious injury. Section 201(b)(4) of the Trade Act defines the term "substantial cause" to mean "a cause which is important and not less than any other cause." Thus, increased imports, to be a substantial cause of serious injury, must be both an "important" cause of injury and not less important than any other cause. If another single cause is more important, increased imports cannot be a "substantial cause." In addition, section 201(b)(2) directs the Commission, in determining whether increased imports are a substantial cause of injury, to take into account all economic factors which it considers relevant, including (but not limited to) "an increase in imports (either actual or relative to domestic production) and a

decline in the proportion of the domestic market supplied by domestic producers" (sec. 201(b)(2)(C)).

As discussed above, imports have increased significantly, in both actual and relative terms. More important, however, imports have captured an ever larger share of the domestic passenger automobile market during the last 3 years. The ratio of automobile imports to domestic automobile consumption increased from 25 percent in 1976 and 1977 to 26 percent in 1978 and 27 percent in 1979, and from 25 percent in the first 6 months of 1979 to 34 percent in the first 6 months of 1980.

Section 201(b)(2) does not limit us to consideration of only certain economic factors in determining whether increased imports are a substantial cause of serious injury. We are to take into account "all" relevant economic factors. We believe that there are a number of other individual causes of injury, such as increased costs of passenger automobiles, the shift in consumer preferences from large to small cars, high interest rates, a shortage of consumer credit, increased gasoline prices, shortages of gasoline (in 1979), the failure of domestic corporate management to anticipate current conditions, and costly Government regulations. We find that none of these other causes, even if considered an important cause of injury, are a more important cause of serious injury to the domestic industry than increased imports.

It is clear that our determination differs from the majority in the interpretation given to the provisions in section 201 of the Trade Act relating to the weighing and comparison of the relevant economic factors contributing to the serious injury experienced by the domestic industry. We

believe that the law clearly and unequivocally provides that the Commission shall, to the extent practicable, isolate each of the economic factors relevant to the matter of serious injury for the purpose of comparing each of them with the factor of increased imports. If we were to do otherwise--that is, to aggregate the negative economic factors in comparing them with increased imports--there would be few, if any, Commission decisions favorable to a domestic industry in section 201 cases in times of recession or economic downturn.

In this regard, we refer specifically to the prepared statements read by two of our colleagues at the open Commission meeting of November 10, 1980, at the time of the vote on this matter. Commissioner Stern, in voting in the negative, stated "I find the downturn in economic demand due to general economic conditions, recession, credit crunch, rising costs of car ownership and a major unprecedented shift in demand from large to small cars, brought the domestic industry to its present weakened state." Supporting this point of view was Commissioner Calhoun, who, in voting in the negative, said "My analysis reveals that the general decline in purchases of automobiles and light trucks owing to the downturn of the economy has contributed more so than imports to the serious injury suffered by the automobile industry."

We reject the notion that the statute permits the Commission to aggregate a number of economic factors which in combination are to be weighed against increased imports to find the substantial cause of serious injury. Further, we believe that economic downturns represent the concurrence of a number of adverse factors. We do not believe that Congress envisioned that the Commission would consider an economic downturn per se to be a single

economic factor in determining injury in section 201 investigations. Instead, we believe that Congress intended the Commission to examine imports and their impact on the domestic industry over the course of the business cycle--during both good and bad years--in order to ascertain whether import penetration is increasing and, if so, whether the increasing penetration is seriously injuring the domestic industry. This is the approach we have followed in past section 201 cases. 1/

In the present case, as the facts show, imports have been increasing their market share, most significantly during the first 6 months of 1980. We believe that the domestic industry today would be in much better condition--losses would not be so massive and plant closings and layoffs not so severe--had imports not increased their share of the market to the extent that they have. Furthermore, the surge in imports and the share of the market held by imports make it likely that the industry will remain in its present state of serious injury for years to come and increase the likelihood that one or more of the major domestic producers and several of the domestic suppliers will not survive. More than 1 million jobs in passenger-automobile-manufacturing plants, in supplier plants, and at car dealerships, are at

1/ See, for example, our views or views in which one or both of us joined in Stainless Steel and Alloy Tool Steel: Report to the President on Investigation No. TA-201-5 . . . , USITC Publication 756, January 1976, p. 13; Footwear: Report to the President on Investigation No. TA-201-7 . . . , USITC Publication 758, February 1976, p. 56; Television Receivers . . . Report to the President on Investigation No. TA-201-19 . . . , USITC Publication 808, March 1977, pp. 18-19; Low Carbon Ferrochromium: Report to the President on Investigation No. TA-201-20 . . . , USITC Publication 825, July 1977, p. 10; Cast-Iron Stoves: Report to the President on Investigation No. TA-201-24 . . . , USITC Publication 826, July 1977, p. 13; and High Carbon Ferrochromium: Report to the President on Investigation No. TA-201-28 . . . , USITC Publication 845, December 1977, p. 10.

stake. Further, the health of the domestic passenger automobile industry affects almost every other basic domestic industry, including the industries producing steel, glass, rubber, machine tools, zinc, and a number of other products.

Truck industry

As stated above, we have determined that automobile trucks, and bodies (including cabs) and chassis for automobile trucks are not 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 trucks.

Automobile trucks are provided for in TSUS item 692.02, where they are dutiable at the permanent rate of 8.5 percent ad valorem; however, since 1963 they have been dutiable at the rate of 25 percent ad valorem by virtue of a temporary action taken in settlement of the so-called chicken war (TSUS item 945.69). The 25-percent duty does not apply to trucks from Canada, which enter free of duty under TSUS item 692.03. Truck bodies and chassis are provided for in TSUS item 692.20, where they are dutiable at a rate of 4 percent ad valorem (except truck bodies and chassis from Canada, which enter free of duty under TSUS item 692.21). Prior to August 21, 1980, imports of certain trucks without their loadbeds were wrongly classified at U.S. ports of entry. Instead of being classified as they should have been as "trucks, unfinished," dutiable at the rate of 25 percent under TSUS item 945.69, they were wrongly classified as "truck chassis" at the rate of 4 percent ad valorem under TSUS item 692.20. Significant quantities of such unfinished trucks were

wrongly admitted as if they were chassis dutiable at 4 percent ad valorem. However, on May 23, 1980, the U.S. Customs Service announced that effective August 21, 1980, and henceforth, such unfinished trucks would be classified as "trucks" under TSUS item 692.02 (item 945.69) and dutiable at 25 percent ad valorem. 1/

Inasmuch as such trucks, including the aforementioned unfinished trucks, are presently dutiable at 25 percent by reason of Customs' having corrected its classification error concerning unfinished trucks, it seems likely that imports of trucks will decline. Therefore, we have concluded that automobile trucks, and bodies (including cabs) and chassis for automobile trucks are not presently 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 truck industry.

Conclusion

This is a classic case for an affirmative determination under section 201 of the Trade Act. All the elements are present. There are increasing imports resulting in dramatic increases in the penetration of the domestic market by imports of on-the-highway passenger automobiles. The domestic industry is suffering almost catastrophic injury to such an extent that, for the first time in history, our Federal Government has found it necessary to guarantee loans for up to \$1.5 billion for a major automobile corporation. No other single adverse economic factor has plagued our domestic economy during the

1/ The Customs Service published a notice to such effect in the Federal Register of May 23, 1980 (45 F.R. 35057).

past several years which even approaches the disastrous effect caused by imports of passenger automobiles on this domestic industry. Had it not been for increasing imports of passenger automobiles during the past 3 years, the domestic industry would now be well into the process of adjusting to the other, less important adverse economic conditions.

As the legislative history of section 201 suggests, it is not feasible to assign a number on a scale of 1 to 10 to each of the causes of serious injury and thereby discover which is the most important cause. On the other hand, it is consistent with the legislative intent to examine each individual cause to determine which one, if absent, would have had the greatest effect of alleviating the serious injury experienced by the domestic industry. On that basis the most important cause of serious injury to the domestic automobile industry is increasing imports of on-the-highway passenger automobiles.

By reason of the foregoing, we have concluded that on-the-highway passenger automobiles are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic automobile industry, but that automobile trucks and bodies (including cabs) and chassis for automobile trucks are not 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 truck industry.

We believe that import restrictions in the form of reasonable quotas on imports of passenger automobiles would not have caused disruptions in international trade, but would have provided the domestic passenger car industry with a much-needed opportunity to adjust to the new competitive conditions in the marketplace which are the result of economic factors beyond its control.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On June 12, 1980, the U.S. International Trade Commission received a petition from the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW) for import relief under section 201(a)(1) of the Trade Act of 1974. Accordingly, on June 30, 1980, the Commission instituted investigation No. TA-201-44 under section 201(b) of said act to determine--

whether automobile trucks, except automobile truck tractors and truck trailers imported together; on-the-highway passenger automobiles; and bodies (including cabs) and chassis for automobile trucks, except truck tractors; provided for in items 692.02 and 692.03; 692.10 and 692.11; and 692.20 and 692.21; of the Tariff Schedules of the United States (TSUS), are being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article.

The investigation instituted by the Commission is broader in scope than that requested by the UAW. In addition to those imported articles identified in the UAW petition, the Commission investigation includes (1) all on-the-highway passenger automobiles provided for in TSUS item 692.10 (rather than the more limited description of new, on-the-highway, four-wheeled passenger automobiles), and (2) motor vehicles and original motor-vehicle equipment of Canadian origin of like description provided for in items 692.03, 692.11, and 692.21 of the TSUS. Notice of the institution of the investigation and hearings was published in the Federal Register of July 7, 1980 (45 F.R. 45731). 1/

On July 10, 1980, the Commission received a letter from the President requesting that the Commission accelerate its investigation in view of the large number of businesses, workers, and consumers for whom an investigation taking the full 6 months "could cause major uncertainties." Similar requests were filed by a substantial number of U.S. Senators and Congressmen, by the UAW, and by others. After considering these requests, including statements filed by persons opposing acceleration, the Commission decided to accelerate the investigation by approximately 3 weeks, and so advised the President and other interested persons. In determining to accelerate the investigation, the Commission changed certain procedures set forth in the earlier notice. Among other revisions, the Commission decided to hold a single hearing on injury and remedy rather than two separate hearings. Notice of the change in Commission procedures was published in the Federal Register of July 22, 1980 (45 F.R. 48996).

1/ See app. A for copies of U.S. International Trade Commission notices.

The notice established the following pertinent dates:

Prehearing report available-----	Sept. 10
Notice of hearing appearance due-----	Sept. 15
Prehearing conference-----	Sept. 16
Prehearing briefs-----	Oct. 1
Hearing-----	Oct. 8
Posthearing briefs-----	Oct. 17

Notice of the place of the October 8 hearing was published in the Federal Register of August 6, 1980 (45 F.R. 52280).

On August 4, 1980, the Commission received a petition for similar import relief from the Ford Motor Co. The Ford petition urged the "expeditious completion" of the investigation already under way. Since Ford did not request a second investigation or a change in scope of the present investigation, the Commission considered Ford to be a copetitioner in the investigation already in progress. Notice of receipt of the Ford petition and Commission action with respect thereto was published in the Federal Register of August 21, 1980 (45 F.R. 55873).

The public hearing for this investigation was held in the Great Hall of the U.S. Department of Justice Building in Washington, D.C., and extended from Wednesday, October 8, 1980 through Saturday, October 11, 1980. ^{1/} The staff briefing and the Commission's vote on the questions of increased imports, serious injury, and causation was held on Monday, November 10, 1980.

By statute, the Commission must submit its determination to the President within 6 months of its receipt of the petition--in this case by December 12, 1980. The Commission has indicated that it will endeavor to complete the investigation by November 24, 1980.

The U.S. automobile industry has been the subject of two other investigations conducted by the Commission. In August-September 1975 the Commission conducted a 30-day inquiry as to whether there was a reasonable indication of injury from imports allegedly sold at less than fair value from eight major supplying countries, and from July 1975 to January 1976 the Commission studied the effects of the U.S.-Canadian automotive agreement on the U.S. and Canadian automobile industries. A discussion of these investigations is presented in appendix C.

The Product

Description and uses

The articles subject to this investigation are on-the-highway passenger automobiles, automobile trucks (except automobile truck tractors and truck trailers imported together), and bodies (including cabs) and chassis for automobile trucks, except truck tractors. Excluding truck tractors, approximately 95 percent of all automobile trucks and bodies and chassis

^{1/} A calendar of witnesses at the public hearing is presented in app. B.

therefor sold in the United States are trucks with a gross vehicle weight (GVW) of 10,000 pounds or less. These are referred to as "light trucks" throughout this report. Virtually all trucks with a GVW of 33,000 pounds or more are truck tractors and relatively few truck tractors are under 33,000 pounds GVW. Trucks over 10,000 pounds GVW but under 33,000 pounds GVW are used almost exclusively for commercial and industrial purposes and are rarely competitive with either passenger automobiles or trucks 10,000 pounds GVW or less. Nearly all trucks over 10,000 pounds GVW but under 33,000 pounds GVW sold in the United States have more than one axle, and the vast majority consist of garbage trucks, dump trucks, cement trucks, fuel trucks, fuel delivery trucks, and tow trucks. Data for trucks over 10,000 pounds GVW but under 33,000 pounds GVW are shown in app. D.

Automobiles are designed primarily to transport passengers, while light trucks are designed primarily to transport cargo. Both types of vehicles are used commercially and privately. With the exception of a few vehicles, like the elongated sedans used to transport passengers to and from airports, motor vehicles that carry more than nine passengers are not normally considered automobiles. During the last decade, light trucks were increasingly used as all-purpose passenger vehicles. Often equipped with such options as automatic transmissions, power steering, power brakes, upgraded interiors, and air-conditioning, they replaced the traditional second car in many U.S. households and were the only type of motor vehicle in others.

Light trucks include pickups, vans, general-utility vehicles, and certain wagons. Pickup trucks have an enclosed cab for passengers and an open box for cargo. Related to the pickup is the cab/chassis, which is basically a pickup cab on a chassis to which a number of different types of cargo or passenger containers may be attached. ^{1/} Unlike the pickup, vans have an enclosed cargo box and can be ordered with seats and side windows (passenger van) or without them (cargo van). Both pickups and vans can be used to carry passengers and cargo, although the ratio of passenger capacity to cargo capacity for each type varies. Because of their relatively large capacity for hauling merchandise, pickups and vans account for most of the light trucks used commercially. General-utility vehicles are made for on-and-off-road use and are generally four-wheel drive as opposed to the standard two-wheel drive. These vehicles, such as the AMC Jeep or the Subaru Brat, have very limited cargo-carrying capabilities and are used primarily for recreation. Wagons are similar in style to the automobile station wagon, except that they are built on truck chassis and are thus capable of larger payloads. While wagons have the capacity to carry more cargo than general-utility vehicles, they are used primarily for the transportation of passengers. Examples of this type of vehicle are the Chevrolet Suburban and the AMC Jeep Wagoneer. General-utility vehicles and wagons constitute only a very small proportion of the light trucks sold in the United States.

^{1/} Because of the higher duty on finished pickup trucks than on cab/chassis, due to a Customs' classification practice which was recently reversed, virtually all imports of pickups entered the United States as cab/chassis until Aug. 21, 1980. The cargo box was installed after the vehicle cleared Customs.

Automobiles and light trucks are usually identified by make, i.e., brand of the manufacturer, and by model, i.e., the corresponding styles available. Virtually all makes and models sold in the United States have four wheels, two axles, and a power train consisting of (1) an internal-combustion engine, which is fueled by either gasoline or diesel fuel, (2) a transmission, by which the speed of the vehicle is manually or automatically controlled, and (3) a differential, by which the force of the engine is transmitted to either the front axle (front-wheel drive), rear axle (rear-wheel drive), or both (four-wheel drive). In the rear-wheel-drive vehicle the engine and transmission are mounted at the front of the vehicle and the differential is mounted at the rear, the engine is mounted at the front and the transmission and differential are mounted at the rear, or all three components are mounted at the rear. In the front-wheel-drive vehicle all three components are mounted at the front. The latter came into increasing use during the 1970's and is currently more prevalent on imported makes and models than on those produced in the United States, although many of the newly designed domestic automobiles are the front-wheel-drive type.

Engines are distinguished primarily by (1) the number of cylinders they incorporate (usually 4, 6, or 8) and their corresponding displacement, and (2) the type of fuel they require (usually gasoline or diesel fuel). While most imported automobiles, especially those from Japan, were equipped with 4-cylinder engines throughout the 1970's, most domestically built automobiles had 6- or 8-cylinder engines; however, the proportion of domestic automobiles with 4-cylinder engines increased, as illustrated in table 1. In 1969, 4-cylinder engines accounted for 0.1 percent of total U.S. output, while 8-cylinder engines accounted for 89 percent. By 1979 those shares of total U.S. output were 19.4 percent and 65.8 percent, respectively.

Diesel engines have become much more popular in the last 2 years. They are sold in the United States in an 8-cylinder configuration by General Motors Corp. and in 4-, 5-, and 6-cylinder configurations by some of the European importers. Peugeot, Volvo, Audi, Volkswagen, and Mercedes-Benz currently market diesel-powered automobiles in the United States. Although the total number of new automobiles with diesel engines sold in the United States increased rapidly after 1977, diesel-powered automobiles currently account for only about 3 percent of the total U.S. new-car market.

A trend toward engines with less displacement was concurrent with the trend toward fewer cylinders. As indicated in table 2, the percentage of U.S.-produced automobiles with engines of 250-cubic-inch displacement or less increased from 11.1 percent in 1969 to 40.2 percent in 1979. An estimated 95 percent of all imported automobiles, other than those from Canada, were equipped with engines that displaced less than 250 cubic inches during this period.

Table 1.--Passenger automobiles: U.S. production, by number of cylinders, 1965-79

Year	4-cylinder	6-cylinder	8-cylinder	Total
Quantity				
1965-----	500	2,456,000	6,486,000	8,942,500
1966-----	700	1,854,000	6,751,000	8,605,700
1967-----	600	1,257,000	6,401,000	7,658,600
1968-----	1,000	1,150,000	7,248,000	8,399,000
1969-----	6,100	931,400	7,539,200	8,476,700
1970-----	2,300	974,000	6,610,000	7,586,300
1971-----	520,000	880,000	5,781,000	7,181,000
1972-----	851,800	970,000	7,201,000	9,022,800
1973-----	887,900	1,023,700	8,398,700	10,310,300
1974-----	1,058,800	1,558,800	5,619,100	8,236,700
1975-----	565,433	1,254,158	4,828,081	6,647,672
1976-----	869,266	1,762,965	5,813,129	8,445,360
1977-----	599,724	1,708,767	7,215,572	9,524,063
1978-----	939,611	2,211,509	6,102,612	9,253,732
1979-----	1,665,000	1,262,000	5,641,000	8,568,000
Percent of total				
1965-----	1/	27.5	72.5	100.0
1966-----	1/	21.6	78.4	100.0
1967-----	1/	16.4	83.6	100.0
1968-----	1/	13.7	86.3	100.0
1969-----	0.1	11.0	88.9	100.0
1970-----	1/	12.8	87.1	100.0
1971-----	7.2	12.3	80.5	100.0
1972-----	9.4	10.8	79.8	100.0
1973-----	8.6	9.9	81.5	100.0
1974-----	12.9	18.9	68.2	100.0
1975-----	8.5	18.9	72.6	100.0
1976-----	10.3	20.9	68.8	100.0
1977-----	6.3	17.9	75.8	100.0
1978-----	10.2	23.9	65.9	100.0
1979-----	19.4	14.7	65.8	100.0

1/ Less than 0.05 percent.

Source: Wards Automotive Yearbook, 1980.

Table 2.--Passenger automobiles: U.S. production, by engine sizes, 1969-79

Year	Cubic-inch displacement			
	250 or less		251 to 350	
	Quantity	Percent of total	Quantity	Percent of total
	Units		Units	
1969	937,484	11.1	3,942,338	46.5
1970	976,189	12.9	3,408,068	44.9
1971	1,359,174	18.9	2,903,528	40.9
1972	1,764,011	19.5	3,508,169	38.9
1973	1,818,923	17.6	4,177,151	40.5
1974	2,468,049	29.6	3,027,136	36.3
1975	1,722,937	25.9	2,598,985	39.1
1976	2,469,000	29.2	3,371,279	39.9
1977	2,187,674	23.0	4,710,072	49.4
1978	3,051,869	33.0	4,263,862	46.1
1979	3,843,483	40.2	4,589,165	48.0
Cubic-inch displacement--Con.				Total
351 and over				
	Quantity	Percent of total	Quantity	Percent of total
	Units		Units	
1969	3,596,836	42.4	8,476,658	100
1970	3,202,376	42.2	7,586,633	100
1971	2,918,645	40.7	7,181,347	100
1972	3,750,699	41.6	9,022,879	100
1973	4,314,333	41.9	10,310,407	100
1974	2,841,519	34.1	8,336,704	100
1975	2,325,760	35.0	6,647,682	100
1976	2,605,081	30.9	8,445,360	100
1977	2,626,317	27.6	9,524,063	100
1978	1,938,011	20.9	9,253,742	100
1979	1,135,615	11.8	9,568,263	100

Source: Wards Automotive Yearbook, 1980.

Almost all domestically produced light trucks are equipped with either 6- or 8-cylinder gasoline engines, while almost all imported light trucks, other than those from Canada, have 4-cylinder gasoline engines. Although diesel engines are not available with imported light trucks, they are available with some U.S.-produced models. Nearly all light trucks, whether domestically produced or imported, are rear-wheel drive; however, most domestic manufacturers and importers offer at least one model of light truck with four-wheel drive.

As U.S.-produced engines became smaller, U.S.-produced automobiles as a whole became smaller. In 1970 the average wheelbase for a new, domestically produced car was approximately 117 inches, ^{1/} and the average overall length was 208 inches. The average wheelbase and overall length for current models are 107 inches and 193 inches, respectively. Imports, other than those from Canada, did not shift appreciably in size during 1970-79.

Size is the basis for two major systems of categorizing automobiles and light trucks: one is used by the Environmental Protection Agency (EPA) and the Department of Transportation, and the other is used by the major automotive trade journals (Automotive News and Wards Reports) and the domestic automobile industry. In the former, all automobiles and light trucks are classified according to the interior volume of the vehicle, although prior to 1977 this system used wheelbase as a basis. The size categories this system uses are as follows:

<u>Automobiles</u>	<u>Light trucks</u>
Two-seaters	Small pickup trucks
Minicompact	Standard pickup trucks
Subcompact	Vans
Compact	Special-purpose vehicles
Midsize	
Large	

The system of categorization used by the major automotive trade journals and the U.S. industry is based on a combination of interior volume, wheelbase, price, and weight. Although there may be minor differences as to the appropriate category for certain models, there is general consensus between the trade journals and the U.S. automobile industry that all automobiles and light trucks fit into one of the following categories:

<u>Automobiles</u>	<u>Light trucks</u>
Subcompact	Light conventional (pickup)
Compact	Vans
Intermediate	Utility vehicles
Standard	
Luxury	

While the two systems are generally comparable, the latter system is used throughout this report because certain distortions in the former make it less likely to reflect a continuity in overall size and weight. For example, the EPA system categorizes the Chevrolet Corvette and the Cadillac Seville as a two-seater and a compact, respectively, because of interior volume, whereas the industry categorizes both of these automobiles as luxury vehicles because of price, wheelbase, and weight. Under either system of categorization, at least 90 percent of all imported automobiles, excluding imports from Canada,

^{1/} Wheelbase is the distance between the center of the front axle and the center of the rear axle of a two-axle motor vehicle.

are compacts or smaller, and at least 80 percent are subcompacts or smaller. ^{1/} Size also distinguishes imported from U.S.-produced light trucks: while domestically produced pickups have a wheelbase ranging from 115 inches to 165 inches and a GVW of 4,500 to 10,000 pounds, imports, other than those from Canada, have a wheelbase ranging from 100 inches to 117 inches and a GVW of 4,000 to 4,500 pounds.

A selling feature of increasing importance in recent years is fuel efficiency or average miles per gallon. Since 1974 the EPA has estimated and published data on the fuel efficiency of every make and model of automobile and light truck sold in the United States. All new-car and truck dealerships are required to give notice of such information on each vehicle they sell. The size of an automobile or light truck and its engine is generally indicative of its fuel efficiency. As a whole, imported automobiles and light trucks tend to be more fuel efficient because of their smaller size and smaller engines. The bulk of imported vehicles also vary less in fuel efficiency than do those manufactured in the United States. EPA mileage ratings for two-wheel-drive pickups imported from countries other than Canada, for example, range from 20 to 27 miles per gallon, while ratings for similar pickups produced in the United States range from 11 to 20 miles per gallon.

Body styles vary considerably from make to make and model to model. Certain basic body styles, however, are common to both U.S.-produced and imported automobiles. These include the two-door and four-door sedans, the two-door and four-door hatchbacks, and the two-door and four-door station wagons. The smaller the automobile the less distinctive are the body styles; for example, the difference between a subcompact hatchback and a subcompact station wagon is slight. Since 1975, the number of models offered by U.S. producers has fallen considerably. While 325 models were available in 1975, only 255 models were available in 1980. A further reduction is expected in 1981.

Many less significant features, either optional or standard, may distinguish one vehicle from another. A specific automobile or light truck, for example, may or may not be equipped with an automatic transmission, power steering and brakes, air-conditioning, rear-window defogger, deep-pile carpeting, electrically controlled seats and windows, tinted glass, special wheels or paint trim, wood-grain dashboard, or padded steering wheel. The number of such features and their combinations is legion. Because the delivery time for an automobile or light truck from U.S. manufacturers is much shorter than it is from foreign manufacturers, U.S.-produced vehicles tend to offer more features that are optional rather than standard.

In addition to the above features, there are several attributes of a more subjective nature--such as quality, image, utility/practicability, appearance, maneuverability, and comfort--that consumers associate with automobiles and light trucks. The importance of these will be discussed in later sections.

^{1/} If imports from Canada are included, at least 80 percent of all automobiles are compacts or smaller, and at least 70 percent are subcompacts or smaller.

The basic process for manufacturing automobiles and light trucks has changed little since Henry Ford put the first automobile assembly line into operation in 1914. There is now more automation, especially in the utilization of robots in welding and assembly operations, but the automobile worker still performs a relatively simple operation on each passing vehicle.

Three metalworking processes--casting, machining, and stamping--are important to the production of automobile and light truck components. Casting is the process of pouring molten metal into a mold and allowing it to harden into the desired shape. Most engine, transmission, and other drive-train components are formed by casting. After a part is cast, it is normally machined to remove rough, uneven edges. Stamping is the process of shaping sheet metal by using heavy pressure and dies to form a certain shape. Primary parts that are stamped include bumpers, hoods, trunks, fenders, doors, and roofs. Many inner panels and smaller parts, such as gas tanks and wheels, are also stamped. Most stampings are made from coiled or rolled steel or aluminum sheets. After inspection these stampings are shipped to the final assembly plant. At the assembly plant the cast, machined, and stamped parts and other subassemblies are combined to form the final product.

In many U.S. and foreign plants, more than one model of automobile or truck is assembled on the same assembly line or in the same plant. Although this causes inventory stocking problems, it tends to increase efficiency. Whenever two or more models are assembled on the same line, the model mix can be altered to meet changing consumer demands. Most of the plants which assemble more than one model, however, merely assemble a variation of that model. Few, if any, plants mix radically different models, such as subcompacts with standards.

It is generally agreed that for an automobile assembly plant to achieve optimum economy-of-scale, at least in the long run, annual production should be 180,000-220,000 units. The cost in today's dollars of constructing a new assembly plant with a capacity of about 200,000 units per year is estimated at \$300 to \$400 million. (Nissan estimates that its new light-truck plant, to be completed in late 1982, will cost about \$300 million, while the new Honda automobile plant, with an initial capacity of 120,000 units, will cost about \$200 million.)

The production facilities of most foreign manufacturers are newer than those of the U.S. manufacturers. While many U.S. automobile and light truck plants were built prior to or immediately following World War II, most European motor vehicle plants were either completely rebuilt or partially reconstructed after the war. Nearly all Japanese plants were constructed after 1945, and most are less than 20 years old. Because the Japanese assembly plants are much newer and incorporate more automated techniques, they tend to be more productive than some of the older U.S. and European plants. This higher degree of productivity is accomplished primarily by extensive use of robotics and other forms of automation in the assembly process.

U.S. tariff treatment

The types of motor vehicles under investigation are classifiable under TSUS items 692.02 (automobile trucks, valued at \$1,000 or more), 692.10 (on-the-highway passenger automobiles), and 692.20 (bodies (including cabs) and chassis for automobile trucks except truck tractors) and, for Canadian articles, under items 692.03, 692.11, and 692.21, respectively.

Whether for Customs' purposes a certain motor vehicle will be classified as a truck under 692.02 or 692.03 or as an "other" motor vehicle under 692.10 or 692.11 is not always clear. Historically, Customs has based its determination upon such factors as the vehicle's use as a passenger- or cargo-carrying vehicle, its ratio of cargo to passenger capacity, and its characteristic features. Using these criteria, Customs has classified certain types of motor vehicles called "light trucks" in this report as "other" vehicles under 692.10 rather than as trucks.

The current column 1 or most-favored-nation (MFN) rate of duty on item 692.10--on-the-highway passenger automobiles--is 2.9 percent ad valorem, while the column 2 rate is 10 percent ad valorem. ^{1/} From January 1, 1972, when the concessions granted in the Kennedy round of trade negotiations became effective, to January 1, 1980, the MFN rate of duty was 3 percent ad valorem. Presidential Proclamation 4707 of December 11, 1979, implementing the agreements negotiated during the recent multilateral trade negotiations, provided for a gradual duty reduction of 0.5 percent for imports under this item to be effectuated in five annual stages beginning January 1, 1980. The current rate of duty on this item for products of least developed developing countries (LDDC's), which reflects the rate of duty applicable at the final stage of reduction beginning January 1, 1984, is 2.5 percent ad valorem.

Although presently subject to temporary modification, the current column 1 or MFN rate of duty on item 692.02--automobile trucks valued at \$1,000 or more--is 8.5 percent ad valorem, and the column 2 or statutory rate is 25 percent ad valorem. In 1963, as a result of a Presidential proclamation which withdrew previously proclaimed tariff concessions, the articles provided for under this item became subject to duty under item 945.69 in the Appendix to

^{1/} The rates of duty in rate of duty column numbered 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(f). The rates of duty in rate of duty column numbered 1 are applicable to imported products from all other countries except to products of certain developing countries which are granted preferential tariff treatment under the "LDDC" rate of duty column. The rates of duty in rate of duty column "LDDC" are preferential rates (reflecting the full U.S. MFN concession rate for a particular item without staging) and are applicable to products of the least developed developing countries designated in general headnote 3(d). None of these vehicles is entitled to preferential treatment under the Generalized System of Preferences (GSP).

the TSUS and dutiable at an MFN rate of duty of 25 percent ad valorem, 1/ which is still in effect. There is no separate LDDC rate for this item.

The current column 1 rate of duty on item 692.20--bodies (including cabs) and chassis for automobile trucks--is 4 percent ad valorem, and the column 2 rate is 25 percent ad valorem. No LDDC rate exists. On May 23, 1980, the U.S. Customs Service published a notice of change of practice in the Federal Register (45 F.R. 35057) stating that, effective August 21, 1980, imported lightweight cab/chassis, hitherto classified under this item, would be reclassified under item 692.02 and thus dutiable at the temporary MFN rate of 25 percent ad valorem. According to the notice, Customs would change its practice of classifying cab/chassis under item 692.20 to reflect the principles announced in the decision of the U.S. Court of Customs and Patent Appeals (CCPA) in Daisy-Heddon, Div. Victor Comptrometer Corp. v. United States, 600 F.2d 799 (CCPA 1979).

The classification of cab/chassis had been under review since 1975. Customs had based its classification of these articles under item 692.20 primarily on its determination in 1963 that an "essential" part of a truck--i.e., the cargo box--was missing. In Daisy-Heddon the CCPA indicated that such classification does not depend on the presence or absence of an "essential" part, but rather on several factors, including the number of omitted parts in comparison with the number of parts included and the time and effort required to complete the article in comparison with the time and effort required to put it in its imported condition. Customs applied the CCPA's decisional factors in reaching its decision to reclassify, stating that its decision applied only to imported lightweight cab/chassis 2/ and noting that such chassis can be driven "as is" as a passenger vehicle or converted in a few minutes into a pickup truck for a small percentage of total manufacturing cost (after importation). The decision did not extend to mediumweight and heavyweight cab/chassis, where considerably more parts and work would be required to complete the vehicle. Customs said in its May 23 notice that it will review petitions regarding mediumweight and heavyweight chassis on a case-by-case basis to determine whether a change in classification is warranted.

1/ Automobile trucks are temporarily provided for under item 945.69 as a result of a trade dispute, commonly referred to as the "chicken war", between the United States and the European Economic Community (EEC) involving increased duties on U.S. poultry imported into West Germany. In the late 1950's and early 1960's, West Germany became a rapidly growing market for U.S. frozen poultry. In 1962, however, West German tariffs on poultry were replaced by much higher EEC tariffs, which adversely affected U.S. poultry sales to West Germany. In response, President Johnson issued Proclamation 3564 in 1963, which withdrew previously proclaimed tariff concessions on automobile trucks, brandy, potato starch, and dextrans and soluble or chemically treated starches.

2/ For Customs' purposes, however, the term "lightweight" is undefined and it does not necessarily coincide with the term "light trucks" used herein.

Motor vehicles and certain original equipment therefor of Canadian origin enter the United States duty free. Such duty-free treatment is authorized by the Automotive Products Trade Act of 1965, 1/ which implements an agreement between the United States and Canada to accord duty-free treatment to specified motor vehicles and original motor-vehicle equipment shipped between the two countries. 2/ A special waiver under the General Agreement on Tariffs and Trade (GATT) was sought and obtained by the United States in view of the preferential treatment to be accorded to Canadian articles. 3/

The U.S. obligation to accord duty-free treatment to imports from Canada applies in three situations. 4/ First, duty-free treatment applies to motor vehicles, with the exception of certain "special purpose" vehicles such as electric trolley buses, three-wheeled vehicles, trailers accompanying truck tractors, and motor vehicles specially constructed and equipped for special services and functions (e.g., fire engines). Second, duty-free treatment applies to fabricated components for use as original equipment in the manufacture of the specified motor vehicles but does not apply to replacement parts or accessories. In addition, trailers, tires, and tubes are specifically excluded. Third, the products of Canada specified in the agreement may not contain more than a certain percentage of "foreign" content, that is, content of materials produced in countries other than the United States or Canada. For any article, the measure of such foreign content is the percentage of the appraised customs value of the article upon entry into the United States accounted for by the aggregate value of such imported materials contained in the article. The maximum permitted foreign content is 50 percent

1/ Pub. Law 89-283; 79 Stat. 1016 (1965).

2/ "Agreement Concerning Automotive Products Between the Government of the United States and the Government of Canada", signed Jan. 16, 1965.

3/ At the time of the signing of the agreement and the enactment of the bill implementing it, it was generally understood that the duty-free treatment limited to automotive products from Canada was inconsistent with the obligation of the United States under art. I of the GATT, i.e., to accord unconditional most-favored-nation treatment with respect to customs duties on the products of contracting parties to the agreement. However, under art. XXV(5), the Contracting Parties of the GATT may grant a waiver of this principle if there are exceptional circumstances warranting such an action. Such a waiver was sought by the United States, and, upon consideration of (1) the exceptionally high degree of integration of the two markets, and (2) the opportunities of increased rationalization of production given the "close similarity of market conditions in the two countries and the close relationship which exists and could be further developed in their production facilities of automotive products," (Basic Instruments and Selected Documents, 14th Supp., July 1966), p. 37, a waiver was granted by the Contracting Parties on Dec. 20, 1965.

4/ See headnote 2, part 6B, schedule 6 of the TSUS.

for both motor vehicles and chassis and parts. 1/ This requirement thus provides that at least half the content of any article imported duty free under the agreement will be produced in either the United States or Canada. The rest of the content may come from third countries and the article will still be entitled to duty-free treatment when imported into the United States. Consequently, original-equipment parts manufactured in third countries may be assembled into completed vehicles in Canada and imported into the United States and no duty will be payable on said components as long as the maximum permissible foreign content (50 percent) is not exceeded.

World Market

Europe, North America, and Japan accounted for almost 90 percent of the world's motor-vehicle registrations in 1978. North America alone accounted for more than 40 percent. The following tabulation shows motor-vehicle registrations, by continents, for 1978 (in millions of units): 2/

Continent	: Automobiles	: Trucks and buses	: Total
North and Central America-----	127.9	34.1	162.0
Europe-----	108.1	18.5	126.6
Asia-----	26.7	16.8	43.5
South America-----	11.8	3.1	14.9
Oceania-----	6.6	1.7	8.3
Africa-----	4.9	2.4	7.3
Total-----	286.0	76.6	362.6

The U.S. motor-vehicle market is currently one of the most open motor-vehicle markets in the world. The U.S. import duty of 2.9 percent ad valorem is the second lowest tariff rate on automobiles in the developed world. Only Japan levies a lower rate on automobiles; however, other factors in Japan tend to restrict the importation of automobiles into that country. The current rate of duty on automobiles that enter the European Community (EC) from most non-EC countries is 10.9 percent ad valorem.

In addition to import duties, there are other barriers to trade that restrict the number of motor vehicles imported into world markets. In the United States, the primary non-tariff barriers are Government regulations which require all automobiles and certain trucks (domestic and imported) to meet U.S. emission, safety, and fuel-economy standards. While most other countries require motor vehicles to meet some type of safety standards, few have emission standards. The United States is also the only major automobile-

1/ Under the Motor Vehicles Information and Cost Savings Act, as amended by the Energy Policy and Conservation Act, a vehicle must contain 75 percent United States and/or Canadian value added to be considered domestically produced (sec. 503(b)(2)(E) of the act (15 U.S.C. 503(b)(2)(E)).

2/ Motor Vehicle Manufacturers Association, MVMA World Motor Vehicle Data, 1979, p. 9.

producing country requiring all automobiles and light trucks sold by individual manufacturers or importers to meet fleet fuel-economy standards.

Taxes are another prevalent form of nontariff barrier. While few U.S. taxes are based upon the weight or size of automobiles, most other major automobile-producing nations have either a value-added tax or a commodity tax based upon weight, vehicle size, engine size, or a combination of these factors. In addition to sales taxes, many countries levy annual usage taxes based upon weight or size. In some of the less developed automobile-producing countries, moreover, such as Brazil or Mexico, a significant portion of the value of each imported automobile must be derived from locally produced components. A summary of the trade restrictions maintained by most producing and/or importing countries is shown in appendix E.

U.S. Producers

There are currently five major U.S. producers of automobiles and light trucks. ^{1/} All five are headquartered in Detroit, Mich., and all except Volkswagen of America, Inc., operate more than one U.S. production plant. The five producers and the types of motor vehicles that each produces are as follows:

<u>U.S. firm</u>	<u>Type of motor vehicles produced</u>
General Motors Corp. (GM)-----	Automobiles, light/medium/heavy trucks, off-the-road trucks, recreational vehicles, buses.
Ford Motor Co. (Ford)-----	Automobiles, light/medium/heavy trucks, recreational vehicles.
Chrysler Corp. (Chrysler)-----	Automobiles, light trucks, recreational vehicles.
American Motors Corp. (AMC)---	Automobiles, light/medium/heavy trucks, (heavy trucks for military only), recreational vehicles.
Volkswagen of America, Inc. (VW of America).	Automobiles, light trucks.

Approximately 30 percent of the value of the vehicles VW of America produces domestically originates outside the United States. The engines and drive trains for these vehicles are manufactured in West Germany.

^{1/} A sixth manufacturer, International Harvester Corp., produces lightweight trucks (a small two- or four-wheel-drive vehicle called the Scout) at its Fort Wayne, Ind. plant, but will discontinue production after the 1980 model year. The Scout accounted for about 1 percent of total U.S. light-truck production in 1979.

GM and Ford together account for about 85 percent of total automobile and light-truck production in the United States; GM alone accounts for much more than half that total. The shares of total U.S. automobile and light-truck production held by Chrysler, AMC, and VW of America are about 11 percent, 3 percent, and 2 percent, respectively. GM has been the largest producer of motor vehicles in the United States since 1931, when it took the lead from Ford; Ford has been the second largest since 1949, when it replaced Chrysler. Chrysler was second in total U.S. motor-vehicle production from 1936 to 1949.

As of January 1, 1980, the five major U.S. automobile and truck producers operated 43 automobile and 24 truck assembly facilities in the United States and 5 automobile and 5 truck assembly facilities in Canada, as shown in the following tabulation: 1/

<u>U.S. firm</u>	<u>Automobile</u>	<u>Truck</u>	<u>Total</u>
GM-----	25	11	36
Ford-----	15	10	25
Chrysler-----	6	4	10
AMC-----	1	3	4
VW of America-----	1	1	2
Total-----	48	29	77

Some truck and automobile production facilities are incorporated in a single plant. VW of America, for example, assembles all its automobiles and light trucks at one plant in Westmoreland, Pa., and GM assembles both automobiles and pickup trucks in its Baltimore, Md., plant. Although different makes of automobiles are frequently assembled in the same plant, radically different sizes are not. For example, GM assembles the Buick Skylark, Chevrolet Citation, and Oldsmobile Omega in its Willow Run, Mich., plant; all are basically the same body type (called the X-body by GM and the automotive press).

During January 1979-June 1980, there were a number of industry actions and proposed actions with respect to assembly operations in the United States. Ford and Chrysler each closed two U.S. assembly plants, and GM closed five. 2/ Several more Chrysler plants are scheduled for closing in the next 2 to 3 years. The industry intends to convert or replace most of this capacity within the next 5 years. Volkswagen, Honda, and Nissan, moreover, have each announced plans to build assembly facilities in the United States. 3/

In addition to its plant in Pennsylvania, VW of America plans to open a plant in Michigan with a capacity of about 184,000 units a year. Honda intends to build an automobile assembly plant in Ohio with a capacity of about 120,000 vehicles a year, and Nissan announced in April of this year that it plans to build a plant with similar capacity in the United States for the production of light trucks.

1/ Automotive News Market Data Book, 1980, p. 26.

2/ GM considers its closings to be temporary.

3/ See prehearing briefs, pp. 6, 13, and 1, for VW, Honda, and Nissan, respectively.

With the exception of VW of America, all the U.S. producers manufacture products other than automobiles, light trucks, and related parts and components. GM and Ford also produce medium and heavy trucks. GM and AMC manufacture or assemble buses, and GM and Ford manufacture chassis which are used in bus construction. Also manufactured by GM, Ford, and Chrysler are chassis that are used in the production of motor homes, ambulances, custom vehicles, special-purpose trucks, and other types of motor vehicles. All four producers also manufacture defense-related items. Chrysler builds the XMI tank for the U.S. Army; AMC produces light/medium/heavy trucks for the military; GM manufactures such items as aircraft engines and guidance systems; and Ford produces communication and aerospace equipment. With the exception of AMC, the share of overall sales of each of the U.S. producers accounted for by products other than automobiles and light trucks is less than 10 percent.

All five U.S. manufacturers import either automobiles, light trucks, or both in significant quantities. Excluding VW of America, U.S. producers' imports of automobiles and light trucks accounted for nearly 28 percent and 70 percent, respectively, of all imports of these items into the United States in 1979, (or 9 percent and 47 percent, respectively, of all non-Canadian imports). Seventy percent of U.S. producers' imports were manufactured by their wholly owned subsidiaries in Canada. GM operates three assembly plants in Canada; Ford operates two; and Chrysler and AMC each operate one. Of the total automobile and light-truck production in these plants, more than half is exported to the United States. The industry estimates, however, that well over half the value of all motor vehicles manufactured in its Canadian plants originates in the United States. Other motor vehicles imported by the U.S. producers are manufactured by subsidiaries, affiliates, or unrelated producers in Japan, West Germany, and France. Those automobiles and light trucks imported by the U.S. producers from countries other than Canada are as follows:

<u>U.S. firm</u>	<u>Imported make/ model</u>	<u>Foreign producer</u>	<u>Country of origin</u>
GM-----	LUV (pickup truck).	Isuzu	Japan.
Ford-----	Courier (pick-up truck).	Toyo Kogyo	Do.
	Fiesta (subcompact).	Ford, West Germany.	West Germany.
Chrysler-----	Dodge D-50 and Arrow (pickup trucks).	Mitsubishi	Japan.
	Dodge Colt, Challenger, Plymouth Arrow, Sapporo, Champ.	---do---	Do.
AMC-----	Le Car-----	Renault	France.
VW of America-----	Dasher, Van, Rabbit convertible, Scirocco, Audi.	Volkswagen	West Germany.
	Porsche-----	Porsche	Do.

GM, Ford, Chrysler, and AMC own (or operate with other producers) parts and assembly plants in countries other than the United States and Canada. GM and Ford, the largest motor-vehicle manufacturers in the world, have worldwide sourcing capabilities. Ford, for example, sources diesel engines from Japan and West Germany and is currently constructing a four-cylinder engine plant in Mexico. Many of the parts for its new Escort/Lynx are manufactured abroad. Outside of North America, Ford produced about 2.2 million automobiles, trucks, and buses in 1979, and GM produced about 1.7 million. All these vehicles were produced by wholly owned subsidiaries. AMC's operations in countries other than the United States and Canada consist primarily of plants that assemble vehicles from U.S.-produced components.

Foreign Producers

There are 30 major motor-vehicle manufacturers in the world, 10 of which produced more than 1 million motor vehicles each in 1978. ^{1/} The five largest producers, however--GM (U.S.A.), Ford (U.S.A.), Toyota, Nissan, and Volkswagen--accounted for about 50 percent of the 1978 total. The major motor-vehicle producers and their total production for 1974-78 are shown in

^{1/} Although 1979 data are not yet available, it is believed that there were relatively few changes in the rankings and production levels of the largest 30 firms.

appendix F. Most of these firms are large, multinational corporations with subsidiaries and facilities for the manufacture of motor vehicles in several countries. The four major U.S. producers and their subsidiaries in Canada and Europe accounted for about half of the world's motor-vehicle production in 1978.

Most of the world's motor-vehicle production is concentrated in 10 countries, as shown in table 3. Together, the United States and Japan

Table 3.--Motor vehicles: World production, by specified countries, 1978 and 1979

(In millions of units)					
Rank	Country	1978		1979	
		Automobiles	Total ^{1/}	Automobiles	Total ^{1/}
1	United States-----	9.2	12.9	8.4	11.5
2	Japan-----	6.0	9.3	6.2	9.6
3	West Germany-----	3.9	4.2	3.9	4.2
4	France-----	3.1	3.5	3.2	3.6
5	U.S.S.R-----	1.3	2.2	1.3	2.2
6	Italy-----	1.5	1.7	1.5	1.6
7	Canada-----	1.1	1.8	1.0	1.6
8	United Kingdom-----	1.2	1.6	1.1	1.5
9	Brazil-----	.5	1.1	.5	1.2
10	Spain-----	1.0	1.1	1.0	1.1

^{1/} Includes all automobiles, trucks, and buses.

Source: Motor Vehicle Manufacturers Association, MVMA Motor Vehicle Facts and Figures '80, p. 19.

accounted for more than 50 percent of the world's motor-vehicle production in 1978 and, other than the U.S.S.R., are the only countries to have increased their share of world production after 1970. Between 1970 and 1978, Japan's share of world motor-vehicle production increased from about 18 percent to about 22 percent, while the U.S. share increased from about 28 percent to more than 30 percent. In January-June 1980, Japan surpassed the United States as the world's largest producer of passenger automobiles and light trucks, exceeding U.S. production by more than 1 million vehicles.

The degree to which these countries export motor vehicles varies from country to country, as indicated in table 4. While the United States exported only 7.4 percent of its total motor-vehicle production in 1978, Canada, at the other extreme, exported 72.9 of its total production. As a share of production, exports from only Japan and Spain have increased markedly since 1970. Between 1970 and 1978 the ratio of exports to production for Japan and Spain increased by about 30 percentage points and 20 percentage points, respectively.

Table 4.--Motor vehicles: World production and exports, by specified countries, 1978 1/

Country	Production <u>2/</u>	Exports <u>2/</u>	Ratio of exports to production
	Units	Units	Percent
United States-----	12,899,202	<u>3/</u> 954,609	7.4
Japan-----	9,269,153	4,600,735	49.6
France-----	3,507,930	2,299,368	65.6
West Germany-----	4,186,364	2,073,303	49.5
Italy-----	1,656,115	714,822	43.2
United Kingdom-----	1,607,467	608,328	37.8
Canada-----	1,818,492	<u>4/</u> 1,326,377	72.9

1/ 1978 data were used because data for 1979 are not available for all countries listed.

2/ Includes automobiles, trucks, and buses.

3/ Of this amount, 663,048 units was exported to Canada.

4/ Of this amount, 1,209,000 units was exported to the United States.

Source: Motor Vehicle Manufacturers Association, MVMA World Motor Vehicle Data, 1979.

The United States accounts for the largest share of Japanese automobile exports, and the trend is increasing. As a share of its total automobile exports, Japan's exports to the United States increased from 32.1 percent in 1970 to 45.7 percent in 1979. As a share of Japan's total automobile production, such exports increased from 7.3 percent to 25 percent in the same period.

Although data on the actual capacity for most of the Japanese automobile manufacturers are not available, it is generally agreed that Japanese firms have operated at or near capacity during the last 1 to 2 years. 1/ Toyota estimates * * *. Nissan has indicated that * * *. According to an article in The Japan Economic Journal, production of motor vehicles in Japan in 1980 should reach 10.8 million units, 2/ which coincides very closely with an unpublished U.S. Department of Transportation estimate of 11 million units in 1980. This represents an increase in capacity of about 10 percent. Since the demand for automobiles in Japan is relatively stable, with an internal annual growth rate ranging from 2 to 3 percent, most of the capacity expansion is targeted for export.

1/ Both Toyota and Nissan testified at the public hearing that their firms utilize overtime beyond full two-shift capacity to prevent laying off workers during periods of declining demand. (Transcript of the hearing, pp. 1211 and 1275.)

2/ "Auto Industry Plans To Increase Production to 11 Million Vehicles," The Japan Economic Journal, Feb. 5, 1980, p. 8.

There are no known plans of any European automobile manufacturers to increase capacity significantly. Most producers in Europe, moreover, are operating below capacity, though not to the same degree as producers in the United States.

Despite the competitiveness of the world motor-vehicle industry, there are numerous formal cooperative efforts among its members. These are largely in the form of quasi-mergers, joint production and/or joint marketing and distribution arrangements, components-purchasing agreements, and technology sharing. In Australia, for example, Renault assembles Ford vehicles and GM and Toyota produce engines for each other. While Renault supplies cabs for Ford H series trucks and Peugeot supplies diesel engines for Ford's European Granada, Ford has jointly developed industrial diesels with Fiat. Volkswagen provides Chrysler with 4-cylinder engines, and Chrysler assembles Volkswagen products in Australia. Intercompany ownership is widespread. GM, Ford, and Chrysler, for example, own substantial shares of Isuzu, Toyo Kogyo, and Mitsubishi, respectively, and jointly produce, develop, and market vehicles and components. In the spring of 1979, AMC announced that it had entered into an agreement with Renault to begin importing and distributing automobiles produced by that firm and to begin assembly of a Renault automobile during the 1983 model year. Renault will provide AMC with up to \$150 million in return for up to 22.7 percent of AMC's stock. 1/ In another cooperative effort, Ford and Toyota have recently discussed the possibility of jointly producing and marketing a motor vehicle or motor vehicles in the United States. 2/

With the exception of imports from Canada, the percentage of the total value of imports of passenger automobiles and light trucks originating or added in the United States is less than 5 percent. Among the U.S.-produced automobile parts that are exported for assembly and return are automatic transmissions, seat fabric, sealed-beam headlamps, valves, window glass, air-conditioning, compressors, seatbelts, catalytic converters, carpets, bearings, clutches, and filters.

U.S. Market and Channels of Distribution

The U.S. market for automobiles and light trucks consists of three major segments: private, commercial, and Government. Currently, individual consumers account for about two-thirds of all new-automobile registrations in the United States, and persons using automobiles strictly for business or business and personal uses account for most of the remaining third. Less than 2 percent of all new automobiles are sold to city, county, State, or Federal governments.

Although some Governments and large commercial enterprises purchase vehicles directly from the manufacturers, most domestically produced automobiles and light trucks are distributed directly to retail dealerships from the point of manufacture. Most light trucks are sold by dealers which also sell the same make of automobile. As of July 1980, there were nearly

1/ A more recent agreement between AMC and Renault could give Renault a controlling interest in AMC.

2/ See transcript of the hearing, pp. 623-624.

22,500 U.S.-made-automobile dealerships in the United States, most of which were privately owned franchises unrelated to the U.S. manufacturers. Between January 1979 and July 1980, the number of such dealerships in the United States declined by nearly 7 percent (table 5).

Table 5.--Passenger automobiles and light trucks: Number of U.S. dealerships for U.S.- and Canadian-produced vehicles, 1/ by makes, Jan. 1, 1979, Jan. 1, 1980, and July 1, 1980

Make	Jan. 1--		July 1, 1980
	1979	1980	
GM-----	11,565	11,425	11,240
Ford-----	6,639	6,514	6,183
Chrysler-----	4,786	4,419	4,006
AMC-----	1,661	1,701	1,695
Less multimake dealerships-----	-600	-680	-675
Total-----	24,051	23,379	22,449
VW of America-----	1,026	1,119	<u>2/</u>

1/ Those few dealerships that sell only trucks are not included.

2/ Not available.

Source: Ford, Chrysler, and AMC: Automotive News; VW of America: Wards Automotive Reports.

Like U.S.-produced automobiles and light trucks, most imported automobiles and light trucks are distributed directly to retail dealerships by U.S. subsidiaries of the foreign manufacturer. In some instances the importer sells to an unrelated distributor, which in turn markets the vehicle to retail establishments.

Because of the high initial investment required by the foreign manufacturer to establish its own distributorship, most imported vehicles were initially distributed by U.S. importers unrelated to the foreign manufacturer. As sales of a particular make increased, however, it became more profitable for the foreign manufacturer itself to distribute the vehicle in the United States. The number of dealerships in the United States for U.S.-and foreign make automobiles on January 1 of 1970-80 is shown in table 5A.

Although there are currently about 675 dealerships in the United States that sell multiple makes of U.S.-produced automobiles and/or light trucks, most U.S. dealers sell automobiles and light trucks built by one manufacturer. There are, however, many retail dealers that sell both domestic and imported automobiles and trucks. These dealers are commonly called "duals" dealers since they sell two, and sometimes more, makes of automobiles.

While the needs of the commercial segment of the automobile market are relatively straightforward for the automobile manufacturers, those of the

Table 5A.--Passenger automobiles and light trucks: Number of U.S. dealerships for imported and U.S.- and Canadian-produced vehicles, by countries of origin, Jan. 1 of 1970-80

Date	Dealerships for imports from <u>1/--</u>				Dealerships for U.S.- and Canadian-produced vehicles <u>3/</u>
	Japan	West Germany <u>2/</u>	Other	Total	
Jan. 1--	:	:	:	:	:
1970-----	1,799	1,951	<u>4/</u>	<u>4/</u>	27,071
1971-----	2,319	2,134	<u>4/</u>	<u>4/</u>	26,126
1972-----	2,819	1,962	2,849	7,630	25,621
1973-----	3,069	2,121	3,397	8,587	25,441
1974-----	3,162	2,113	2,518	7,793	25,349
1975-----	3,239	2,527	2,823	8,589	24,980
1976-----	3,754	2,294	3,076	9,124	24,453
1977-----	3,821	2,442	2,972	9,235	24,268
1978-----	4,092	2,512	3,086	9,690	24,147
1979-----	4,222	2,537	2,813	9,572	24,051
1980-----	4,407	2,550	3,154	10,111	23,379
	:	:	:	:	:

1/ Excludes captive import dealerships.

2/ Includes dealerships selling VW's manufactured in the United States.

3/ Excludes intercorporate duals.

4/ Not available.

Source: Wards Automotive Reports and Automotive News.

private consumer are exceedingly complex, and the products manufactured to satisfy those needs vary accordingly. Consumer preferences have been the subject of many independent studies, but the results of these are often contradictory. What the individual consumer says is not necessarily what he does. The relative importance of the features and qualities the individual associates with an automobile, moreover, is likely to vary considerably from location to location and from consumer to consumer. The dynamic aspect of the consumer segment of the market compounds the difficulties in ascertaining its preferences. What is indicative at one point in time may be spurious at another. At least one consumer preference, however, is clear: 1979 was marked by an abrupt shift in demand to smaller, more fuel-efficient automobiles. This topic and other issues related to automobile demand are discussed more fully in the section of this report concerning other possible causes of injury.

The Question of Increased Imports

Total imports of the types of motor vehicles under investigation have clearly increased from their level in 1975. From slightly more than 2 million units, valued at \$7.4 billion, in 1975, imports of passenger automobiles increased steadily to more than 2.9 million units, valued at \$13.6 billion, in 1978, or by 43 percent (table 6). In 1979, imports of passenger automobiles

Table 6.—Passenger automobiles: U.S. imports for consumption, by principal sources, 1975-79 and January-June 1979 and 1980

Source	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Quantity (units)							
Japan	687,185	1,120,648	1,328,353	1,528,186	1,592,426	768,569	1,009,446
Canada	733,801	825,631	849,881	834,639	677,949	387,155	313,157
FR Germ ^{1/}	350,173	333,107	398,200	351,557	310,354	164,187	190,766
Italy	102,716	82,950	55,869	70,041	72,694	42,421	31,027
Sweden	52,022	37,484	39,514	56,183	65,959	39,011	34,577
U King	67,784	78,479	58,048	55,013	47,197	23,686	21,675
France	15,736	21,951	19,243	28,528	27,976	11,158	28,200
Taiwan	0	7	28	599	1,099	1,094	0
Finland	0	0	0	1,450	768	309	1,097
Hong Kong	0	2	0	38	156	156	1
All other	38,285	13,462	4,414	1,821	485	164	1,821
Total	2,047,702	2,513,721	2,753,550	2,928,055	2,797,063	1,437,910	1,631,767
Percentage distribution, by quantity							
Japan	33.6	44.6	48.2	52.2	56.9	53.5	61.9
Canada	35.8	32.8	30.9	28.5	24.2	26.9	19.2
FR Germ ^{1/}	17.1	13.2	14.5	12.0	11.1	11.4	11.7
Italy	5.0	3.3	2.0	2.4	2.6	2.9	1.9
Sweden	2.5	1.5	1.4	1.9	2.4	2.7	2.1
U King	3.3	3.1	2.1	1.9	1.7	1.6	1.3
France	.8	.9	.7	1.0	1.0	.8	1.7
Taiwan	-	2/	2/	2/	2/	2/	-
Finland	-	-	-	2/	2/	2/	.1
Hong Kong	-	2/	-	2/	2/	2/	2/
All other	1.9	.5	.2	.1	2/	2/	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value (1,000 dollars)							
Japan	1,711,299	2,819,064	3,816,611	5,637,719	6,362,776	3,174,990	3,905,943
Canada	3,285,724	4,072,256	4,285,667	4,494,857	3,871,362	2,191,361	1,839,017
FR Germ	1,424,990	1,525,590	2,105,068	2,474,330	2,219,504	1,183,501	1,430,084
Italy	326,094	252,320	190,481	306,045	444,704	248,794	214,140
Sweden	234,488	194,456	199,851	318,801	433,448	251,228	257,803
U King	181,750	302,319	242,883	300,513	316,773	154,905	172,986
France	45,816	59,271	60,854	93,363	118,593	49,488	130,808
Taiwan	-	17	75	1,487	5,267	5,021	-
Finland	-	-	-	9,430	4,333	1,668	8,907
Hong Kong	-	14	-	210	706	706	1
All other	164,739	70,107	19,003	8,605	2,777	1,273	7,878
Total	7,374,900	9,295,414	10,920,493	13,645,360	13,780,243	7,262,935	7,967,567
Unit value							
Japan	\$2,490.30	\$2,515.56	\$2,873.19	\$3,689.16	\$3,995.64	\$4,131.04	\$3,869.39
Canada	4,477.68	4,932.29	5,042.67	5,385.39	5,710.40	5,660.16	5,872.51
FR Germ	4,069.39	4,579.88	5,286.46	7,038.20	7,151.52	7,208.25	7,496.54
Italy	3,174.72	3,041.83	3,409.42	4,369.51	6,117.48	5,864.89	6,901.72
Sweden	4,507.48	5,187.70	5,057.73	5,674.32	6,571.47	6,439.93	7,455.91
U King	2,681.31	3,852.22	4,184.17	5,462.58	6,711.72	6,539.94	7,980.89
France	2,911.54	2,700.13	3,162.40	3,272.66	4,239.11	4,435.20	4,638.57
Taiwan	-	2,429.14	2,664.21	2,483.02	4,792.30	4,589.67	-
Finland	-	-	-	6,503.30	5,641.39	5,396.75	8,119.78
Hong Kong	-	6,844.00	-	5,525.30	4,528.10	4,528.10	1,167.00
All other	4,302.96	5,207.77	4,305.17	4,725.34	5,725.84	7,762.58	4,325.95
Average	3,601.55	3,697.87	3,965.97	4,660.21	4,926.68	5,051.04	4,882.78

^{1/} Does not include Volkswagen's imports into U.S. Custom's territory from the free-trade zone at New Stanton, Pennsylvania where its automobiles are assembled. Inclusion of such imports, 70 percent of the Customs value of which is incurred in the United States, increases U.S. imports from the Federal Republic of Germany to 391,700 units in 1978, 484,600 units in 1979, 245,600 units in January-June 1979, and 295,200 units in January-June 1980. Inclusion of such imports from the New Stanton free-trade zone increases total U.S. imports from all sources to 2,968,298 vehicles in 1978, 2,971,309 vehicles in 1979, 1,519,323 in January-June 1979, and 1,736,201 vehicles in January-June 1980. The Federal Republic of Germany's share of total U.S. imports rises, as a result of this inclusion, to 13.2 percent in 1978, 16.3 percent in 1979, 16.2 percent in January-June 1979, and 17.0 percent in January-June 1980. The share accounted for by other sources of imports are reduced proportionally.

^{2/} Less than 1/10 percent.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

fell by about 4 percent to 2.8 million units, primarily as a result of a sharp reduction in imports from Canada. In January-June 1980, imports of passenger automobiles increased 13 percent from the corresponding period of 1979, although imports from Canada continued to decline markedly.

Japan has been the leading source of U.S. passenger automobile imports in recent years, and its share of imports has risen rapidly, from 33.6 percent in 1975 to 56.9 percent in 1979 and to 61.9 percent in January-June 1980. As Japan's share of total automobile imports rose, other countries' shares fell. Canada's share declined steadily from 35.8 percent in 1975 to 24.2 percent in 1979, and West Germany's share declined irregularly from 17.1 percent to 11.1 percent in the same period. ^{1/} The combined imports of passenger automobiles from countries other than Japan, West Germany, and Canada consistently amounted to less than 10 percent of total imports in recent years.

U.S. producers' imports of automobiles generally accounted for a significant share of total imports of automobiles, although this share has steadily declined since 1975 (table 7). As a share of total automobile imports, the combined imports of GM, Ford, Chrysler, and AMC declined from 40.5 percent in 1975 to 27.9 percent in 1979 and further declined to 26.6 percent in January-June 1980.

U.S. imports of light trucks and cab/chassis more than doubled between 1975 and 1978, rising from nearly 375,000 units to nearly 860,000 units (table 8). ^{2/} In 1979, imports of light trucks declined to about 804,000 units and continued to decline in January-June 1980 by about 3 percent from the corresponding period of 1979.

Japan and Canada have been the dominant suppliers of light truck and cab/chassis imports, accounting for more than 95 percent of the total in recent years. Although imports from Japan rose rapidly between 1975 and 1979, its share of total imports remained relatively constant, ranging from a low of 46.7 percent in 1977 to a high of 55.3 percent in 1979. In January-June 1980, however, Japan's share of light truck and cab/chassis imports rose to 66.7 percent. After increasing from 40.7 percent in 1975 to 49.2 percent in 1977, Canada's share of imports fell to 43.1 percent in 1979 and further declined to 31.4 percent in January-June 1980. Imports from West Germany, the

^{1/} VW of America's imports into U.S. customs territory from the free-trade zone at New Stanton, Pa., are not included in the Commission's data as imports since 70 percent of the value of these vehicles is added in the United States; however, the Customs Service treats such vehicles as imports from West Germany. Inclusion of VW's New Stanton production in the Commission's import data gives West Germany an increasing share of U.S. imports from 1978 through January-June 1980, when West Germany accounted for 17 percent of the total.

^{2/} In addition to pickups and cab/chassis therefor, these data include the VW van, the Subaru Brat, and the Toyota Land Cruiser, all three of which are classified by Customs as passenger automobiles.

Table 7.--Passenger automobiles: U.S. producers' imports or consumption, by principal sources, 1975-79, January-June 1979, and January-June 1980

Item and source	1975	1976	1977	1978	1979	January-June--	
						1979	1980
U.S. producers' imports (quantity): 1/							
Canada-----1,000 units--	733	826	840	770	587	353	287
Japan-----do-----	45	144	115	178	100	46	63
West Germany-----do-----	52	20	90	64	78	45	62
France-----do-----	0	0	0	0	13	3	21
Other-----do-----	0	0	0	0	0	0	0
Total-----do-----	830	990	1,045	1,012	779	447	433
U.S. producers' imports (value):							
Canada--million dollars--	3,283.7	4,072.9	4,239.0	4,147.0	3,351.7	1,998.1	1,690.2
Japan-----do-----	107.0	360.0	308.9	607.0	341.1	163.7	249.0
West Germany-----do-----	260.2	81.0	299.0	254.0	357.0	203.0	312.0
France-----do-----	-	-	-	-	44.1	11.1	71.2
Other-----do-----	-	-	-	-	-	-	-
Total-----do-----	3,650.9	4,513.9	4,846.9	5,008.0	4,093.9	2,375.9	2,322.4
Ratio of U.S. producers' imports to total imports:							
Canada-----percent--	100.0	100.0	98.2	92.3	97.0	91.2	91.8
Japan-----do-----	6.5	12.8	8.7	11.6	6.3	6.0	6.2
West Germany-----do-----	14.8	6.0	22.6	18.2	25.1	27.4	32.5
France-----do-----	-	-	-	-	48.6	31.4	74.5
Other-----do-----	-	-	-	-	-	-	-
Total-----do-----	40.5	39.4	38.0	34.6	27.9	31.1	26.6

1/ Includes imports by GM, Ford, Chrysler, and AMC.

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

Table 8.--Light trucks and cab/chassis therefor: U.S. imports for consumption, by principal sources, 1975-79, January-June 1979, and January-June 1980

Source	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Quantity (units)							
Japan-----	201,120	287,983	318,258	433,267	444,490	202,864	284,922
Canada-----	152,300	259,100	335,700	400,200	346,200	231,600	133,900
West Germany 1/---	21,000	19,000	28,000	26,000	13,000	8,000	8,000
Total 1/-----	374,420	566,083	681,958	859,467	803,690	442,464	426,822
Percentage distribution, by quantity							
Japan-----	53.7	50.9	46.7	50.4	55.3	45.7	66.7
Canada-----	40.7	45.8	49.2	46.6	43.1	52.4	31.4
West Germany 1/---	5.6	3.3	4.1	3.0	1.6	1.8	1.9
Total 1/-----	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value (million dollars)							
Japan-----	445.7	706.1	854.5	1,422.1	1,644.8	769.0	1,030.5
Canada-----	556.1	1,096.2	1,580.6	2,106.7	2,200.3	1,395.5	337.2
West Germany-----	87.7	84.6	135.9	144.6	88.8	51.3	75.1
Total-----	1,089.5	1,886.8	2,571.0	3,673.4	3,933.9	2,215.8	1,442.8
Unit value (dollars per unit)							
Japan-----	2,216	2,452	2,685	3,282	3,700	3,791	3,617
Canada-----	3,647	4,231	4,708	5,264	6,356	6,025	5,252
West Germany-----	4,176	4,453	4,854	5,562	6,831	6,412	9,386
Total-----	2,908	3,333	3,770	4,274	4,895	5,008	4,557

1/ Does not include Volkswagen's imports into U.S. Custom's territory from the free-trade zone at New Stanton, Pennsylvania where its light trucks are assembled. Inclusion of such imports, 70 percent of the Custom's value of which is incurred in the United States, increases U.S. imports from West Germany to 15,400 vehicles in 1979 and to 23,000 units during January-June 1980. The inclusion of such vehicles as imports increases the total imports from all sources to 860,100 vehicles in 1979 and 441,800 vehicles during January-June 1980. West Germany's share of the total increases, as a result, to 1.9 percent in 1979 and 2.9 percent in January-June 1980. Japan's and Canada's share of total imports are proportionally reduced for the two periods.

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

only other source of imports of light trucks, steadily declined relative to total imports during 1975-79. ^{1/}

U.S. producers consistently accounted for nearly 70 percent of imports of light trucks and cab/chassis during 1975-79, including all imports of the subject merchandise from Canada and from 40 to 50 percent of the imports from Japan (table 9).

Imports of automobiles and light trucks also increased relative to production (table 10). Imports of passenger automobiles increased irregularly from 30.9 percent of U.S. production in 1975 to 33.3 percent in 1979 before increasing to 47.5 percent in January-June 1980. The ratio of imports to U.S. small-car production only (subcompacts and compacts), increased from 85.2 percent in 1975 to 100.5 percent in 1977, declined to 74.5 percent in 1979, and then increased to 85.5 percent in January-June 1980. Imports of light trucks and cab/chassis increased from the equivalent of 18.5 percent of U.S. production in 1975 to 29.4 percent in 1979 and then increased markedly to 62.5 percent in January-June 1980.

The Question of Serious Injury or Threat Thereof

Summary

In the aggregate, most of the indices of the U.S. automobile producers' performance reveal increasing trends from 1975 through 1978 and rapidly declining trends thereafter. After reaching a high in 1978, U.S. production of automobiles declined by 8 percent in 1979 and further declined by 29 percent in January-June 1980 from production in the corresponding period of 1979. Similarly, the utilization of U.S. producers' capacity to produce automobiles fell from a high of 86.2 percent in 1978 to 79.5 percent in 1979 and further declined to 66.5 percent in January-June 1980. U.S. producers' shipments of automobiles declined by 8 percent between 1978 and 1979 and fell again by 28 percent between January-June 1979 and January-June 1980. From June 30, 1979, to June 30, 1980, inventories of U.S.-produced passenger automobiles declined by 23 percent, and from 1978 to January-June 1980 average employment in U.S. establishments producing automobiles and light trucks fell by 20 percent. The trends in most of the data for light trucks are similar but even more pronounced.

When the aggregate data are analyzed by classes of vehicle, however, significant differences are evident. While the trends in the data for intermediate and full-size automobiles together fell markedly after 1978, reflecting the aggregate, the corresponding trends in the combined data for

^{1/} The inclusion of VW of America's light trucks that are assembled in a free-trade zone in Pennsylvania as imports results in nearly a doubling of the share of imports accounted for by West Germany in January-June 1980 compared with the corresponding period of 1979. Although only 30 percent of the value of such imports is of foreign origin, they are classified by the U.S. Customs Service as imports from West Germany.

Table 9.--Light trucks and cab/chassis therefor: U.S. producers' imports for consumption, by principal sources, 1975-79, January-June 1979, and January-June 1980

Item and source	1975	1976	1977	1978	1979	January-June--	
						1979	1980
U.S. producers' imports (quantity): 1/							
Canada-----1,000 units--	153	259	336	400	346	232	1
Japan-----do-----	101	123	127	172	213	99	1
Other-----do-----	0	0	0	0	0	0	
Total-----do-----	254	382	463	572	559	331	2
U.S. producers' imports (value):							
Canada--million dollars--	556.1	1,096.2	1,580.6	2,106.7	2,200.3	1,395.5	837
Japan-----do-----	196.7	274.0	330.0	525.5	742.5	354.2	446
Other-----do-----	0	0	0	0	0	0	
Total-----do-----	752.8	1,370.2	1,910.6	2,632.2	2,942.8	1,749.7	1,283
Ratio of U.S. producers' imports to total imports (quantity):							
Canada-----percent--	100.0	100.0	100.0	100.0	100.0	100.0	100
Japan-----do-----	50.2	42.7	39.9	39.7	47.9	48.8	41
Other-----do-----	0	0	0	0	0	0	
Total-----do-----	67.5	67.5	67.8	66.6	69.6	74.8	6

1/ Includes imports by GM, Ford, Chrysler, and AMC.

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

Table 10.--Passenger automobiles and light trucks: U.S. production and imports for consumption, 1975-79, January-June 1979, and January-June 1980

Item	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Production:							
Passenger automobiles							
1,000 units--	6,633.3	8,404.9	9,115.2	9,121.1	8,391.9	4,847.6	3,436.3
Light trucks and cab/chassis therefor-do----	2,022.4	2,721.4	3,147.4	3,306.0	2,736.8	1,707.3	682.6
Total-----do----	8,655.7	11,126.3	12,262.6	12,427.1	11,128.7	6,554.9	4,118.9
Imports:							
Passenger automobiles							
1,000 units--	2,047.7	2,513.7	2,753.6	2,928.1	2,797.1	1,437.9	1,631.8
Light trucks and cab/chassis therefor-do----	374.6	566.1	682.0	859.5	803.7	442.3	426.8
Total-----do----	2,422.3	3,079.8	3,435.6	3,787.6	3,600.8	1,880.2	2,058.6
Ratio of imports to production:							
Passenger automobiles							
percent--	30.9	29.9	30.2	32.1	33.3	29.7	47.5
Light trucks and cab/chassis therefor-do----	18.5	20.8	21.7	26.0	29.4	25.9	62.5
Total-----do----	28.0	27.7	28.0	30.5	32.4	28.7	50.0

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

compacts and subcompacts continued to rise, albeit at a lower rate than in 1975-78. The production of smaller cars increased by 12 percent from 1978 to 1979 and increased slightly again from January-June 1979 to January-June 1980. Likewise, the utilization of capacity for these vehicles increased from 78 percent in 1978 to 80 percent in 1979, and increased slightly again between January-June 1979 and January-June 1980. Similar trends for smaller cars are evident in shipments and inventories. Between January-June 1979 and January-June 1980 U.S. producers' shipments of smaller cars increased by 4 percent, while inventories of these cars increased by 32 percent.

U.S. production, capacity, and capacity utilization

Production.--U.S. production of automobiles increased from 6.6 million vehicles in 1975 to 9.1 million vehicles in 1978, but declined to 8.4 million vehicles in 1979 (table 11). From January-June 1979 to January-June 1980, domestic production further dropped by 29 percent. When analyzed by size of vehicle, however, the data differ significantly from the aggregate. While domestic production of subcompacts and compacts increased from 2.6 million units in 1977 to 3.7 million units in 1979, domestic production of intermediate and full-size cars decreased from 6.5 million units to 4.7 million units. These trends continued in 1980. While domestic production of compacts and subcompacts increased slightly from January-June 1979 to January-June 1980, domestic production of intermediate and full-size cars declined by 48 percent.

Domestic production of light trucks increased from 2 million units in 1975 to 3.3 million units in 1978, but declined to 2.7 million units in 1979. This trend continued in January-June 1980, when production fell to 682,600 units, or by 60 percent from the corresponding period of 1979. Domestic production of trucks weighing over 6,000 pounds but not over 10,000 pounds GVW remained higher than production of trucks weighing less than 6,000 pounds for the period in which the data are shown. However, as total domestic production of light trucks increased during 1975-78, production of the heavier trucks gained a greater share of the total. During 1979 and January-June 1980, production of such heavier trucks fell more rapidly than overall production of light trucks.

Only Ford and Chrysler reported significant losses in production due to employment-related problems, temporary equipment-related problems, sourcing problems, transitions, or any other unusual circumstances between January 1975 and June 1980. Ford's assembly operations were disrupted by a UAW strike in September-October 1976, and Chrysler reported that production changeovers between January 1975 and June 1980 resulted in production losses of approximately 250,000 automobiles and 50,000 light trucks. None of the U.S. producers' declines in production reflects a reallocation of resources to foreign subsidiaries or to the production of other products.

Production data, as well as capacity and capacity utilization data, for each firm are shown in appendix tables G1-G6. Aggregate production, capacity, and capacity utilization data for U.S. producers' subsidiaries in Canada are shown in appendix table G-31. U.S. production of passenger automobiles by months is shown in appendix table G-40.

Table 11.--Passenger automobiles and light trucks: U.S. production, U.S. capacity, and capacity utilization, by class of vehicle, 1975-79, January-June 1979, and January-June 1980

Item, type, and class or weight of vehicle	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Production:							
Passenger automobiles:							
Subcompacts--1,000 units--	911.8	788.6	762.3	1,482.1	1,983.8	1,027.5	955.6
Compacts-----do-----	1,481.2	2,072.9	1,869.6	1,860.4	1,752.4	864.1	952.1
Intermediate-----do-----	2,366.1	3,264.2	3,569.5	3,192.0	2,410.7	1,473.3	904.0
Full size and luxury							
do-----	1,874.2	2,279.2	2,913.8	2,586.6	2,245.0	1,482.7	624.6
Total-----do-----	6,633.3	8,404.9	9,115.2	9,121.1	8,391.9	4,847.6	3,436.3
Light Trucks:							
6,000 pounds gvw or less							
1,000 units--	930.1	1,178.4	1,223.2	1,255.8	1,157.6	728.5	316.4
Over 6,000 pounds but not over 10,000 pounds gvw							
do-----	1,092.3	1,543.0	1,924.2	2,050.2	1,579.2	978.8	366.2
Total-----do-----	2,022.4	2,721.4	3,147.4	3,306.0	2,736.8	1,707.3	682.6
Capacity:							
Passenger automobiles:							
Subcompacts--1,000 units--	1,383.8	1,466.4	1,413.2	2,026.2	2,305.2	1,144.3	1,176.0
Compacts-----do-----	2,287.9	2,224.0	2,250.8	2,242.5	2,377.3	1,119.4	1,091.5
Intermediate-----do-----	3,795.9	3,732.8	3,702.7	3,363.4	2,898.6	1,532.4	1,443.8
Full size and luxury							
do-----	3,248.2	3,177.1	3,389.9	2,950.0	2,976.7	1,505.7	1,459.9
Total-----do-----	10,715.8	10,600.3	10,756.6	10,582.1	10,557.8	5,301.8	5,171.2
Light Trucks:							
6,000 pounds gvw or less							
1,000 units--	1,231.7	1,199.9	1,127.3	1,233.4	1,396.3	729.0	762.9
Over 6,000 pounds but not over 10,000 pounds gvw							
do-----	1,502.1	1,625.7	1,752.0	1,944.6	1,766.3	1,085.3	882.7
Total-----do-----	2,733.8	2,825.6	2,879.3	3,178.0	3,162.6	1,814.3	1,645.6
Ratio of production to capacity:							
Passenger automobiles:							
Subcompacts-----percent--	65.9	53.8	53.9	73.2	86.1	89.8	81.3
Compacts-----do-----	64.7	93.2	83.1	83.0	73.7	77.2	87.2
Intermediate-----do-----	62.3	87.4	95.4	94.9	83.2	96.1	62.6
Full size and luxury							
do-----	57.7	71.7	83.0	87.7	75.4	98.5	42.8
Total-----do-----	61.9	79.3	84.7	86.2	79.5	91.4	66.5
Light Trucks:							
6,000 pounds gvw or less							
percent--	75.5	98.2	103.5	101.8	82.9	99.9	41.5
Over 6,000 pounds but not over 10,000 pounds gvw							
do-----	72.7	94.9	109.8	105.4	89.4	90.2	41.5
Total-----do-----	74.0	96.3	109.3	104.0	86.5	94.1	41.5

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

Capacity.--The data on domestic capacity supplied to the Commission by U.S. producers of passenger automobiles and/or light trucks were based on each firm's average product mix for each period reported with facilities operating at two shifts per weekday, allowance for 2 hours per day overtime, and one shift Saturday. ^{1/} The capacity figures also reflect allowances for maintenance and downtime, but do not include facilities, machinery, and equipment that would require extensive reconditioning before they could be made operative.

Total domestic capacity to produce passenger automobiles fluctuated very little during January 1975-June 1980. Capacity increased slightly from 10.7 million units in 1975 to 10.8 million units in 1977 before falling to 10.6 million units in 1979. From January-June 1979 to January-June 1980, capacity decreased again, from 5.3 million units to 5.2 million units. The decline in 1977-79 is mainly due to downtime associated with plant conversions by Chrysler and AMC, while the decline in January-June 1980 from January-June 1979 is mainly due to permanent plant closings by Ford and Chrysler. (Ford closed full-size-car plants in Los Angeles, Calif., and Mahwah, N.J., and Chrysler closed a full-size-car plant in Hamtramck, Mich.) Although GM has deactivated three full-size-car plants since the end of 1979, it considers these closings to be temporary and included these plants in its reported capacity. According to GM, these plants can be reactivated in a short period of time.

During 1975-79, the capacity of U.S. producers to build larger size cars declined, while their capacity to produce smaller cars increased substantially, as shown in table 11. Domestic capacity to produce subcompacts and compacts increased from 3.7 million units in 1975 to 4.7 million units in 1979, or by about 28 percent. Capacity to produce these smaller cars remained about the same between January-June 1979 and the corresponding period of 1980. The increase in domestic capacity to produce subcompacts is even more pronounced than that of small cars in general. Such capacity increased from 1.4 million units in 1975 to 2.3 million units in 1979, or by 67 percent. Subcompact capacity further increased by 3 percent from January-June 1979 to January-June 1980. Domestic capacity to produce intermediate and full-size/luxury cars, on the other hand, declined from 7.0 million units in 1975 to 5.9 million units in 1979, or by 17 percent. Between January-June 1979 and January-June 1980, domestic capacity to produce these larger cars further declined by about 4 percent.

Total domestic capacity to produce light trucks increased steadily from 2.7 million units in 1975 to 3.2 million units in 1979. From January-June 1979 to January-June 1980, however, domestic capacity to produce light trucks declined from 1.8 million units to 1.6 million units. Relative to total U.S. light-truck capacity, the capacities for producing light trucks over and under 6,000 pounds GVW did not change appreciably in the period for which data are shown.

Capacity utilization.--Utilization of total domestic capacity for the production of automobiles increased from a low of 61.9 percent in 1975 to a high of 86.2 percent in 1978, but then declined to 79.5 percent in 1979. It

^{1/} GM's capacity does not reflect overtime.

further declined, from 91.4 percent to 66.5 percent, from January-June 1979 to January-June 1980. (Utilization of U.S. producers' Canadian facilities followed the same general trends as those in the United States; however, utilization of the Canadian facilities remained at a higher level (see appendix table G-31)).

The data for capacity utilization by sizes of vehicle reflect the respective differences in production trends. While the utilization of domestic capacity for producing subcompacts and compacts increased from 71.8 percent in 1977 to 79.8 percent in 1979, the utilization of domestic capacity for intermediate and full-size automobiles declined from 91.4 percent to 79.2 percent in the same period. Again, from January-June 1979 to January-June 1980, capacity utilization for smaller cars continued to increase, albeit slightly, while that for larger cars declined from 97.3 percent to 52.6 percent.

Utilization of domestic capacity for the production of light trucks increased from 74.0 percent in 1975 to more than 100 percent in 1977 before falling to 86.5 percent in 1979. Like that for automobiles, the capacity utilization for light trucks dropped markedly in January-June 1980, to 41.5 percent from 94.1 percent in January-June 1979.

U.S. producers' shipments and exports

U.S. producers' shipments of passenger automobiles increased from 6.5 million units, valued at \$28.3 billion, in 1975 to 8.9 million units, valued at \$52.2 billion, in 1978, but declined to 8.3 million units, valued at \$49.6 billion, in 1979 and continued to decline in 1980 (table 12). From 4.8 million units in January-June 1979, U.S. producers' shipments of passenger automobiles fell to 3.4 million units in January-June 1980, or by 28 percent.

The decline in shipments of passenger automobiles after 1978 is primarily due to the decline in shipments of larger cars. While shipments of subcompacts and compacts increased from 3.2 million units in 1978 to 3.6 million units in 1979 and from 1.8 million units in January-June 1979 to 1.9 million units in January-June 1980, shipments of intermediate and full-size automobiles declined from 5.7 million units in 1978 to 4.6 million units in 1979 and from 2.9 million units in January-June 1979 to 1.5 million units in January-June 1980.

The trend in U.S. producers' shipments of light trucks was similar to that for passenger automobiles. After increasing from 2.0 million units, valued at \$8.2 billion, in 1975 to 3.3 million units, valued at \$19.4 billion, in 1978, U.S. producers' shipments of light trucks fell to 2.6 million units, valued at \$15.8 billion, in 1979. From January-June 1979 to January-June 1980, U.S. producers' shipments of light trucks further declined by 60 percent, from 1.6 million units to 0.7 million units. U.S. producers' shipments by firm are shown in appendix tables G7-G12. (Retail sales of U.S.- and Canadian-made automobiles in the United States, by months, are shown in appendix table G41.)

Table 12.--Passenger automobiles and light trucks: U.S. producers' shipments ^{1/} of U.S. production, by class or weight of vehicle, 1975-79, January-June 1979, and January-June 1980

Type and class or weight of vehicle	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Quantity (1,000 units)							
Passenger automobiles:							
Subcompacts-----	906.9	793.1	758.0	1,443.0	1,940.5	1,012.2	955.4
Compacts-----	1,430.4	1,941.4	1,767.4	1,806.4	1,704.1	822.5	947.3
Intermediate-----	2,324.9	3,169.8	3,500.3	3,141.7	2,376.0	1,446.0	902.0
Full size and luxury	1,821.0	2,293.0	2,869.0	2,557.0	2,233.0	1,473.0	632.0
Total-----	6,483.2	8,197.3	8,894.7	8,948.1	8,253.6	4,753.7	3,436.7
Light Trucks:							
6,000 pounds gvw or less----	909.3	1,177.9	1,229.1	1,261.7	1,048.7	660.8	298.3
Over 6,000 pounds but not							
over 10,000 pounds gvw----	1,055.7	1,517.2	1,882.2	2,043.0	1,516.1	962.6	365.8
Total-----	1,965.0	2,695.1	3,111.3	3,304.7	2,564.8	1,623.4	664.1
Value (million dollars)							
Passenger automobiles:							
Subcompacts-----	3,224	2,735	2,801	6,252	8,689	4,310	4,505
Compacts-----	5,352	7,344	7,304	8,360	9,001	4,113	5,303
Intermediate-----	10,079	14,573	17,962	18,097	14,126	8,500	5,625
Full size and luxury-----	9,660	13,601	18,939	19,451	17,824	11,465	5,510
Total-----	28,315	38,253	47,006	52,160	49,640	28,388	20,953
Light Trucks:							
6,000 pounds gvw or less----	3,585	5,043	5,818	6,760	6,119	3,714	1,834
Over 6,000 pounds but not							
over 10,000 pounds gvw----	4,592	7,328	9,595	12,607	9,705	5,903	2,430
Total-----	8,177	12,371	15,413	19,367	15,824	9,617	4,314

^{1/} Includes shipments of passenger automobiles and light trucks assembled in the United States by Volkswagen of America.

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

From January 1975 to June 1980, U.S. producers' exports of automobiles did not account for more than 10 percent of their total shipments. After increasing from 650,500 units, valued at \$2.7 billion, in 1975 to 735,400 units, valued at \$4.0 billion, in 1979, U.S. producers' exports of automobiles declined by 12 percent between January-June 1979 and January-June 1980 (table 13). The trends for the different classes of automobiles do not differ significantly from the aggregate except that exports of intermediate automobiles declined markedly from 1977 to 1979 and exports of compacts increased between January-June 1979 and January-June 1980. During 1975-79, exports to Canada fell from 86 percent of total exports in 1975 to 76 percent in 1979.

The trend for exports of light trucks reflects the trend for total U.S. producers' shipments of these items. After rising from 194,200 units, valued at \$802 million, in 1975 to 254,900 units, valued at \$1.4 billion, in 1978, U.S. producers' exports of light trucks fell to 213,400 units, valued at \$1.3 billion, in 1979 and further declined in 1980. Such exports declined to 76,200 units in January-June 1980 from 122,700 units in January-June 1979, or by 38 percent.

Information on U.S. producers' exports, by firms, is shown in appendix tables G13-G18.

Inventories

Nearly all the inventories of U.S.-produced passenger automobiles and light trucks reported by the U.S. producers are dealers' inventories, as U.S. producers do not ordinarily maintain inventories of automobiles and light trucks.

In the aggregate, inventories of U.S.-produced passenger automobiles increased from 1.3 million units as of December 31, 1975, to 1.6 million units as of December 31, 1978, but declined slightly in 1979 and continued to decline in 1980 (table 14). From June 30, 1979, to June 30, 1980, inventories of U.S.-produced passenger automobiles fell from 2.0 million units to 1.6 million units. The trends for subcompacts and compacts on the one hand and intermediate and full-size automobiles on the other, however, are dissimilar. While inventories of subcompacts and compacts increased between December 31, 1977, and June 30, 1980, from 528,000 units to 694,000 units, inventories of intermediate and full-size automobiles decreased, from 1.1 million units to 0.9 million units.

After falling from 20.5 percent in 1975 to 17.1 percent in 1976, the ratio of inventories of U.S.-produced passenger automobiles to annual shipments increased to 19.7 percent in 1979 and to 23.0 percent in January-June 1980. In contrast to the trend for the aggregate, the ratio of inventories to annual shipments for subcompacts and compacts declined from 1976 to 1979, falling from 23.2 percent to 17.4 percent.

Inventories of U.S.-produced light trucks increased steadily from 372,000 units as of December 31, 1975, to 638,000 units as of December 31, 1979, but fell to 465,000 units as of June 30, 1980. As a percentage of annual shipments, inventories of U.S.-produced light trucks increased markedly in

Table 13.--Passenger automobiles and light trucks. U.S. producers' exports of U.S. production, by classes, 1975-79, January-June 1979, January-June 1980

Type and class or weight of vehicle	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Quantity (1,000 units)							
Passenger automobiles:							
Subcompacts-----	83.4	79.8	66.7	143.5	191.3	107.0	89.5
Compacts-----	172.9	184.4	190.9	187.7	206.1	91.9	95.3
Intermediate-----	238.2	261.7	294.1	197.0	161.0	101.0	84.0
Full-size and luxury-----	156.0	165.0	154.0	163.0	177.0	84.0	68.0
Total-----	650.5	690.9	705.7	691.2	735.4	383.9	336.8
Light trucks 1/-----	194.2	196.5	219.2	254.9	213.4	122.7	76.2
Value (million dollars)							
Passenger automobiles:							
Subcompacts-----	267.0	256.2	223.9	493.1	744.6	402.5	376.0
Compacts-----	616.7	671.3	662.4	779.6	1,000.0	430.4	505.2
Intermediate-----	979.9	1,137.2	1,409.3	982.9	888.6	534.8	492.3
Full-size and luxury-----	855.7	909.1	800.0	1,098.5	1,339.5	634.3	507.9
Total-----	2,719.3	2,973.8	3,095.6	3,354.1	3,972.7	2,002.0	1,881.4
Light trucks 1/-----	802.1	934.8	1,072.4	1,370.0	1,345.7	724.1	496.7

1/ Separate data for light trucks 6,000 pounds GVW or less and over 6,000 pounds but not over 10,000 pounds GVW are not available.

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

Table 14.--Passenger automobiles and light trucks: U.S. producers' inventories of U.S.-production, by class or weight of vehicle, as of December 31, 1975-79, June 30, 1979, and June 30, 1980

Item, type, and class or weight of vehicle	December 31--					June 30--	
	1975	1976	1977	1978	1979	1979	1980
Inventories:							
Passenger automobiles:							
Subcompacts--1,000 units--	263	238	164	317	352	235	367
Compacts-----do-----	313	396	364	311	281	291	327
Intermediate-----do-----	442	462	605	602	563	796	557
Full size and luxury							
do-----	314	302	487	403	432	725	330
Total-----do-----	1,332	1,398	1,620	1,633	1,628	2,047	1,581
Light Trucks:							
6,000 pounds gvw or less							
1,000 units--	160	169	209	178	241	301	216
Over 6,000 pounds but not							
over 10,000 pounds gvw							
1,000 units--	212	250	373	406	397	598	249
Total-----do-----	372	419	582	584	638	899	465
Ratio of inventories to shipments during the preceding:							
12-month or 6-month							
period: 1/							
Passenger automobiles:							
Subcompacts-----percent--	29.0	30.0	21.6	22.0	18.1	11.6	19.2
Compacts-----do-----	21.9	20.4	20.6	17.2	16.5	17.7	17.2
Intermediate-----do-----	19.0	14.6	17.3	19.2	23.7	27.5	30.0
Full size and luxury							
do-----	17.2	13.2	17.0	15.8	19.3	24.6	26.1
Total-----do-----	20.5	17.1	18.2	18.2	19.7	21.5	23.0
Light Trucks:							
6,000 pounds gvw or less							
1,000 units--	17.6	14.3	17.0	14.1	23.0	22.8	36.1
Over 6,000 pounds but not							
over 10,000 pounds gvw							
1,000 units--	20.0	16.5	19.8	19.9	26.2	31.0	34.1
Total-----do-----	18.9	15.6	18.7	17.7	24.9	27.7	35.0

1/ Annualized.

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

1979 and again in 1980; in 1979 the ratio increased to 24.9 percent from an average of about 17.7 percent for the previous 4 years, and increased again in January-June 1980 to 35.0 percent. Inventories of U.S.-produced automobiles and light trucks by firm are shown in appendix tables G19-G24.

Employment

After increasing steadily from more than 793,000 workers in 1975 to more than 1 million workers in 1978, the average number of all workers employed in U.S. establishments producing passenger automobiles and light trucks fell by about 3 percent to about 972,000 in 1979 (table 15). In January-June 1980,

Table 15.--Average number of employees, total and production and related workers, in U.S. producers' U.S. establishments 1/ producing passenger automobiles and light trucks, man-hours worked by and wages paid to production and related workers producing passenger automobiles and light trucks, and output, 1975-79, January-June 1979, and January-June 1980

Period	:Average employment in U.S.:		Man-hours	:	Wages paid
	: establishments producing :		worked by	:	: to produc-
	:passenger automobiles and :		production	:	: tion and
	: light trucks 2/ :		and related	:	: related
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1/ Data do not include International Harvester Corp.

2/ Significant numbers of production and related workers engaged in the production of automotive parts and components are included.

3/ Includes office, clerical, management, engineering, at other staff not directly involved in producing motor vehicles.

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

average total employment declined again, by about 22 percent from the level in the corresponding period of 1979, or from more than 1.0 million to about 804,000.

The employment of production and related workers showed a similar trend. After increasing from about 615,000 workers in 1975 to about 796,000 workers in 1978, the average number of production and related workers in U.S. establishments producing automobiles and light trucks declined by 3.8 percent to 766,000 in 1979. In January-June 1980, the average number of production and related workers declined by about 26 percent from the level in the corresponding period of 1979, or from about 823,000 to about 613,000.

While the downturn in employment in the automotive industry is large, amounting to nearly 300,000 workers since the end of 1978, periodic downturns in employment are characteristic of the industry. Figure 1 shows average quarterly employment from January-March 1960 to April-June 1980 based on U.S. Department of Labor data for motor-vehicle and equipment manufacturers. According to this data, employment in the automotive industry has been characterized by cycles wherein employment grew sporadically for 2 or more years and then sharply declined. Major declines occurred in 1966-67, 1969-70, 1973-75, and 1979-80. All these declines occurred at times when interest rates were relatively high and real gross national product was declining. Although figure 1 indicates a decline in employment of nearly 29 percent in the current downturn, the decline is not dissimilar to those occurring in the previous two downturns. In 1969-70 the overall decline in employment was 27 percent, or about 265,000 workers, and in 1973-75 the overall decline was 25 percent, or about 244,000 workers. According to Wards Automotive Reports, indefinite layoffs peaked in August. Employment usually begins to recover each year in August and September, as new-model production commences.

In addition to the increased unemployment, there is evidence that hours worked by production and related workers also decreased, as shown in the following tabulation:

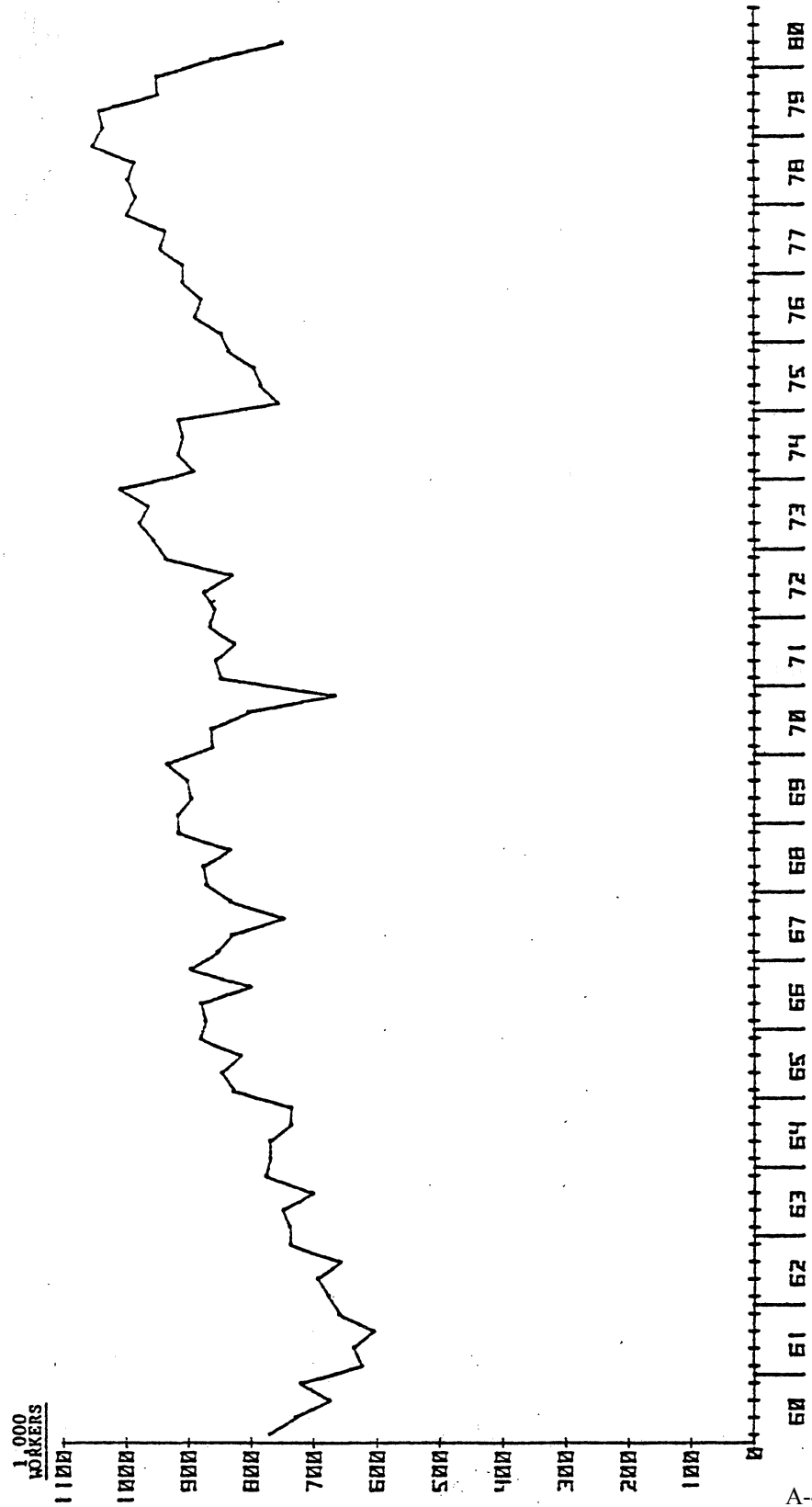
Period	: Average hours : Average weekly :Average weekly overtime
	: per worker 1/ :hours per worker 2/: hours per worker 2/
1975-----	: 2,015 : 40.25 : 2.54
1976-----	: 2,168 : 42.85 : 5.40
1977-----	: 2,224 : 43.95 : 6.45
1978-----	: 2,157 : 43.22 : 6.07
1979-----	: 2,058 : 41.11 : 4.32
January-June--	: : :
1979-----	: 1,057 : 41.37 : 2.05
1980-----	: 988 : 39.03 : 2.05
	: : :

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

2/ Compiled from official statistics of the U.S. Department of Labor.

The data show that all three measures of hours worked per employee peaked in 1977 and declined thereafter. In January-June 1980, average weekly hours fell below the full-time level of 40 hours a week.

Figure 1--Average number of workers employed by firms manufacturing motor vehicles and equipment, quarterly, 1960-1980.



A-40

Source: Compiled from official statistics of the Department of Labor.

Average compensation to workers in the automotive industry has increased continually since 1975, as indicated in the following tabulation:

Period	Average total compensation to auto workers based on--		Average gross earnings 2/ by--	
	Questionnaire	Official	Auto workers	All manufac-
	responses 1/	statistics 2/		turing workers
	-----Per hour-----			
1975-----	\$9.92	\$9.60	\$6.42	\$4.83
1976-----	10.56	10.37	7.08	5.22
1977-----	11.73	11.61	7.84	5.67
1978-----	12.73	12.66	8.49	6.17
1979-----	14.19	13.72	9.08	6.69
Jan.-June--				
1979-----	13.90	3/	9.02	6.57
1980-----	16.55	3/	9.47	7.07

1/ Compiled from data submitted by U.S. producers in response to questionnaires of the U.S. International Trade Commission.

2/ Compiled from official statistics of the Department of Labor.

3/ Not available.

Average hourly compensation in the automotive manufacturing sector increased at a continuously compounded annual rate of about 9.4 percent during 1975-79, and at a rate of about 12 percent if January-June 1980 is included in the calculations. Average hourly compensation increased by 43 percent between 1975 and 1979, and then rose by an additional 17 percent in January-June 1980 from the level in the corresponding period of 1979. (The January-June 1980 figure may be inflated because of benefits accruing to the large body of laid-off workers.) Average hourly gross earnings grew slightly more slowly than average total compensation at a continuous annual rate of more than 9.0 percent from 1975 to January-June 1980. This rate of increase is slightly higher than that for average hourly gross earnings of all manufacturing workers in the same period. However, after 1977, all manufacturing workers showed a higher yearly rate of growth in hourly earnings than automotive workers.

Significant benefits are available to laid-off workers in the automotive industry. Funds have been established to provide supplemental benefits to such workers. The producers contribute at specified rates until sufficient funds are available to provide supplemental benefits to all employees for a period of 12 weeks. The employee earns credits at the rate of one-half credit per week of employment, up to a maximum of 52 credits (2 years of work). When the fund is full, one credit entitles a laid-off worker to 1 week of supplemental benefits at 95 percent of his straight-time weekly salary, less any unemployment compensation, trade adjustment assistance, or other earnings, and \$12.50 for nonincurred traveling expenses. Benefits are extended for a maximum of 1 year. If the fund falls below a certain level, the charge for 1

week's benefits is increased above one credit, thus shortening the period of available benefits.

The U.S. Department of Labor has granted trade adjustment assistance to most of the unemployed workers in the automobile industry. In January-June 1980, the Department of Labor certified 144 petitions for trade adjustment assistance, enabling an estimated 245,997 workers to receive benefits. Over the same period, 64 petitions, affecting an estimated 32,274 workers, were denied. Between April 1975 and December 1979, the Department of Labor certified a total of 85 petitions, making an estimated 126,167 workers eligible to receive trade adjustment assistance, while 107 petitions, affecting an estimated 62,840 workers, were denied. (In order to certify workers as eligible to apply for trade adjustment assistance, the Labor Department must determine that increased imports of articles like or directly competitive with those produced by the workers who have been separated or partially separated from their employment contributed importantly to the separation or partial separation of the workers.)

Simple calculation of productivity from aggregate employment and production data is prone to significant error of measurement. Different models of cars may have varying labor input requirements (number of workers and/or time per completed unit), and manufacturers may have different degrees of vertical integration. A single measure of productivity for an industry, therefore, may be misleading, especially where the product mix of output has been changing rapidly, as in the automotive industry. Notwithstanding these limitations, the calculation of output per 1,000 man-hours for production workers from aggregate employment and production data are shown in table 15 (page 38). (See appendix tables G25-G30 for employment data by firm). The table shows little change in output between 1975 and 1978, but a substantial drop in January-June 1980. The decline in out-put per worker-hour in 1980 reflects the inefficiencies involved in operating automobile plants below optimum production levels. In view of declining demand, U.S. producers slowed many production lines, and productivity declined accordingly.

There are some indications that because of increased use of robotics and other techniques the productivity of the domestic auto industry will increase in the near future and that these productivity increases will result in significant declines in the level of the industry's employment. In April 1980, the U.S. Department of Transportation issued projections of employment changes in the auto industry developed by their Economic Policy Group. Based on several assumptions -- including peak consumption levels of 11 million units per year, employment levels reached in 1978/79, and a return to a 15 percent import level -- the report indicated that a decline in employment of auto manufacturers due to productivity gains could be as high as 150,000 by 1985. Employment gains of about 48,000 jobs due to changes in the market by 1985 partially offset the 150,000 loss related to increased productivity, resulting in a net projected decline in employment of about 100,000 from 1978/79 levels. This figure may be somewhat overstated since it presumes that the domestic auto producers will make all the investments required to make significant productivity gains.

Financial performance of U.S. producers

Selected financial data for U.S. producers on their U.S. automotive operations are shown in table 16. It should be noted that, because the operations of the U.S. producers are highly integrated, the data are only estimates compiled on the basis of various arbitrary allocation methods. They are, therefore, limited in their use as a measure of profitability. In evaluating the trends in the data, it should also be noted that 1975, the initial year for the series, was a recession year.

Aggregate net sales of U.S. producers on their U.S. automotive operations rose by 84 percent from \$48.8 billion in 1975 to \$89.9 billion in 1978, but fell by 3 percent to \$86.9 billion in 1979. From January-June 1979 to the corresponding period of 1980, net sales further declined by 30 percent, from \$49.5 billion to \$34.4 billion. The change in the trend in the value of sales beginning in 1979 was primarily due to a change in unit volume sales. After increasing 45 percent from 8.4 million units in 1975 to 12.3 million units in 1978, factory unit sales of passenger automobiles and light trucks declined by 12 percent to 10.8 million units in 1979 and by 36 percent from 6.4 million units in January-June 1979 to 4.1 million units in January-June 1980.

Aggregate net operating profit of U.S. producers on their U.S. automotive operations rose by well over 300 percent from \$1.3 billion in 1975 to \$6.1 billion in 1977, declined to \$5.6 billion in 1978, and then fell precipitously by 76 percent to \$1.3 billion in 1979. In January-June 1980 the industry reported a loss of \$2.9 billion, compared with a net operating profit of \$2.7 billion in the corresponding period of 1979. The trend in the net operating margin--i.e., the ratio of net operating profit to net sales--closely parallels that of net operating profit. After increasing from 2.8 percent in 1975 to 7.5 percent in 1977, the industry's net operating margin fell to 6.2 percent in 1978 and then to 1.5 percent in 1979 before falling to a negative 8.4 percent in January-June of 1980. For the most part the trends for the individual firms reflect the aggregate. VW of America, however, was unique in not reporting a net operating loss for January-June 1980, and Ford, AMC, and Chrysler reported net operating losses in 1979 as well. Indeed, Chrysler has shown net operating losses on its automotive operations since 1978. To avoid bankruptcy Chrysler sought, and has recently received, Federal aid. A discussion of this aid program is presented in appendix H.

Contributing heavily to the U.S. auto industry's declining profit after 1977 were a lower unit sales volume and a changing product mix. Because of high fixed costs, the U.S. auto industry's profit will vary widely with a relatively small change in unit volume. The period after 1978 was marked by rapidly declining unit sales, resulting in a disproportionate drop in profit. A shift in factory sales from larger cars (intermediates, full-size, and luxury) to smaller cars (subcompacts and compacts), as shown in table 17, also affected profit adversely. Largely because U.S. producers' prices varied more proportionately with car-size than costs, profit in absolute dollars was greater for larger models than for smaller models. As sales shifted to smaller models after 1977, total profit declined accordingly. Similarly affecting profit for total automotive operations after 1978 were

Table 16.—Selected financial data for U.S. producers on their U.S. automotive operations, by firms, 1975-79, January-June 1979, and January-June 1980

Firm and item	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Total:	:	:	:	:	:	:	:
Net sales-----million dollars---	:48,784	: 67,009	: 81,182	:89,876	:86,909	:49,548	: 34,399
Cost of goods sold-----do-----	:45,429	: 59,582	: 71,899	:80,952	:81,801	:44,484	: 35,633
Gross profit or (loss)---do---	: 3,355	: 7,427	: 9,283	: 8,924	: 5,108	: 5,064	: (1,234)
General, selling, and admin-	:	:	:	:	:	:	:
istrative expenses	:	:	:	:	:	:	:
million dollars---	: 2,012	: 3,060	: 3,205	: 3,332	: 3,788	: 2,409	: 1,648
Net operating profit or	:	:	:	:	:	:	:
(loss)-----million dollars---	: 1,343	: 4,367	: 6,078	: 5,592	: 1,320	: 2,655	: (2,882)
Ratio of net operating	:	:	:	:	:	:	:
profit or (loss) to net	:	:	:	:	:	:	:
sales-----percent---	: 2.8	: 6.5	: 7.5	: 6.2	: 1.5	: 5.4	: (8.4)

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

declining unit sales of light trucks relative to unit sales of passenger automobiles, as shown in the following tabulation (in percent):

<u>Period</u>	<u>Automobile shipments</u>	<u>Light-truck shipments</u>
1975-----	76.7	23.3
1976-----	75.3	24.7
1977-----	74.0	26.0
1978-----	73.0	27.0
1979-----	76.3	23.7
January-June--		
1979-----	74.5	25.5
1980-----	83.8	16.2

Table 17.—Passenger automobiles: Percentage distribution of U.S. producers' shipments, by classes 1975-79, January-June 1979, and January-June 1980

(In percent)					
<u>Period</u>	<u>Subcompacts</u>	<u>Compacts</u>	<u>Intermediate</u>	<u>Full-size : and luxury:</u>	<u>Total</u>
1975-----	14.0	22.0	35.9	28.1	100.0
1976-----	9.7	23.7	38.7	27.9	100.0
1977-----	8.5	19.9	39.4	32.2	100.0
1978-----	16.1	20.2	35.1	28.6	100.0
1979-----	23.5	20.6	28.8	27.1	100.0
January-June--					
1979-----	21.3	17.3	30.4	31.0	100.0
1980-----	27.8	27.6	26.2	18.4	100.0

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

According to U.S. producers' estimates, profit margins are higher for light trucks than for automobiles. Selected financial data for certain U.S. producers on their passenger automobile and light-truck operations are shown in appendix tables G32 and G33, respectively.

Also unfavorably affecting profits after 1978 were rapidly increasing expenses associated with production (labor, materials, and energy), capital expenditures (depreciation and amortization), and sales incentive and marketing campaigns that were instituted to move larger cars. As a share of net sales, production costs (cost of goods sold) for U.S. producers on their total automotive operations increased from 88.6 percent in 1977 to 94.1 percent in 1979 and to more than 100 percent in January-June 1980. Similarly, general, selling, and administrative expenses increased from 3.9 percent of net sales in 1977 to 4.4 percent of net sales in 1979 and to 4.8 percent of net sales in January-June 1980.

In addition to providing profit-and-loss data on their domestic operations, Ford, AMC, and VW of America also provided profit-and-loss data on

their import operations. These data are presented in appendix tables G34 and G35.

Net operating profit may also be expressed as a percentage of the book value of fixed assets and working capital (return on investment). U.S. producers' investment in fixed assets and working capital and their return on this investment for specified operations, by firms, are shown in appendix table G36. In the aggregate, U.S. producers' return on investment in fixed assets and working capital rose sharply from 9.8 percent in 1975 to 27.1 percent in 1976, increased to 32.8 percent in 1977, returned to 27.1 percent in 1978, and then fell sharply to 6.7 percent in 1979. For January-June 1980, U.S. producers reported a loss equal to 15.2 percent of total assets.

The severe drop in U.S. producers' net operating profit in recent periods and their aggressive capital expenditure programs, which will reach full income potential in future periods, account for most of the decline in the industry's return on investment.

U.S. producers' capital expenditures and research and development expenses for specified U.S. automotive operations are shown in appendix table G37. The data show a significant increase in expenditures for real estate, plant, equipment, and for special tools during January 1975-June 1980. Data for *** show that, for most periods, more than half these expenditures were related to efforts to comply with Government safety, environmental, and fuel-economy standards. 2/ U.S. producers' research and development expenses, associated with the development of new products and the improvement of existing products and services, also increased significantly in January 1975-June 1980.

Under most circumstances the most ideal source of funds for capital expenditures is cash flow from operations. U.S. producers' cash flow from operations on their U.S. automobile operations for recent periods is shown in appendix table G38. (For the purposes of this analysis, cash flow from operations is defined as net operating profit plus depreciation and amortization.) U.S. producers' capital expenditures, as a share of cash flow from operations, fell from 56.2 percent in 1975 to 35.0 percent in 1976, but then increased to 127.5 percent in 1979. Owing to *** the U.S. automobile industry showed a negative cash flow in January-June 1980. Had the profit used in computing the cash flow been net of interest expense and Federal and State income taxes, capital expenditures by the U.S. auto industry would probably have equaled or surpassed their cash flow from operations for most of the years during 1975-79.

1/ The loan guarantee enabled Chrysler to convert short-term debt into long-term debt.

2/ It should be noted that the vast majority of the expenditures related to Government regulations were made in order to comply with fuel-economy standards, which U.S. producers now accept as a requirement of the market.

All four of the major U.S. automobile manufacturers reported unprecedented losses for the third quarter of 1980, most of which are attributable to their U.S. operations. Ford's reported loss of \$595 million is the largest third-quarter loss in U.S. automotive history. GM reported a loss of \$567 million and Chrysler and AMC reported losses of \$490 million and \$85 million, respectively. Some improvement is expected in the fourth quarter. Owing largely to model changeover expenses and customer deferment of purchases until new models are introduced, third-quarter earnings of the U.S. auto manufacturers are traditionally lower than those in other calendar quarters.

The Question of Increased of Serious Injury Imports as a Substantial Cause

U.S. consumption and market penetration of imports

Overall consumption of the motor vehicles under investigation increased from 1975 through 1978 and declined sharply thereafter. After increasing by 51 percent from 10.0 million units in 1975 to 15.1 million units in 1978, apparent consumption of passenger automobiles and light trucks fell by 10.8 percent to 13.5 million units in 1979 and by 25.8 percent between January-June 1979 and January-June 1980 (table 18). Apparent consumption of passenger automobiles alone rose by 41.9 percent from 7.9 million units in 1975 to 11.2 million units in 1978 and then fell by 7.8 percent to 10.3 million units in 1979. From January-June 1979 to January-June 1980, apparent consumption of automobiles fell by 18.5 percent (table 19). Similarly, apparent consumption of light trucks rose by 82.2 percent from 2.1 million units in 1975 to 3.9 million units in 1978 and then fell by 19.3 percent in 1979 and by 47.8 percent between January-June 1979 and the corresponding period of 1980 (table 20).

As a share of overall consumption, imports of automobiles and light trucks increased moderately from 1975 to 1979 and markedly from January-June 1979 to January-June 1980. ^{1/} After increasing from 24.2 percent in 1975 to 26.7 percent in 1979, the ratio of imports of automobiles and light trucks to consumption increased to 35.8 percent in January-June 1980 (table 18). The trend for automobiles alone is similar. From 1975 to 1979 the ratio of imports of automobiles to consumption increased slightly from 26.0 percent to 27.1 percent before rising substantially to 34.5 percent in January-June 1980 (table 19). The ratio of imports of light trucks to consumption increased from 17.4 percent in 1975 to 25.5 percent in 1979 before jumping to 42.1 percent in January-June 1980 (table 20). If imports by U.S. producers (excluding VW of America) are excluded from total U.S. imports, the trends are similar but the actual volumes are lower, particularly for light trucks (see tables 18, 19, and 20). The trends are also similar if U.S. producers' imports

^{1/} For the purposes of this discussion, vehicles assembled by VW of America at its free-trade zone in New Stanton, Pa., are considered to be domestically produced, although they are considered by the U.S. Customs Service to be imports from West Germany. Whereas currently an average of 70 percent of their value is added in the U.S., that figure may exceed 75 percent in the near future, allowing these vehicles to be considered domestic products by Customs.

Table 18.--Passenger automobiles; light trucks and cab/chassis therefor: U.S. producers' shipments, imports for consumption, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	8,448.2	1,083.5	1,338.8	2,422.3	844.7	10,025.8	10.8	13.4	24.2
1976-----	10,892.4	1,376.6	1,703.2	3,079.8	887.4	13,084.8	10.5	13.0	23.5
1977-----	12,006.0	1,508.2	1,927.4	3,435.6	924.9	14,516.7	10.4	13.3	23.7
1978-----	12,252.0	1,584.2	2,203.4	3,787.6	946.1	15,094.3	10.5	14.6	25.1
1979-----	10,818.4	1,338.3	2,262.5	3,600.8	948.8	13,470.4	9.9	16.8	26.7
January-June--									
1979-----	6,377.1	778.3	1,101.9	1,880.2	506.6	7,750.7	10.0	14.2	24.2
1980-----	4,100.8	705.3	1,353.3	2,058.6	413.0	5,746.4	12.3	23.5	35.8
Value (million dollars)									
1975-----	36,492.0	4,403.7	4,060.7	8,464.4	3,521.4	41,435.0	10.6	9.8	20.4
1976-----	50,624.0	5,884.1	5,298.1	11,182.2	3,908.6	57,897.6	10.2	9.1	19.3
1977-----	62,419.0	6,757.5	6,734.0	13,491.5	4,168.0	71,742.5	9.4	9.4	18.8
1978-----	71,527.0	7,640.2	9,678.6	17,318.8	4,724.1	84,121.7	9.1	11.5	20.6
1979-----	65,464.0	7,036.7	10,677.4	17,714.1	5,318.4	77,859.7	9.0	13.8	22.8
January-June--									
1979-----	38,005.0	4,125.6	5,353.1	9,478.7	2,726.1	44,757.6	9.2	12.0	21.2
1980-----	25,267.0	3,605.6	6,304.8	9,910.4	2,378.1	32,799.3	11.0	19.2	30.2

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 18A.--Passenger automobiles; light trucks and cab/chassis therefor: U.S. producers' shipments including imports from Canada, imports for consumption other than U.S. producers' imports from Canada, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments 1/	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	9,332.7	198	1,338.8	1,536.8	844.7	10,024.8	2.0	13.3	15.3
1976-----	11,981.7	287	1,703.2	1,990.2	887.1	13,084.8	2.2	13.0	15.2
1977-----	13,182.2	332	1,927.4	2,259.4	924.9	14,516.7	2.3	13.3	15.6
1978-----	13,423.0	414	2,203.4	2,617.4	946.1	15,094.3	2.7	14.6	17.3
1979-----	11,752.7	404	2,262.5	2,666.5	948.8	13,470.4	3.0	16.8	19.8
January-June--									
1979-----	6,962.4	193	1,101.9	1,294.9	506.6	7,750.7	2.5	14.2	16.7
1980-----	4,522.1	284	1,353.3	1,637.3	413.0	5,746.4	4.9	23.5	28.4
Value (million dollars)									
1975-----	40,331.8	563.9	4,060.7	4,624.6	3,521.4	41,435.0	1.4	9.8	11.2
1976-----	55,792.5	715.6	5,298.1	6,013.7	3,908.6	57,897.6	1.2	9.2	10.4
1977-----	68,238.6	937.9	6,734.0	7,671.9	4,168.0	71,742.5	1.3	9.4	10.7
1978-----	77,780.7	1,386.5	9,678.6	11,065.1	4,724.1	84,121.7	1.6	11.6	13.2
1979-----	71,060.1	1,440.6	10,677.4	12,118.0	5,318.4	77,859.7	1.9	13.7	15.6
January-June--									
1979-----	41,398.6	732.0	5,353.1	6,085.1	2,726.1	44,757.6	1.6	12.7	14.3
1980-----	27,794.4	1,078.2	6,304.8	7,383.0	2,378.1	32,799.3	3.3	19.2	22.5

1/ Includes U.S. producers' shipments of imports from Canada.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 19.—Passenger automobiles: U.S. producers' shipments, imports for consumption, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers 1/	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	6,483.2	830.0	1,217.7	2,047.7	650.5	7,880.4	10.5	15.5	26.0
1976-----	8,197.3	991.5	1,522.2	2,513.7	690.9	10,020.1	9.9	15.2	25.1
1977-----	8,894.7	1,045.5	1,708.1	2,753.6	705.7	10,942.6	9.6	15.6	25.2
1978-----	8,948.1	1,012.0	1,916.1	2,928.1	691.2	11,185.0	9.0	17.1	26.2
1979-----	8,253.6	779.1	2,018.0	2,797.1	735.4	10,315.3	7.6	19.6	27.1
January-June--									
1979-----	4,753.7	447.7	990.2	1,437.9	383.9	5,807.7	7.7	17.0	24.7
1980-----	3,436.7	433.4	1,198.4	1,631.8	336.8	4,731.7	9.2	25.3	34.5
Value (million dollars)									
1975-----	28,315	3,650.9	3,724.0	7,374.9	2,719.3	32,970.6	11.1	11.3	22.4
1976-----	38,253	4,513.9	4,781.5	9,295.4	2,973.8	44,574.6	10.1	10.8	20.9
1977-----	47,006	4,846.9	6,073.6	10,920.5	3,095.6	54,830.9	8.8	11.1	19.9
1978-----	52,160	5,008.0	8,637.4	13,645.4	3,354.1	62,451.3	8.0	13.8	21.8
1979-----	49,640	4,093.9	9,686.3	13,780.2	3,972.7	59,447.5	6.9	16.3	23.2
January-June--									
1979-----	28,388	2,375.9	4,887.0	7,262.9	2,002.0	33,648.9	7.1	14.5	21.6
1980-----	20,953	2,322.4	5,645.2	7,967.6	1,881.4	27,039.2	8.6	20.9	29.5

1/ Includes imports by GM, Ford, Chrysler, and AMC.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 19A.—Passenger automobiles: U.S. producers' shipments including imports from Canada, imports for consumption other than U.S. producers' imports from Canada, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, January-June 1980

Period	Producers' shipments 1/	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	7,216.2	97	1,217.7	1,314.7	650.5	7,880.4	1.2	15.5	16.7
1976-----	9,024.8	164	1,522.2	1,686.2	690.9	10,020.1	1.6	15.2	16.8
1977-----	9,735.2	205	1,708.1	1,913.1	705.7	10,942.6	1.9	15.6	17.5
1978-----	9,718.1	242	1,916.1	2,158.1	691.2	11,185.0	2.2	17.1	19.3
1979-----	8,841.7	191	2,018.0	2,209.0	735.4	10,315.3	1.9	19.5	21.4
January-June--									
1979-----	5,107.4	94	990.2	1,084.2	383.9	5,807.7	1.6	17.1	18.7
1980-----	3,724.1	146	1,198.4	1,344.4	336.8	4,731.7	3.1	25.3	28.4
Value (million dollars)									
1975-----	31,598.7	367.2	3,724.0	4,091.2	2,719.3	32,970.6	1.1	11.3	12.4
1976-----	42,325.3	441.6	4,781.5	5,223.1	2,973.8	44,574.6	1.0	10.8	11.7
1977-----	51,245.0	607.9	6,073.6	6,681.5	3,095.6	54,830.9	1.1	11.1	12.2
1978-----	56,307.0	861.0	8,637.4	9,498.4	3,354.1	62,451.3	1.4	13.8	15.2
1979-----	53,035.8	698.1	9,686.3	10,384.4	3,972.7	59,447.5	1.2	16.3	17.5
January-June--									
1979-----	30,386.1	377.8	4,887.0	5,264.8	2,002.0	33,648.9	1.1	14.5	15.6
1980-----	22,643.2	632.2	5,645.2	6,277.4	1,881.4	27,039.2	2.3	20.9	23.2

1/ Includes U.S. producers' shipments of imports from Canada.

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Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 20.—Light trucks and cab/chassis therefor: U.S. producers' shipments, imports for consumption, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers 1/	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	1,965.0	253.5	121.1	374.6	194.2	2,145.4	11.8	5.6	17.4
1976-----	2,695.1	385.1	181.0	566.1	196.5	3,064.7	12.6	5.9	18.5
1977-----	3,111.3	462.7	219.3	682.0	219.2	3,574.1	12.9	6.1	19.0
1978-----	3,304.7	572.2	287.3	859.5	254.9	3,909.3	14.6	7.3	21.9
1979-----	2,564.8	559.2	244.5	803.7	213.4	3,155.1	17.7	7.8	25.5
January-June--									
1979-----	1,623.4	330.6	111.7	442.3	122.7	1,943.0	17.0	5.7	22.7
1980-----	664.1	271.9	154.9	426.8	76.2	1,014.7	26.8	15.3	42.1
Value (million dollars)									
1975-----	8,177.0	752.8	336.7	1,089.5	802.1	8,464.4	8.9	4.0	12.9
1976-----	12,371.0	1,370.2	516.6	1,886.8	934.8	13,323.0	10.3	3.9	14.2
1977-----	15,413.0	1,910.6	660.4	2,571.0	1,072.4	16,911.6	11.3	3.9	15.2
1978-----	19,367.0	2,632.2	1,041.2	3,673.4	1,370.0	21,670.4	12.1	4.9	17.0
1979-----	15,824.0	2,942.8	991.1	3,933.9	1,345.7	18,412.2	16.0	5.4	21.4
January-June--									
1979-----	9,617.0	1,749.7	466.1	2,215.8	724.1	11,108.7	15.8	4.1	19.9
1980-----	4,314.0	1,283.2	659.9	1,943.1	496.7	5,760.4	22.3	11.4	33.7

1/ Includes imports by GM, Ford, Chrysler, and AMC.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 20A.—Light trucks and cab/chassis therefor: U.S. producers' shipments including imports from Canada, imports for consumption other than U.S. producers' imports from Canada, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments 1/	Imports			Exports	Apparent consumption:	Ratio (percent) of imports to consumption		
		U.S. producers:	All others :	Total			U.S. producers :	All others :	Total
Quantity (1,000 vehicles)									
1975-----	2,116.5	101	121.1	222.1	194.2	2,144.4	4.7	5.7	10.4
1976-----	2,956.9	123	181.0	304.0	196.2	3,064.7	4.0	5.9	9.9
1977-----	3,447.0	127	219.3	346.3	219.2	3,574.1	3.6	6.1	9.7
1978-----	3,704.9	172	287.3	459.3	254.9	3,909.3	4.4	7.3	11.7
1979-----	2,911.0	213	244.5	457.5	213.4	3,155.1	6.8	7.7	14.5
January-June--									
1979-----	1,855.0	99	111.7	210.7	122.7	1,943.0	5.1	5.7	10.8
1980-----	798.0	138	154.9	292.9	76.2	1,014.7	13.6	15.3	28.9
Value (million dollars)									
1975-----	8,733.1	196.7	336.7	533.4	802.1	8,464.4	2.3	4.0	6.3
1976-----	13,467.2	274.0	516.6	790.6	934.8	13,323.0	2.0	3.9	5.9
1977-----	16,993.6	330.0	660.4	990.4	1,072.4	16,911.6	2.0	3.9	5.9
1978-----	21,473.7	525.5	1,041.2	1,566.7	1,370.0	21,670.4	2.4	4.8	7.2
1979-----	18,024.3	742.5	991.1	1,733.6	1,345.7	18,412.2	4.0	5.4	9.4
January-June--									
1979-----	11,012.5	354.2	466.1	820.3	724.1	11,108.7	3.2	4.2	7.4
1980-----	5,151.2	446.0	659.6	1,105.6	496.7	5,760.1	7.7	11.5	19.2

1/ Includes U.S. producers' shipments of imports from Canada.

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Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

from Canada are excluded from imports and included in domestic shipments (tables 18A, 19A, and 20A). (U.S. producers' imports from Canada by classes are shown in appendix table G39. Retail sales of imported automobiles in the United States, retail sales of imported and U.S.-produced automobiles together in the United States, and the ratio of retail sales of imports to total retail sales in the United States are shown in appendix tables G42, G43, and G44, respectively.)

Apparent consumption of small (subcompact and compact) passenger automobiles--that is, apparent consumption of automobiles excluding U.S. producers' shipments and imports of large cars (intermediates, full-size, and luxury)--increased annually from 1975 to 1979 and continued to increase in January-June 1980 compared with that in the corresponding period of 1979 (table 21). ^{1/} As shown in table 21, the ratio of imports to consumption calculated on this basis increased from 44.0 percent in 1975 to 49.3 percent in 1977 but then declined to 42.2 percent in 1979. From January-June 1979 to January-June 1980, the ratio of imports to consumption increased from 42.0 percent to 45.4 percent.

Tables 22, 23, and 24 show the ratios of imported passenger automobiles and light trucks to consumption, by principal sources. From the data it is clear that imports from Japan account for most of the penetration of the U.S. market. While the ratio for all other countries either fell or remained constant between 1975 and 1979, the ratio for Japan increased from 8.9 to 15.1 percent (table 22). Similarly, while the ratio for all other countries combined increased only moderately from January-June 1979 to January-June 1980, the ratio for Japan increased from 12.5 percent to 22.5 percent.

Prices and other consumer considerations

Automobiles.--Price comparisons between individual models of motor vehicles, or even classes of domestic and foreign motor vehicles, are difficult because of the many differences in physical attributes as well as in more subjective characteristics like luxuriousness, ease of servicing, and quality. What is a standard feature in one case, moreover, may be optional or nonexistent in another. Oftentimes several options are only available as a "package." Compounding the problem of comparison is the difficulty in obtaining consumer transaction prices for a specific automobile as opposed to manufacturers' announced list prices for a basic automobile. Finally, since the vast majority of consumers purchase automobiles on credit, the total price of an automobile is often less important than what the consumer can afford on a monthly basis. The monthly payment will depend not only on the transaction price but also on the interest rate obtainable, the duration of the loan, the trade-in value of a used car, if applicable, and other factors. Because of changing product mix and variations that continually occur in the equipment available on individual models, even the analysis of price trends is tenuous.

^{1/} Included in the import data are a small proportion of automobiles from Japan and a larger proportion of vehicles from Western Europe that are alleged by the petitioner to compete with larger U.S. vehicles because of their price, luxuriousness, and other features. Overall, however, these vehicles account for a very small proportion of total U.S. imports, and their makers generally allege that nothing comparable is produced in the United States.

Table 21.--Passenger automobiles: U.S. producers' shipments of small cars (subcompacts and compacts), U.S. producers' imports of small cars, all other imports for consumption, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	Producers' shipments	Imports			Exports	Apparent consumption	Ratio (percent) of imports to consumption		
		U.S. producers	All others	Total			U.S. producers	All others	Total
Quantity (1,000 vehicles)									
1975-----	2,337.3	417.7	1,217.7	1,635.4	256.3	3,716.4	11.2	32.8	44.0
1976-----	2,734.5	469.3	1,522.2	1,991.5	264.2	4,461.8	10.5	34.1	44.6
1977-----	2,525.4	499.8	1,708.1	2,207.9	257.6	4,475.7	11.1	38.2	49.3
1978-----	3,249.4	468.5	1,916.1	2,384.6	331.2	5,302.8	8.9	36.1	45.0
1979-----	3,644.6	357.1	2,018.0	2,375.1	397.4	5,622.3	6.3	35.9	42.2
January-June--									
1979-----	1,834.7	194.2	990.2	1,184.4	198.9	2,820.2	6.9	35.1	42.0
1980-----	1,902.7	232.7	1,198.4	1,431.1	184.8	3,149.0	7.3	38.1	45.4
Value (million dollars)									
1975-----	8,576.0	1/	3,724.0	1/	883.7	1/	1/	1/	1/
1976-----	10,079.0	1/	4,781.5	1/	927.5	1/	1/	1/	1/
1977-----	10,105.0	1/	6,073.6	1/	886.3	1/	1/	1/	1/
1978-----	14,612.0	1/	8,637.4	1/	1,272.7	1/	1/	1/	1/
1979-----	17,690.0	1/	9,686.3	1/	1,744.6	1/	1/	1/	1/
January-June--									
1979-----	8,423.0	1/	4,887.0	1/	832.9	1/	1/	1/	1/
1980-----	9,808.0	1/	5,645.2	1/	881.2	1/	1/	1/	1/

1/ Not available.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 22.--Passenger automobiles; light trucks and cab/chassis therefor: Ratio (percent) of imports to apparent U.S. consumption, by country, 1975-79, January-June 1979, and January-June 1980

Period	Japan	Canada	West Germany	Italy	Sweden	United Kingdom	France	Other	Total
Percent of quantity									
1975-----	8.9	8.8	3.7	1.0	.5	.7	.2	.4	24.2
1976-----	10.8	8.3	2.7	.6	.3	.6	.2	.1	23.5
1977-----	11.3	8.2	2.9	.4	.3	.4	.1	.1	23.7
1978-----	13.0	8.2	2.5	.5	.4	.4	.2	<u>1/</u>	25.1
1979-----	15.1	7.6	2.4	.5	.5	.3	.2	.1	26.7
January-June--									
1979-----	12.5	8.0	2.2	.5	.5	.3	.1	.1	24.2
1980-----	22.5	7.8	3.5	.5	.6	.4	.5	<u>1/</u>	35.8
Percent of value									
1975-----	5.2	9.3	3.7	.8	.6	.4	.1	.3	20.4
1976-----	6.1	8.9	2.8	.4	.3	.5	.1	.1	19.3
1977-----	6.5	8.2	3.1	.3	.3	.3	.1	<u>1/</u>	18.8
1978-----	8.4	7.8	3.1	.4	.4	.4	.1	<u>1/</u>	20.6
1979-----	10.3	7.8	3.0	.6	.6	.4	.2	<u>1/</u>	22.8
January-June--									
1979-----	8.8	8.0	2.8	.6	.6	.3	.1	<u>1/</u>	21.2
1980-----	15.1	8.2	4.6	.7	.8	.5	.4	<u>1/</u>	30.2

1/ Less than one-tenth percent.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 23.—Passenger automobiles: Ratio (percent) of imports to apparent U.S. consumption, by country, 1975-79, January-June 1979, and January-June 1980

Period	Japan	Canada	West Germany	Italy	Sweden	United Kingdom	France	Other	Total
Percent of quantity									
1975-----	8.7	9.3	4.4	1.3	.7	.9	.2	.5	26.0
1976-----	11.2	8.2	3.3	.8	.4	.8	.2	.2	25.1
1977-----	12.1	7.8	3.6	.5	.4	.5	.2	.1	25.2
1978-----	13.7	7.5	3.1	.6	.5	.5	.2	1/	26.2
1979-----	15.4	6.6	3.0	.7	.6	.5	.3	.1	27.1
January-June--									
1979-----	13.2	6.7	2.8	.7	.7	.4	.2	1/	24.7
1980-----	21.3	6.6	4.0	.7	.7	.5	.6	.1	34.5
Percent of value									
1975-----	5.2	10.0	4.3	1.0	.7	.6	.1	.5	22.4
1976-----	6.3	9.1	3.4	.6	.4	.7	.1	.3	20.9
1977-----	7.0	7.8	3.8	.3	.4	.4	.1	.1	19.9
1978-----	9.0	7.2	4.0	.5	.5	.5	.1	1/	21.8
1979-----	10.7	6.5	3.7	.7	.7	.5	.2	.1	23.2
January-June--									
1979-----	9.4	6.5	3.5	.7	.8	.5	.1	.1	21.6
1980-----	14.4	6.8	5.3	.8	1.0	.6	.5	.1	29.5

1/ Less than one-tenth percent.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

Table 24.--Light trucks and cab/chassis therefor: Ratio (percent) of imports to apparent U.S. consumption, by country, 1975-79, January-June 1979, and January-June 1980

Period	Japan	Canada	West Germany	Other	Total
Percent of quantity					
1975-----	9.4	7.1	1.0	-	17.4
1976-----	9.4	8.5	.6	-	18.5
1977-----	8.9	9.4	.8	-	19.0
1978-----	11.1	10.2	.7	-	21.9
1979-----	14.1	11.0	.4	-	25.5
January-June--					
1979-----	10.4	11.9	.4	-	22.7
1980-----	28.1	13.2	.8	-	42.1
Percent of value					
1975-----	5.3	6.6	1.0	-	12.9
1976-----	5.3	8.2	.6	-	14.1
1977-----	5.1	9.3	.8	-	15.2
1978-----	6.6	9.7	.7	-	17.0
1979-----	8.9	11.9	.5	-	21.3
January-June--					
1979-----	6.9	12.6	.5	-	20.0
1980-----	17.9	14.5	1.3	-	33.7

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

A measure of the movements in wholesale prices for domestic passenger cars as a whole is published in index number form by the Bureau of Labor Statistics (BLS). The index shows that during 1976-79 the average price increase for automobiles sold in the United States was about 29 percent, or 6.5 percent compounded annually. By comparison, over the same period a Japanese export price index for passenger autos, adjusted for exchange-rate change, 1/ shows a higher total increase of about 38 percent, or 8.5 percent annually (table 25.) 2/ Differences in year-to-year price changes between the indexes are more pronounced than differences in the total price change over the period. Domestic prices are shown to be increasing at an increasing rate each year (from 5.6 percent in 1976 to 7.8 percent in 1979). On the other hand, the adjusted Japanese export price index increased slightly in 1976, rose very rapidly in 1977 and 1978 (16 percent in 1977 and 24 percent in 1978), but fell nearly 6 percent in 1979. Changes in the adjusted Japanese price index are primarily the result of fluctuations in exchange rate, rather than of fluctuations in the yen price index.

Table 26 shows retail list prices 3/ for automobiles by classes on a quarterly basis from January 1975 through June 1980. Average foreign-car prices exceeded the average prices of domestic small cars throughout the period, but are below the prices for either the intermediate or the large domestic cars. Surprisingly, despite dramatic declines in the sales of large and intermediate cars in 1979 and 1980, the total percentage increase over the period in the average suggested list price was approximately the same for both imports and each class of domestic car. The total increase in list prices over this period was slightly more than 50 percent for each type of car, or an average annual increase of nearly 8 percent. As with the indexes discussed above, however, the domestic list prices increased fairly regularly, at an annual rate of between 6 to 10 percent for the most part, while average list prices for imports increased more than 22 percent in one year (1978--a year in which the yen rose sharply in dollar value), but showed more moderate increases of less than 8 percent in other years.

1/ The Japanese export price index, based on yen prices, is published by the Bank of Japan. It has been adjusted for exchange-rate fluctuations on the assumption that such adjustment yields a U.S. import price index based on the dollar.

2/ Certain characteristics of these index series should be considered in making comparisons. Although the computational technique and the price surveys appear similar, the Japanese export price series is only published for exports to all countries, of which the United States accounts for less than half. Japanese cars also represented only about 70 percent of U.S. imports of automobiles in 1979. In addition, some foreign-car prices are included in the BLS passenger car index, perhaps slightly distorting the series. Despite these problems, the series appear to be the best available summary of overall changes in relative car prices.

3/ Sales-weighted manufacturers' suggested list prices.

Table 25.--New passenger automobiles: U.S. Producer Price Index for domestic sales and Japanese export price index, by quarters, 1976-79

(1975=100)			
Period	Japanese export price index <u>1/</u>		Producer Price Index <u>3/</u>
	Adjusted <u>2/</u>	Unadjusted	
1976:			
January-March-----	103.914	105.867	104.833
April-June-----	104.590	105.433	104.411
July-September-----	106.091	104.033	104.336
October-December---	106.698	105.533	110.299
1977:			
January-March-----	107.681	103.600	110.101
April-June-----	109.637	101.667	110.647
July-September-----	115.259	103.367	111.045
October-December---	123.720	102.933	117.207
1978:			
January-March-----	127.274	101.867	117.505
April-June-----	137.669	102.400	119.443
July-September-----	149.262	96.967	119.767
October-December---	152.891	98.167	125.009
1979:			
January-March-----	151.507	102.833	127.096
April-June-----	145.867	107.000	129.557
July-September-----	147.145	108.500	128.687
October-December---	143.797	115.600	134.774

1/ Compiled from official statistics of the Bank of Japan.

2/ Adjusted for changes in exchange rates.

3/ Compiled from official statistics of the U.S. Bureau of Labor Statistics.

Table 26.--New passenger automobiles: Sales-weighted manufacturers' suggested prices, by classes and by quarters, January 1975-June 1980

Period	All domestic	Full-size	Mid-size	Small	Foreign
1975:					
January-March-----	\$5,190.30	\$7,032.40	\$5,439.90	\$4,152.80	\$4,806.70
April-June-----	5,552.90	7,153.20	5,478.20	4,425.80	4,919.80
July-September----	5,497.30	7,265.60	5,529.40	4,393.60	4,881.90
October-December---	5,750.40	7,460.10	5,688.30	4,456.30	5,026.20
1976:					
January-March-----	5,779.20	7,453.30	5,764.40	4,554.30	5,213.60
April-June-----	5,829.40	7,404.40	5,784.10	4,591.70	5,151.70
July-September----	5,743.80	7,404.30	5,867.80	4,628.70	5,014.10
October-December---	6,236.60	8,015.70	6,122.90	4,848.60	5,037.50
1977:					
January-March-----	6,339.30	7,987.40	6,216.20	4,955.80	5,104.00
April-June-----	6,304.10	7,941.10	6,236.90	4,995.60	5,068.90
July-September----	6,342.90	8,002.40	6,261.30	4,993.50	5,103.80
October-December---	6,769.20	8,634.80	6,741.50	5,188.90	5,290.80
1978:					
January-March-----	6,736.30	8,650.30	6,854.40	5,211.80	5,777.50
April-June-----	6,811.50	8,683.00	6,901.10	5,263.80	5,894.40
July-September----	6,882.20	8,887.60	7,006.90	5,343.00	5,996.30
October-December---	7,263.00	9,359.10	7,179.80	5,583.20	6,474.30
1979:					
January-March-----	7,293.50	9,756.10	7,360.70	5,602.90	6,857.40
April-June-----	7,083.10	9,718.80	7,392.90	5,647.10	6,762.80
July-September----	7,368.20	9,844.70	7,627.90	5,759.80	6,893.20
October-December---	7,763.80	10,607.70	7,879.20	6,057.70	6,798.50
1980:					
January-March-----	7,745.20	10,531.10	8,261.10	6,308.50	7,364.60
April-June-----	7,808.30	10,739.30	8,306.50	6,436.10	7,338.80

Source: Unpublished data, U.S. Department of Commerce, Bureau of Economic Analysis.

Retail transaction prices in the form of median prices obtained for selected domestic and imported car models are available from consumer surveys and are shown in table 27. These are purchase prices reported each year by owners who purchased new cars at the beginning of the model year (October-December). 1/ While variations in specifications and features offered preclude comparing actual prices between U.S.-produced and imported automobiles, there are meaningful differences in price trends. According to table 27, all of the imported models show larger price increases for 1976-80 than any domestic model does, with six of the nine imported models having price increases of more than 65 percent, while none of the domestic models increases as much as 50 percent. Since mid-1979, however, the average price for U.S.-produced subcompacts and compacts has increased at a much higher rate than that for U.S.-produced large cars.

Although the differences in automobile characteristics tend to invalidate direct comparisons between prices of imported and domestic cars, price is not an irrelevant consideration in a consumer's choice of auto. The importance of prices has been corroborated by a number of empirical studies. Estimates suggest that a 1-percent increase in the average price of automobiles will cause about a 1-percent decline in the volume of total new car sales, other things being equal. 2/ Also, a study examining the substitutability of different classes of cars indicates that changes in the relative prices of imported cars would affect imports' share of new-car sales. 3/ Domestic small-car sales are shown to be the most sensitive to import price changes, although at least some substitution between small cars and larger cars is indicated.

In principle, price and related data can suggest the extent to which imports are substitutable for domestically produced automobiles. The best single measure of this kind of substitutability is the cross-price elasticity of demand between products--in this case, between the various models or classes of automobiles. 4/ For two products that purchasers consider very similar, the cross-price elasticity will be very high because a small rise in the price of one product will cause a relatively large shift of purchases away from that product to the other product. On the other hand, for two very different products (poor substitutes), such as bananas and concrete, the cross-price elasticity of demand will be almost zero. Since all automobiles are used as a private mode of transportation, some substitutability among all the models is to be expected despite their obvious differences; i.e., the cross-price elasticity should be significantly different from zero.

1/ Rogers National Research, Buyer Profiles, 1979.

2/ The consensus estimate for the price elasticity of demand for autos is usually given as about -1.0. For a discussion see, for example, Eric J. Toder, Trade Policy and the U.S. Automobile Industry, New York, 1978, pp. 43-44, or George Eads' testimony before the House Subcommittee on Trade, March 1980.

3/ J. Hayden Boyd, and Robert E. Mellman, The Impact of Automotive Fuel Economy Standards on Competition in the Automotive Industry, Boston, July 1980.

4/ Cross-price elasticity measures the percentage change in the quantity purchased of one product resulting from a 1-percent change in the price of another product, other things being equal.

Table 27.--New passenger automobiles: Median total purchase prices for selected models, by model year, 1976-80

Model	1976	1976-77	1977	1977-78	1978	1978-79	1979	1979-80	1980	1976-80
	Dollars	Percent change	Dollars	Percent change	Dollars	Percent change	Dollars	Percent change	Dollars	Percent change
Imports:										
Colt-----	3,600	11.1	4,000	0	4,000	12.5	4,500	26.7	5,700	58.3
Datsun B210/210---	3,700	(2.7)	3,600	19.4	4,300	27.9	5,500	0	5,500	48.6
F10/310-----	-	-	3,800	15.8	4,400	25.0	5,500	5.5	5,800	1/ 52.6
Toyota Corolla----	3,200	25.0	4,000	12.5	4,500	11.1	5,000	20.0	6,000	87.5
Corona-----	4,300	16.3	5,000	18.0	5,900	16.9	6,900	8.7	7,500	74.4
Celica-----	4,300	23.3	5,300	11.3	5,900	27.1	7,500	0	7,500	74.4
VW Rabbit-----	4,200	4.8	4,400	22.7	5,400	5.6	5,700	26.3	7,200	71.4
Rabbit Diesel-----	-	-	-	-	-	-	6,500	16.9	7,600	2/
VW Dasher-----	5,200	7.7	5,600	21.4	6,800	16.2	7,900	21.5	9,600	84.6
VW Scirocco-----	5,500	1.8	5,600	16.1	6,500	16.9	7,600	21.1	9,200	67.3
Domestic cars:										
Subcompacts:										
Bobcat-----	4,200	11.9	4,700	(10.6)	4,200	9.5	4,600	13.0	5,200	23.8
Chevette-----	3,500	8.6	3,800	2.6	3,900	15.4	4,500	11.1	5,000	42.9
Pinto-----	3,700	10.8	4,100	0	4,100	2.4	4,200	11.9	4,700	27.0
Omni-----	-	-	-	-	-	-	5,100	19.6	6,100	2/
Horizon-----	-	-	-	-	-	-	5,000	24.0	6,200	2/
Compacts:										
Nova-----	4,500	6.7	4,800	6.3	5,100	5.9	5,400	-	-	3/ 20.0
Volare-----	-	-	5,400	7.4	5,800	3.4	6,000	0	6,000	11.1
Omega-----	4,900	8.2	5,300	9.4	5,800	3.4	6,000	18.3	7,100	4.9
Skylark-----	5,100	5.9	5,400	7.4	5,800	5.2	6,100	23.0	7,500	7.1
Skyhawk-----	-	-	5,500	5.5	5,800	1.7	5,900	10.2	6,500	8.2
Intermediates:										
Century-----	5,800	6.9	6,200	6.5	6,600	6.1	7,000	14.3	8,000	37.9
Cutlass-----	5,900	8.5	6,400	4.7	6,700	3.0	6,900	17.4	8,100	37.3
Grand Prix-----	6,200	9.7	6,800	7.4	7,300	5.1	8,200	5.1	8,200	32.3
Monte Carlo-----	6,000	6.7	6,400	9.4	7,000	2.9	7,200	6.23	7,700	28.3

1/ Percent change from 1977 to 1980.

2/ No prices available before 1979.

3/ Percent change from 1976 to 1979

Source: Rogers National Research, Buyer Profiles, 1976-1980.

Estimates of the cross-price elasticities between various classes of automobiles are presented in a recent study done for the U.S. Department of Transportation. ^{1/} As an illustration, the cross-elasticity estimates suggest that if prices of subcompacts had been 10 percent higher than they actually were in 1977, consumers would have purchased roughly 10 percent more compact cars, 5 percent more mid-size cars, 3 percent more full-size cars, 1 percent more luxury cars, and about 4 percent more specialty cars (e.g., sports cars), while decreasing purchases of subcompacts by an equivalent number. (The cross-elasticity estimates for subcompacts include both imported and U.S.-produced models, and imports are included in the compact, specialty, and luxury classes.) As indicated above, such a price increase would affect the sales of similar cars most strongly (probably small cars in general and captive imports in particular).

These estimates should be taken as illustrative, rather than precise. There are also a number of assumptions underlying the estimating model that should be borne in mind in relating these estimates to current conditions. In particular, the estimates were made using 1977 market shares and car attributes. There has obviously been a shift in demand toward smaller cars; the share of imports is higher, and there may be less substitutability between small and large cars. Moreover, changes in the types of car models available domestically may make substitution between imports and small domestic cars more likely. The estimates also assume that there are no supply constraints, and that substitution can occur freely from imported small cars to domestic small cars. Finally, the estimates assume that total sales of automobiles do not change in response to changes in prices for any subgroup of cars, and that the only car prices to change are prices for the group under examination. In fact, it is likely that some reduction in overall car sales would occur if there was a price increase in a particular subgroup, although substitution would also occur between groups. ^{2/}

One implication of this empirical evidence is that the substantial price increases announced for the 1981 "new generation" cars may discourage some of the substitution of these for imports that would occur if these new,

^{1/} Boyd and Mellman, op cit.

^{2/} As with all econometric estimates, there are also statistical limitations of the model. Some of the variables are undoubtedly measured with error. Others may be omitted entirely owing to difficulty in quantification or other data limitations. (For example, the relative styling of autos is obviously not a variable that can be easily quantified.) To the extent that there are errors or omissions in the data, the coefficient estimates could be biased. As an overall indicator of the reasonableness of the model, its prediction of actual market shares is good, but not perfect. Despite these limitations of the estimates, the model appears to be the best conceived and most extensive examination of substitution possibilities in aggregate car sales that is available.

presumably more import-competitive cars were priced at lower levels. 1/ Even at the announced prices, the new design of these cars may well cause some decline in imports' share of total new-car sales. But the new small domestic cars may also cause shifts in sales away from domestic large cars, especially if they are marketed as five- or six-passenger cars, as is being done with GM's X-body cars and Chrysler's new K-body cars.

The importance of sales price, as such, in determining the product mix of new-car sales is reduced by the many other characteristics differentiating the various makes and models of cars. Among the most important nonprice reasons commonly given for purchasing a particular new car are reputation for quality and/or dependability, cost of maintenance (including miles per gallon), resale value, comfort and handling, safety, size, and ease of service and maintenance. Clearly, the more similar are the numerous characteristics of the various makes and models of cars, the more important sales price becomes in determining the consumer's choice of a new car.

Fuel efficiency of autos is important in the consumer's choice of a car because of its implications for the lifetime operating cost of automobiles. EPA mileage ratings for 1980 models show that, except for the domestically produced Volkswagen Rabbit, the 18 most fuel efficient car models were all imports from sources other than Canada. 2/ These high-mileage models accounted for more than half of the 2.2 million imports of non-Canadian autos in the 1979 model year. Overall, the weighted average fuel economy for imported 1980 models was estimated to be about 26.4 miles per gallon (mpg) in 1979, versus an average of about 19.2 mpg for domestic models. 3/ At the December 1979 price of about \$1.05 per gallon of gasoline, the difference between the domestic and imported car fleets' average fuel costs for 10,000 miles of driving a year amounted to about \$149 (\$547 for domestic cars versus \$398 for imported cars). Assuming no real increase in gasoline prices and an average car life of about 6 years, the average fuel-cost saving from purchase of the average imported vehicle rather than the average U.S.-produced vehicle would have a present value of about \$613 in 1979. 4/ This is an increase of about \$177 over the total cost difference evident in 1978, when gasoline prices averaged only 65.5 cents per gallon. Of course, the difference in total fuel costs between imports and the small U.S. cars is less than that between imports and the average of all domestic cars; e.g., for the 1980 Chevette the figure is only \$60 higher than for imports. Significantly, except for the Rabbit, the Chevette, the most fuel-efficient domestic car in the 1980 model year, had a combined mpg rating of only 25.5, which was still

1/ Much of the price increase reflects larger selling margins. In view of declining sales of large cars, U.S. producers have increased the selling margins of smaller cars in an effort to maintain overall profitability.

2/ Congressional Budget Office, Staff Working Paper, "Current Problems of the U.S. Automobile Industry and Policies To Address Them, July 1980, tables A5-A7.

3/ Hearings, House Subcommittee on Trade, "World Auto Trade: Current Trends and Structural Problems", March 1980, p. 24.

4/ This assumes a 12-percent discount rate.

below the sales weighted average mpg of 26.4 for total imports from sources other than Canada in the 1980 model year. 1/

Another factor that has reduced the implicit cost of owning an imported car is the increase over the last 10 years in the number of dealers and service centers for imported cars, as shown in the following tabulation derived from Automotive News data, August 1980:

<u>Date</u>	<u>Number of import dealers</u>
Jan. 1, 1970-----	8,311
Jan. 1, 1971-----	9,860
Jan. 1, 1972-----	12,375
Jan. 1, 1973-----	13,332
Jan. 1, 1974-----	11,246
Jan. 1, 1975-----	11,489
Jan. 1, 1976-----	10,414
Jan. 1, 1977-----	11,387
Jan. 1, 1978-----	17,374
Jan. 1, 1979-----	17,114
July 1, 1979-----	16,772
Jan. 1, 1980-----	16,967
July 1, 1980 -----	16,747

In purchasing a car, consumers consider the availability and cost of replacement parts and the number and location of service centers. With the number of dealers handling imported cars doubling since 1970 and with the growth of dealerships handling both domestic and foreign cars, availability of servicing has greatly improved. Moreover, the practice by both West Germany and Japanese producers of mass-marketing particular models of cars for several years at a time has largely removed the fear of unavailable replacement parts, at least for their more popular cars. Marketing the same model of car for several years at a time also increases the resale value of that model. The increasing availability of servicing and parts has represented an implicit reduction in the cost of owning a foreign car relative to that of owning a domestic car.

The perceived quality of imported versus domestic cars is also relevant to the perceived cost of automobile ownership. There is evidence that imported cars, especially those from Japan, are perceived to be of higher quality than domestic cars. For example, more than 70 percent of the several hundred domestic automotive engineers responding to a Wards Auto World survey in 1979 indicated that the highest quality cars were produced abroad. 2/ In answer to the question, "As of today, the best quality cars are produced in

1/ Of particular importance is the relatively rapid increase in fuel efficiency of U.S. producers' vehicles as rated by the EPA for the 1981 model year, with the Chevette, Ford Escort, and Mercury Lynx rated at 30 miles per gallon, and the Plymouth Reliant and Dodge Aries at 25 miles per gallon. Further fuel economy increases for U.S.-produced cars are expected in 1981 with the introduction of GM's J cars.

2/ House Subcommittee on Trade, "Auto Situation: 1980," 1980, p. 47.

what country?", 47 percent of the respondents indicated Japan, 27 percent indicated the United States, 23 percent indicated West Germany, and 3 percent chose France. The engineers attributed the superiority of Japanese imports over domestic models to better assembly operations, attention to details, and management/worker cooperation in quality control. In a different 1979 survey conducted by Rogers National Research, 36,000 new-car buyers were asked to rate their cars on the condition at delivery and to indicate whether they would buy the same car again. 1/ For all classes, imported-car owners rated their cars higher than domestic car owners (see tables 28 and 29).

Table 28.--New passenger automobiles: Rating of condition of domestic and imported cars at delivery, 1/ by classes, 1979

Class	Domestic	Imported	Total
Subcompact-----	6.4	7.9	7.1
Compact-----	6.2	7.7	6.3
Mid-size-----	6.6	8.1	6.7
Standard-----	6.8	-	6.8
Luxury-----	7.1	8.5	7.2
Average-----	6.6	7.9	-

1/ On a scale of 1 to 10, 10 is excellent.

Source: Rogers National Research, Buyer Profiles, 1979.

Table 29.--New passenger automobiles: Rating of owner satisfaction 1/ with domestic and imported vehicles, by classes, 1979

(In percent)			
Class	Domestic	Imported	Total
Subcompact-----	77.2	91.6	81.2
Compact-----	74.2	91.4	72.4
Mid-size-----	75.3	94.5	76.9
Standard-----	81.8	-	-
Luxury-----	86.6	94.6	87.2
Average-----	78.7	91.8	-

1/ Owner would buy the same make/model again.

Source: Rogers National Research, Buyer Profiles, 1979.

1/ Rogers National Research, Buyer Profiles, 1979.

Consumer Reports publishes an annual survey, conducted by Consumers' Union, which rates the overall quality of new and used cars. Their survey of new cars showed that a large majority of the highest rated 1980-model small cars were imported. Of the 13 small car models which received high ratings, (out of 41 car models rated), 10 models were imports. The only domestic models receiving high ratings were the Chevrolet Chevette, Volkswagen Rabbit, and Rabbit Diesel. Survey results showing the frequency of repairs required for 1978-model automobiles and trucks were similar to those for new cars. The survey of car and truck repairs was based upon 250,000 questionnaire responses of owners of one or more of 160 domestic and imported models. The questionnaire requested not only a rating of the owner's repair experience in certain problem areas, but also asked for an overall rating of the repair record of the used vehicle. While 50 percent of the imported automobiles covered by the survey were given an overall rating of "much better than average," and 68 percent of the Japanese imports were rated in this category, no domestic cars received this rating. Eighty-nine percent of domestic cars covered by the survey received ratings of "average" or worse, while only 12 percent of the imported cars received such a rating; no Japanese imports were so rated.

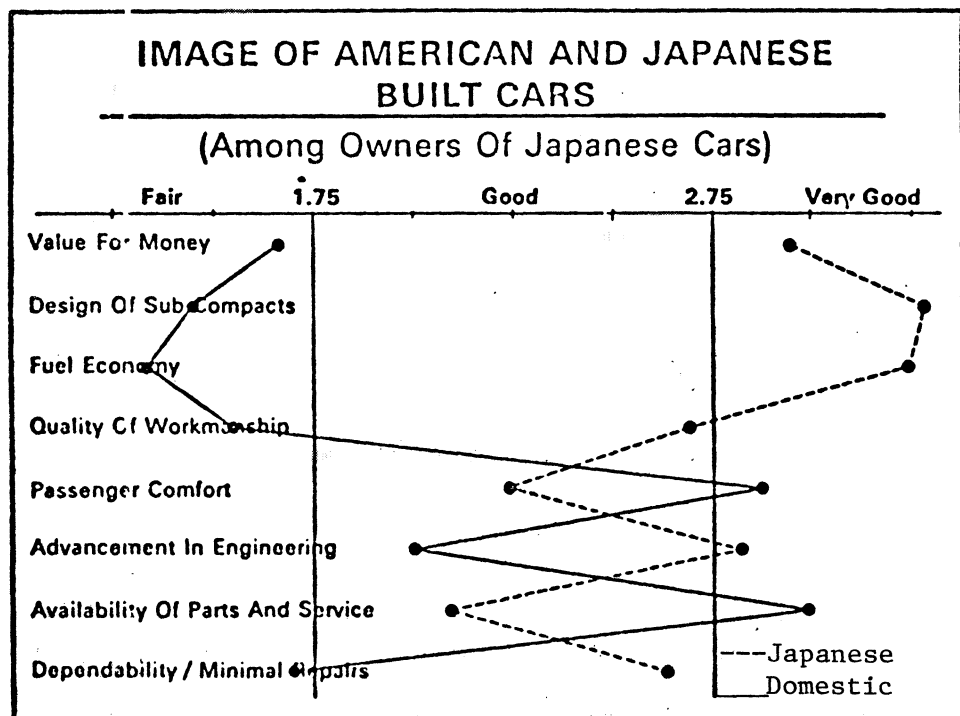
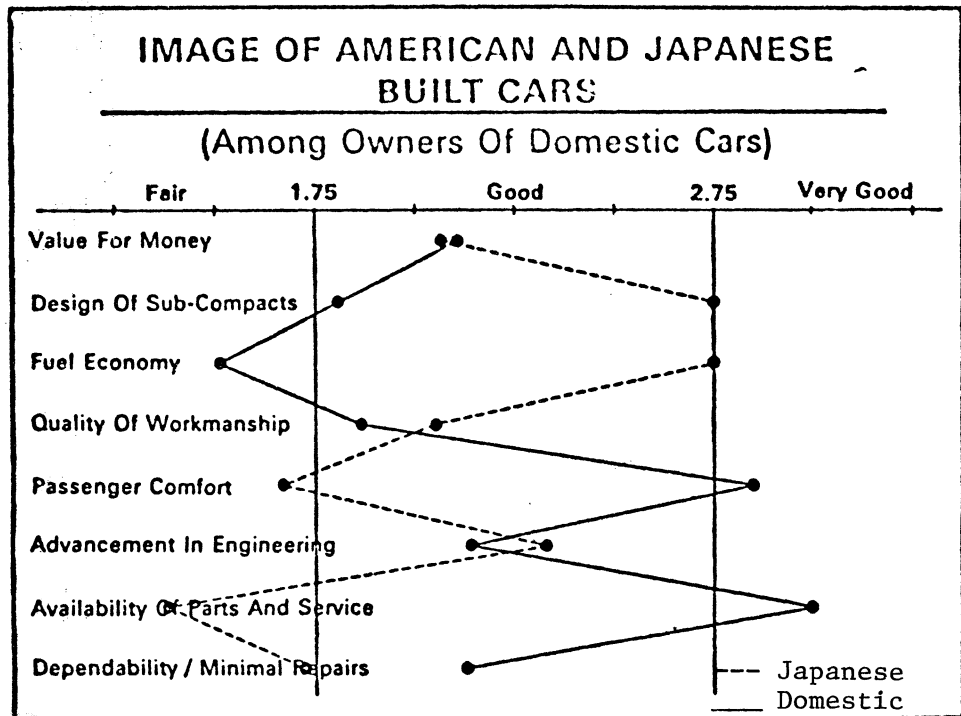
A consumer survey conducted by J. D. Power & Associates offered additional detail on perceived quality differences between domestic and foreign-built automobiles. The results, based on approximately 5,000 questionnaire responses, showed that domestic-automobile owners gave Japanese-built automobiles very high ratings for "design of subcompacts" and "fuel economy," while they rated domestic automobiles highest in "passenger comfort" and "availability of parts and service." Owners of domestic automobiles also viewed the "quality of workmanship" on Japanese-built automobiles as being somewhat higher than that of domestically produced automobiles. A graphic presentation of the results of this survey is shown in figure 2.

While imports are perceived to be of higher quality than domestic small cars, domestically produced autos are generally perceived to be superior in terms of crash-worthiness (safety) and passenger comfort. As with the differences in fuel economy, perceived differences in car quality between imported and domestic cars may represent to the consumer an implicit cost advantage in owning an imported car.

The domestic producers' commitment to the production of more small, fuel-efficient automobiles is likely to lessen many of the physical differences between domestic and imported cars. By most estimates, the major thrust of this changeover should be effected by 1983 or 1984 at the latest. With both domestic producers and importers selling similar products, prices should become much more important in the consumer's choice of automobile.

Light trucks.--Comparisons of imported and domestic light-truck prices are subject to the same general problems that arise in comparing prices for domestic and imported automobiles. As with automobiles, imported and domestic light trucks are highly different in size and fuel efficiency, so that the meaningfulness of direct price comparisons is questionable. There is evidence from consumer surveys that there are differences in use between small and

Figure 2.--Consumers' image of American- and Japanese built automobiles, 1980



Source: J.D. Power & Associates, Perceptions of the Automotive Consumer, July 1980.

standard pickup trucks, so the degree of substitutability between them is uncertain. Adding to these difficulties is the limited availability of meaningful pricing data.

One difference between the automobile and light truck markets is that almost 50 percent of the imports of light trucks from Japan in 1979 were captive imports, i.e., imports by domestic producers sold under their own brand name. (By comparison, only about 10 percent of imports of automobiles from source other than Canada are captive imports.) Moreover, until November 1979, there was no domestic production of small pickup trucks. ^{1/}

The BLS Producer Price Index for light trucks (under 10,000 pounds), and the export price index published by the Bank of Japan, adjusted for fluctuations in exchange rates, are shown in table 30. The domestic prices for light trucks show fairly steady increases from the beginning of 1976 to the end of 1978, increasing by about 34 percent in total, or at an average annual rate of about 7.6 percent. The adjusted Japanese export price index for light trucks rose moderately during most of 1976 and 1977, but increased by nearly 27 percent in 1978, as the yen strengthened against the dollar. By the last quarter of 1979, however, the adjusted Japanese export price series had declined to near October-December 1977 levels, again largely as a result of exchange rate change. ^{2/} (The unadjusted series shows little change over the period 1976-80, declining slightly overall.) Thus, the adjusted export price index suggests that the average price of imported trucks fell substantially relative to the average domestic price during 1979.

The change in the tariff classification for imported lightweight cab/chassis as of August 21, 1980, increased the tariff rates on these articles from 4 percent to 25 percent ad valorem. The jump in prices that might result from this tariff change could cause a substantial reduction in the volume of sales of small pickups. U.S. production of the types of small pickups now imported by GM, Ford, Nissan, Toyota, and Mazda is scheduled to commence within the next few years.

Possible causes of serious injury to the U.S. industry other than increased imports

Recessionary factors and inflation.--The 25.8-percent drop in passenger-automobile and light-truck consumption between January-June 1979 and January-June 1980 is at least in part attributable to national economic conditions. The period between January 1979 and June 1980 was marked by rapid increases in the cost of credit, increasing unemployment, declines in real

^{1/} VW of America began limited production of small pickup trucks at that time.

^{2/} The actual U.S. prices could vary significantly from the adjusted series if the U.S. share of Japanese exports is not representative of the total, or if Japanese exporters and U.S. importers agree to use exchange rates other than the going market rates for purposes of establishing U.S. dollar prices.

Table 30.--New light trucks: U.S. Producer Price Index for domestic sales and Japanese export price index, by quarters, 1976-79

(1975=100)				
Period	Japanese export		U.S. Producer	
	price index 1/		Price Index 3/	
	Adjusted 2/	Unadjusted		
1976:				
January-March-----	102.243	104.167		104.145
April-June-----	103.400	104.233		104.322
July-September-----	106.093	104.033		104.875
October-December-----	105.116	103.967		111.604
1977:				
January-March-----	106.617	102.567		111.095
April-June-----	109.959	101.967		111.582
July-September-----	113.962	102.200		121.137
October-December-----	122.204	101.667		120.790
1978:				
January-March-----	126.370	101.167		120.436
April-June-----	135.496	100.767		122.384
July-September-----	151.526	98.400		123.934
October-December-----	154.972	99.467		129.578
1979:				
January-March-----	142.535	96.733		133.053
April-June-----	133.745	98.1		136.085
July-September-----	131.964	97.3		128.405
October-December-----	124.745	100.267		139.826

1/ Compiled from official statistics of the Bank of Japan.

2/ Adjusted for changes in exchange rates.

3/ Compiled from official statistics of the U.S. Bureau of Labor Statistics.

spendable earnings 1/, large cutbacks in consumer spending, and deteriorating consumer confidence in the economy and in future earning power. The decline in automobile consumption is generally accepted to be worldwide, although it has been most severe in the United States. 2/

Among the factors affecting new car sales during this period was the decline in used car prices, which effectively increased the disparity between the trade-in value of used vehicles and the purchase price for new ones. Furthermore, while the prices of used vehicles tended to decline, the price of

1/ Gross weekly pay of U.S. manufacturing production workers less Federal Social Security and income taxes adjusted for inflation.

2/ The opponents to the petition have argued that, in determining the causes of the alleged serious injury or threat thereof to the domestic industry, declining demand should be viewed as a single cause, while the petitioners maintain the declining demand is the result of many individual causes, each of which should be compared separately with increased imports.

new vehicles and the cost of loans for their purchase continued to rise. As a result, the transaction price on new vehicles widened and monthly payments for loans increased, making new automobiles even less affordable.

The cost of credit was particularly burdensome. The rapid increase in interest rates applicable to loans for new car purchases undoubtedly induced many consumers to postpone purchases requiring relatively large capital outlays. Recently, limits on loan growth required by the Federal Reserve Board also affected borrowing. In response to the President's anti-inflation initiatives announced on March 14, 1980, the Federal Reserve Board required banks to limit loan growth to 6 to 9 percent. A recent survey of auto dealers found that for the first 3 weeks of May 1980 the refusal rate on auto credit applications was approximately 46 percent, in contrast to a normal refusal rate of 10 to 15 percent. ^{1/} In some States with low usury ceilings, manufacturer's subsidiary finance companies were the only source of credit. Under these circumstances many potential new car buyers either deferred their purchases, purchased used cars, or found alternate means of transportation.

The complexity of the U.S. economy precludes demonstrating, at least in definitive terms, the relative importance of these and other economic factors on U.S. producers' shipments. The decline in apparent consumption after 1978, however, reflects many of these factors. According to calculations, shown in table 31, which allow consumption and the ratio of imports to consumption to change alternately while the other is held constant, the maximum potential loss to U.S. producers resulting from declining consumption was greater in the period January 1979-June 1980 than that resulting from increasing import penetration. U.S. producers shipped 13.6 million automobiles and light trucks in the period January 1979-June 1980. As shown in table 31, had the ratio of imports to consumption remained constant throughout the period at its January-June 1979 level while consumption declined, U.S. producers' shipments could have reached a maximum of 14.6 million units. On the other hand, had U.S. consumption remained constant throughout the period at its January-June 1979 level while the ratio of imports to consumption increased, U.S. producers' shipments could have reached a maximum of 16.3 million units. The above methodology assumes that consumption and the ratio of imports to consumption change independently. Because U.S.-produced and imported automobiles and light trucks are different in composition, this is unlikely. In fact, the decline in apparent consumption during this period predicated a substantial increase in the ratio of imports to consumption since the consumption of larger vehicles, which comprise a greater share of U.S. production than imports, was more adversely affected than the consumption of smaller ones. Indeed, the absolute decline in apparent consumption appears to be almost wholly in connection with U.S.-produced large cars and with

^{1/} Congressional Budget Office, "Current Problems of the U.S. Automobile Industry and Policies to Address Them," July, 1980, Staff Working Paper, Natural Resources and Commerce Division.

Table 31.--Passenger automobiles; light trucks and cab/chassis therefor: U.S. producers' domestic shipments, apparent consumption, and estimated effects of the decline in consumption, January-June 1979, July-December 1979, and January-June 1980

Item and period	(A) U.S. producers' domestic shipments	(B) Apparent consumption	(C) Ratio of imports to consumption	(D) U.S. producers' shipments holding ratio of imports to consumption constant at January-June 1979 level (1.00-J-J/1-J-J) x 2	(E) Maximum loss to U.S. producers resulting from increasing share of imports (F-A)	(F) U.S. producers' shipments holding consumption constant at January-June 1979 level (1.00-C) x B-J-J9	(G) Maximum loss to U.S. producers resulting from decreasing consumption (F-A)
	1,000 units	1,000 units		1,000 units	1,000 units	1,000 units	1,000 units
Passenger automobiles and light trucks:							
January-June 1979	5,870.5	7,750.7	.242	5,870.5	0	5,870.5	0
July-December 1979	3,999.1	5,719.7	.301	4,335.5	336.4	5,417.7	1,418.6
January-June 1980	3,687.8	5,746.4	.358	4,355.8	668.0	4,975.9	1,288.1
Total	13,557.4	19,216.8	1/	14,561.8	1,004.4	16,264.1	2,706.7
Passenger automobiles:							
January-June 1979	4,369.8	5,807.7	.247	4,369.8	0	4,369.8	0
July-December 1979	3,148.4	4,507.6	.301	3,394.2	245.8	4,059.6	911.2
January-June 1980	3,099.9	4,731.7	.345	3,563.0	463.1	3,804.0	704.1
Total	10,618.1	15,047.0	1/	11,327.0	708.9	12,233.4	1,615.3
Light trucks:							
January-June 1979	1,500.7	1,943.0	.227	1,500.7	0	1,500.7	0
July-December 1979	850.7	1,212.1	.299	937.0	86.3	1,326.0	511.3
January-June 1980	587.9	1,014.7	.421	784.4	196.5	1,215.0	537.1
Total	2,939.3	4,169.8	1/	3,222.1	282.8	3,987.7	1,048.4

1/ Not applicable.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

U.S.-produced light trucks, which, as indicated previously, are larger and heavier than imported makes. ^{1/}

Shift in consumer preferences.--As demand declined in 1979 and 1980, it also shifted: sales of large cars--the mainstay of the U.S. auto industry--fell in disproportion to overall sales. Having remained relatively stable at about 50 percent of apparent consumption from 1975 to 1978, large cars declined to 29.2 percent of apparent consumption by January-June 1980 (table 32).

The shift in demand to smaller, more fuel-efficient automobiles was related to an abrupt change in the price and availability of gasoline. Several factors precipitated this change: price increases by members of the Organization of Petroleum Exporting Countries (OPEC) in late 1978, which added significantly to the cost of crude oil; the political revolution in Iran in late 1978, which curtailed petroleum production; and the U.S. Government's decontrol of gasoline prices at about the same time, which will permit retail prices to further rise about 2 cents per gallon each month over current prices until final decontrol in September 1981.

The effect was immediate and substantial. Between January 1979 and June 1980 the overall price of gasoline increased by approximately 100 percent, from \$0.65 a gallon to about \$1.30 a gallon, a greater increase than had occurred in the entire 20-year period prior to 1979. The increase, outpacing prices in general, added significantly to the consumer's cost of operating an automobile. Exacerbating the rapid rise in gasoline prices were shortages of gasoline in many areas of the country during the spring and summer of 1979, which resulted in limited times of availability and long waiting lines. Uncertainties as to future gasoline prices and availability tend to perpetuate the demand for smaller, more fuel-efficient vehicles. As a consequence of the continuing political volatility of the Middle East, the threat of future OPEC price increases, possible increases in State gasoline taxes, and Government deregulation of gas prices, many consumers doubt the future stability of gasoline prices.

Prior to 1979, smaller trucks and cars, particularly subcompacts, were a relatively small segment of U.S. production for at least three reasons: (1) relatively strong competition--foreign automobile manufacturers, particularly the Japanese, had always concentrated on small cars and, by the early 1970's, were well entrenched and accepted in the U.S. market; (2) an unresponsive market--demand for U.S.-produced small cars introduced in the 1970's had been less than encouraging while demand for large cars continued to be strong; (3) low profit margins--U.S. capacity was designed and constrained to maximize profits by maximizing large-car production and sales. Most of the U.S. industry's capacity was designed for the production of intermediate and full-size cars; thus, the best return on the industry's investment required a relatively large proportion of large-car sales. That larger cars demanded

^{1/} Allowing the ratio of imports to consumption to increase by some degree with the decline in consumption over the period would lessen the amount of the potential loss to producers shown in table 31 but would also increase the difference between the loss due to the increasing share of imports and the loss due to declining consumption.

Table 32.--Passenger automobiles: Ratio of U.S. producers' shipments and imports to apparent consumption, by class of vehicle, 1975-79, January-June 1979, and January-June 1980

(In percent)								
Period	Imports	U.S. producers' shipments						
		Small cars			Large cars			
		Subcompacts	Compacts	Total	Intermediate	Standard and luxury	Total	
1975-----	26.0	10.5	16.0	26.5	26.5	21.1	47.6	
1976-----	25.1	7.1	17.5	24.6	29.0	21.2	50.2	
1977-----	25.2	6.3	14.4	20.7	29.3	24.8	54.1	
1978-----	26.2	11.6	14.5	26.1	26.3	21.4	47.7	
1979-----	27.1	17.0	14.5	31.5	21.5	19.9	41.4	
January-June--								
1979-----	24.7	15.6	12.6	28.2	23.2	23.9	47.1	
1980-----	34.5	18.3	18.0	36.3	17.3	11.9	29.2	

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and from official statistics of the U.S. Department of Commerce.

more costly options--like power steering and brakes, more powerful engines, and automatic transmissions--further enhanced their profitability.

In Japan and Western Europe such constraints as high dependence on imports of raw materials, limited space, and dense population favored the production of smaller cars. No such conditions constrained the U.S. auto manufacturers. On the contrary, gasoline in the United States was relatively inexpensive, distances between commuting points were greater, and the population was far less concentrated. Within this environment arose an increasingly elaborate system of toll-free and well-maintained highways and an increasing dependence on personal transportation. Such factors favored, or at least lent support to, roominess, weight, power, and luxury. With the exception of the 1974-75 recession that followed the Arab oil embargo, sales of imports and U.S.-produced large cars increased between 1970 and 1978. Sales of U.S.-produced small cars, on the other hand, were not encouraging. Although the three major U.S. subcompacts introduced in the early 1970's--GM's Vega, Ford's Pinto, and AMC's Gremlin--sold well initially, sales declined after 1974. Of all the major subcompacts manufactured by the U.S. automakers in the 1970's, only sales of GM's Chevrolet Chevette and Pontiac Sunbird consistently increased prior to 1978.

In response to the abrupt shift in demand in 1979 and in keeping with U.S. Government regulations that require gradually increasing fleet fuel efficiency for the automobile manufacturers, U.S. automakers began making significant adjustments to their product plans through 1985, introducing new investment projects and accelerating others that had been underway prior to 1979. Between 1980 and 1985 U.S. automakers intend to spend more than \$80 billion worldwide in an effort to utilize new processes and technologies, to convert existing capacity, and to build new capacity for the production of smaller, more fuel-efficient automobiles and light trucks. The emphasis is on 4-cylinder and diesel engines, front-wheel drive trains, and weight reduction. Financing these programs will undoubtedly strain the resources of the U.S. auto manufacturers. While U.S. producers' capital requirements have risen exponentially in the face of the change in demand, declining sales and an unfavorable product mix have reduced funds available from operations. Considerable risk, moreover, accompanies the U.S. automakers' investments. Although U.S. producers plan to have the capacity to satisfy the demand for smaller cars, the profitability of these automobiles is uncertain. The future viability of the U.S. producers will largely depend on their ability to compete directly with the Japanese.

Investment decisions of the U.S. industry prior to 1979.--Resource allocations in the direction of smaller, more fuel-efficient automobiles had been made by the major U.S. auto producers by at least the early 1970's. GM, Ford, and Chrysler had each introduced subcompact models by 1971, and in 1972, following an internal study that forecast future energy shortages, GM instituted a two-stage downsizing program (before and after 1980) on all of its models. Consequent to the Arab oil embargo of 1973, GM accelerated its program. The oil embargo and the resultant gasoline shortage in 1974 raised public questions as to energy conservation and availability. Under the Energy Policy and Conservation Act of 1975, domestic and imported auto fleets were required to achieve minimum annual standards for gasoline mileage between 1978 and 1985. Accordingly, U.S. producers initiated programs for downsizing

vehicles and applying certain technologies--like turbocharging, electronic engine controls, diesel engines, more efficient transmissions, and expanded use of lightweight materials--to further improve fuel economy.

The first major results of GM's programs were the introduction in 1975 of two new models--the Chevrolet Chevette and the Cadillac Seville. This was followed in the fall of 1976 with the introduction of a complete line of downsized full-size cars which, according to GM, averaged 700 pounds less than the prior models and were equipped with smaller standard engines. In the following year GM introduced a smaller, more fuel-efficient line of intermediate cars and offered diesel engines as an option on some of its larger models; in the spring of 1979 it introduced a line of front-wheel-drive passenger cars, commonly referred to as the X-body series. The X-body cars, which were the result of a large redesign program initiated in 1975, included the Chevrolet Citation, Pontiac Phoenix, Buick Skylark, and Oldsmobile Omega and, according to GM, resulted in an average weight reduction of 800 pounds and improved fuel economy of 6 miles per gallon over prior models with the same interior dimensions. GM indicates that, as a result of its investment programs, it was able to improve its corporate average fuel economy for cars from 12 mpg in 1974 to an estimated 21.8 mpg in 1980.

Ford responded somewhat differently to the events of 1973 and 1974 and the legislation of 1975. Lacking the resources for as comprehensive a program as GM's and perceiving GM's downsizing program as an opportunity to increase its own share of the large-car market, Ford chose not to begin major downsizing programs until the 1979 model year. In the interim, Ford intended to concentrate its resources on the development of a programed combustion (PROCO) engine and on the introduction of additional small cars. Ford introduced the Bobcat, a derivative of the Pinto, and the Granada/Monarch in 1975 and the Fairmont/Zephyr in 1976. Unlike GM's investment programs, Ford's programs did not provide for the use of diesel engines or front-wheel-drive trains prior to 1980. As of 1979, Ford remained the only U.S. automaker without a front-wheel-drive car.

Like Ford, Chrysler delayed downsizing its cars in favor of introducing new small cars and restyling others. Chrysler introduced the Volare/Aspen (compact) in 1976 and in the following year offered the Omni/Horizon, the first U.S.-produced front-wheel-drive subcompact. Engines for the latter models, however, were purchased from Volkswagen, and production was limited accordingly. Chrysler imported two of its smallest and most fuel-efficient automobiles--the Plymouth Arrow and the Dodge Colt--from Japan. A chronology of U.S. producers' introductions of new-models from 1974 to 1981 is shown in app. I.

Government regulation.--Many of the industry's investment decisions emanated directly from Government regulations concerning emissions, fuel economy, and safety and indirectly from control of energy costs which, throughout the 1970's, had held gasoline prices at an artificially low level. Had domestic gasoline prices been allowed to rise more gradually, it is possible that more consumers would have demanded smaller, more fuel-efficient cars sooner and U.S. producers would have supplied more of them earlier. A Government policy allowing for a steady increase in the price of gasoline throughout the 1970's would at least have provided an opportunity for a more gradual shift in consumer preferences and producers' resources than did the

sudden escalation of gasoline prices in 1979. There are several indications that all the U.S. producers have been in support of Government decontrol of oil pricing since at least 1975.

Efforts to comply with Government safety, environmental, and fuel-economy standards and regulations account for most of the industry's capital expenditures between January 1975 and June 1980 (appendix table G37), although since 1979 the industry has increasingly regarded the fuel-economy standards as a demand of the consumer. Of expenditures connected with Government regulations, those related to efforts to comply with Government fuel-economy standards--such as those for downsizing automobiles and for increasing small-car capacity--account for by far the largest proportion. As reported in previous sections, U.S. producers' domestic capital expenditures as a share of cash flow from operations increased from 35.0 percent in 1976 to almost 130 percent in 1979. Much of the decline in the industry's return on its investment after 1974, moreover, was due to rapidly increasing capital expenditures that will not realize their full income potential until future periods.

APPENDIX A

U.S. INTERNATIONAL TRADE COMMISSION'S NOTICES

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Notice of Investigation and Hearings

(TA-201-44)

Certain Motor Vehicles and Certain Chassis and Bodies Therefor

AGENCY: United States International Trade Commission

ACTION: On the basis of a petition properly filed on June 12, 1980, and on the Commission's own motion, the Commission on June 30, 1980, instituted investigation No. TA-201-44 under section 201(b)(1) of the Trade Act of 1974 (19 U.S.C. 2251(b)(1)) to determine whether automobile trucks, except automobile truck tractors and truck trailers imported together; on-the-highway, passenger automobiles; and bodies (including cabs) and chassis for automobile trucks except truck tractors; provided for in items 692.02 and 692.03; 692.10 and 692.11; and 692.20 and 692.21; of the Tariff Schedules of the United States, are 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.

EFFECTIVE DATE: June 12, 1980.

SPECIAL PROCEDURE AND PUBLIC HEARINGS: In view of the complexity of the subject matter and the large volume of trade, the Commission has divided the 6-month investigative period into two segments of 4 1/2 months and 1 1/2 months, respectively.

During the first segment of the investigation, the Commission will consider the question of serious injury to the domestic industry under section 201(b)(1). At the close of this 4 1/2 month period, the Commission will make its determination under section 201(b)(1). A public hearing concerning the question of injury will be held beginning at 10:00 a.m., EDT, Wednesday, October 8, 1980, in the Hearing Room of the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436. A prehearing conference for the purpose of establishing time limitations for participants in this hearing will be held at 10:00 a.m., EDT, on Tuesday, September 16, 1980, in Room 117 (the "Sunshine Room") of the International Trade Commission Building in Washington. All persons wishing to appear at the hearing should so notify the Secretary to the Commission, in writing, no later than the close of business Monday, September 15, 1980.

To facilitate the hearing process, it is requested that persons wishing to appear at the hearing submit prehearing briefs enumerating and discussing the issues which they wish to raise at the hearing. Nineteen copies of such prehearing briefs should be submitted to the Secretary to the Commission no later than the close of business Wednesday, October 1, 1980. Copies of any

prehearing briefs submitted will be made available for public inspection in the Office of the Secretary. While submission of prehearing briefs does not prohibit submission of prepared statements in accordance with section 201.12(d) of the Commission's Rules of Practice and Procedure (19 C.F.R. 201.12(d)), it would be unnecessary to submit such a statement if a prehearing brief is submitted instead. Therefore, for the purpose of this proceeding, the Commission has waived the requirements of rule section 201.12(d). Any prepared statements submitted will be made a part of the transcript. Oral presentations should, to the extent possible, be limited to issues raised in the prehearing briefs. Posthearing briefs should be filed with the Secretary no later than the close of business October 17, 1980.

The second segment of the investigation, if necessary, will be concerned with the question of import relief to be recommended to the President under section 201(d) (1). (There will be no second segment if the Commissioners' determination under section 201(b) (1) is in the negative, since there will be no basis for recommending relief.) If there is a second segment, the Commission will hold a public hearing with respect to the question of relief beginning at 10:00 a.m., EST, Monday, November 24, 1980, in the Hearing Room of the International Trade Commission Building. All persons wishing to appear at this hearing should so notify the Secretary to the Commission, in writing, no later than the close of business Thursday, November 13, 1980. A prehearing conference for the purpose of establishing time limitations for participants in this hearing will be held at 10:00 a.m., EST, Friday, November 14, 1980, in Room 117 (the "Sunshine Room") of the International Trade Commission Building.

To facilitate this second hearing, it is requested that persons wishing to appear at the hearing submit prehearing briefs in accord with the procedures outlined above not later than the close of business Thursday, November 20, 1980. Posthearing briefs are not requested.

Persons not represented by counsel or public officials who have relevant matter to present may give testimony without regard to the suggested prehearing procedures outlined above.

In brief, the calendar of pertinent dates is as follows--

Injury Phase

Staff report available	Sept. 10
Notice of hearing appearance due	Sept. 15
Prehearing conference	Sept. 16
Prehearing briefs	Oct. 1
Hearing	Oct. 8
Post hearing briefs	Oct. 17

Remedy Phase (if necessary)

Notice of hearing appearance due	Nov. 13
Prehearing conference	Nov. 14
Prehearing briefs	Nov. 20
Hearing	Nov. 24

COMMISSION DATA AVAILABLE: The Commission will make available to requesting interested parties by September 10, 1980, a non-confidential version of its staff-prepared prehearing report. It is hoped that data in this report will serve as a common statistical base for presentations at the hearings.

OTHER WRITTEN SUBMISSIONS: Other written submissions, except for posthearing briefs, should be filed with the Secretary to the Commission prior to the public hearing concerning the subject matter of the submission. Commercial or financial data which is confidential should be clearly marked "Confidential Business Information" and should be submitted in accord with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Submissions should also conform to the general requirements of section 201.8 of the Commission's Rules (19 CFR 201.8).


FOR FURTHER INFORMATION CONTACT: Mr. Larry Reavis, Investigator (telephone: 202-523-0296) or Mr. William Gearhart, Advisory Attorney (202-523-0487).

INSPECTION OF PETITION. The petition filed in this case is available for public inspection at the Office of the Secretary, U.S. International Trade Commission, and at the New York City Office of the U.S. International Trade Commission located at 6 World Trade Center.

SUPPLEMENTARY INFORMATION: The petition in the matter was filed by the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW).

Section 201(d) (2) requires that the Commission transmit its report to the President not later than 6 months after the petition is filed, in this case by December 12, 1980.

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: July 1, 1980

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Notice of Change in Commission Procedures

(TA-201-44)

Certain Motor Vehicles and Certain Chassis and Bodies Therefor

AGENCY: United States International Trade Commission.

ACTION: Following receipt and consideration of a request from the President that the Commission expedite its investigation, similar requests from the petitioner and various members of the Congress, and letters in opposition to such expedited action, the Commission has determined that the schedule in this investigation should be revised and is establishing new dates for a hearing and the filing of submissions. The dates and procedures set forth in this notice supersede those set forth in the Commission's notice in this matter published in the Federal Register of July 7, 1980 (45 F.R. 45731).

This schedule is being revised in accordance with section 201(d) (2) of the Trade Act of 1974 (19 U.S.C. 2251(d) (2)), which states that the Commission's determination shall be made "at the earliest practicable time" In order to complete the investigation at the earliest practicable time, the Commission has decided that (1) the investigation will not be divided into separate injury and remedy segments with separate hearings and periods for filing documents; and (2) additional staff and Commission resources are being assigned or allocated to the investigation.

A public hearing concerning all issues in the investigation will be held beginning at 10 a.m., EDT, Wednesday, October 8, 1980, in Washington, D.C., at a place to be announced. A prehearing conference for the purpose of establishing time limitations for participants in this hearing will be held at 10 a.m., EDT, on Tuesday, September 16, 1980, in the Hearing Room of the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. 20436. All persons wishing to appear at the hearing should so notify the Secretary to the Commission, in writing, no later than the close of business Monday, September 15, 1980. The October 8 hearing will be concerned with all issues relating to injury and a possible remedy; the Commission will not hold the separate injury and remedy hearings announced in the earlier notice.

To facilitate the hearing process, it is requested that persons wishing to appear at the hearing submit prehearing briefs enumerating and discussing the issues which they wish to raise at the hearing. Nineteen copies of such prehearing briefs should be submitted to the Secretary to the Commission no later than the close of business Wednesday, October 1, 1980. Copies of any

prehearing briefs submitted will be made available for public inspection in the Office of the Secretary. While submission of prehearing briefs does not prohibit submission of prepared statements in accordance with section 201.12(d) of the Commission's Rules of Practice and Procedure (19 CFR 201.12(d)), it would be unnecessary to submit such a statement if a prehearing brief is submitted instead. Therefore, for the purpose of this proceeding, the Commission has waived the requirements of rule section 201.12(d). Any prepared statements submitted will be made a part of the transcript. Oral presentations should, to the extent possible, be limited to issues raised in the prehearing briefs. Posthearing briefs should be filed with the Secretary no later than the close of business, Friday, October 17, 1980.

Persons not represented by counsel or public officials who have relevant matter to present may give testimony without regard to the suggested prehearing procedures outlined above.

In brief, the calendar of pertinent dates is as follows--

Prehearing report available	Sept. 10
Notice of hearing appearance due	Sept. 15
Prehearing conference	Sept. 16
Prehearing briefs	Oct. 1
Hearing	Oct. 8
Posthearing briefs	Oct. 17

COMMISSION DATA AVAILABLE: The Commission will make available to requesting interested parties by September 10, 1980, a non-confidential version of the staff prehearing report. It is hoped that statistical data in this report will serve as a common statistical base for presentations at the hearing.

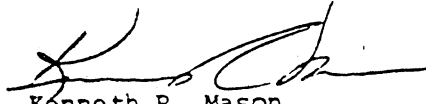
OTHER WRITTEN SUBMISSIONS: Other written submissions, except for posthearing briefs, should be filed with the Secretary to the Commission prior to the public hearing. Commercial financial data which is confidential should be clearly marked "Confidential Business Information" and should be submitted in accord with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Submissions should also conform to the general requirements of section 201.8 of the Commission's Rules (19 CFR 201.8).

FOR FURTHER INFORMATION CONTACT: Mr. Larry Reavis, Investigator (telephone: 202-523-0296) or Mr. William Gearhart, Advisory Attorney (202-523-0487).

INSPECTION OF PETITION: The petition filed in this case and the letters requesting expedited consideration are available for public inspection at the Office of the Secretary, U.S. International Trade Commission, and at the New York City Office of the U.S. International Trade Commission located at 6 World Trade Center.

SUPPLEMENTARY INFORMATION: The petition in the matter was filed by the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW).

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: July 21, 1980

UNITED STATES INTERNATIONAL TRADE COMMISSION

Washington, D.C.

Certain Motor Vehicles and Certain Chassis and Bodies Therefor


(TA-201-44)

Place of Hearing

Notice is hereby given that the public hearing in this matter set to begin at 10 a.m. Wednesday, October 8, 1980, will be held in the Great Hall of the U.S. Department of Justice, Constitution Avenue, between 9th and 10th Streets NW., Washington, D.C.

Notice of the investigation and hearing and notice of a change in Commission procedures were published in the Federal Register of July 7, 1980, and July 22, 1980 (45 F.R. 45731 and 45 F.R. 48996, respectively).

By order of the Commission.


Kenneth R. Mason
Secretary

Issued: July 28, 1980

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

(TA-201-44)

Certain Motor Vehicles and Certain Bodies
Chassis Therefor

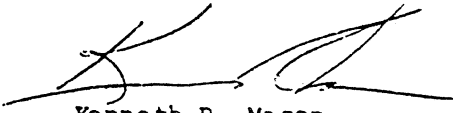
Notice of Receipt of Ford Motor Co. Petition

On August 4, 1980, the Commission received a petition for import relief filed by the Ford Motor Company (Ford) under section 201 of the Trade Act of 1974 (19 U.S.C. 2251) with respect to imports of passenger cars, light trucks, vans, and utility vehicles. In its petition Ford refers to the Commission's ongoing investigation, instituted June 30, 1980, following receipt of a petition filed by the UAW. Ford urges the "expeditious completion" of the investigation and stated its intention to participate in the Commission's public hearing set to begin October 8, 1980. Ford does not ask for a second investigation or a change in scope of the present investigation or Commission procedures with respect to the investigation. Ford states that it is filing its own petition "to provide the Commission with an additional perspective on the nature and extent of the industry's injury and to emphasize the importance of the requested relief to the domestic producers."

Since the imported articles against which Ford requests relief are already the subject of an investigation, and since Ford is not seeking a second investigation or a change in scope of the present investigation, the Commission considers Ford to be a copetitioner for import relief in the investigation that is already under way.

Notice of institution of the investigation and public hearings was published in the Federal Register of July 7, 1980 (45 F.R. 45731); notice of change in Commission procedures was published in the Federal Register of July 22, 1980 (45 F.R. 48996); and notice of the place of the Commission hearing was published in the Federal Register of August 6, 1980 (45 F.R. 52280).

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: August 18, 1980.

APPENDIX B

CALENDAR OF WITNESSES FOR THE COMMISSION'S PUBLIC HEARING

TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Certain Motor Vehicles and Certain
Chassis and Bodies Therefor

Inv. No. : TA-201-44

Date and time: October 8, 1980 - 10:00 a.m., e.d.t.

Sessions were held in the Great Hall of the U. S. Department of Justice, Constitution Avenue, between 9th and 10th Streets, N.W., in Washington.

Congressional appearances:

Honorable Donald W. Riegle, United States Senator, State of Michigan

Honorable Carl Levin, United States Senator, State of Michigan

Honorable William Faust, Majority Leader of the Michigan Senate

Government appearances:

Federal Trade Commission, Washington, D.C.

David I. Wilson, Assistant Director, Bureau of Competition

Martha H. Oppenheim, Attorney, Bureau of Competition

Philip W. Jaynes, Economist, Bureau of Economics

James Langenfeld, Economist, Bureau of Economics

David Barton, Economist, Bureau of Economics

Michael Lynch, Acting Director, Bureau of Economics

Perry Johnson, Director, Bureau of Competition

- more -

OTHER INTERESTED PARTY:

David J. Steinberg, President, U. S. Council for an Open World
Economy, Inc., Alexandria, Virginia

IN SUPPORT OF THE PETITIONS:

Eugene L. Stewart--Counsel
Washington, D.C.
on behalf of

The International Union, United Automobile Aerospace &
Agricultural Implement Workers of America-UAW

Douglas A. Fraser, President

Howard Young, Director of Research and Special
Consultant to the President

Stephen I. Schlossberg, Esq., Director, Government
and Public Affairs, International Union, UAW

Eugene L. Stewart--SPECIAL COUNSEL

Adduci, Bocskor & NewDelman--Counsel
Washington, D.C.
on behalf of

The Coalition of Automotive Component and Supply Workers

Howard D. Samuel, President, Industrial Union Department,
AFL-CIO and Chairman, Coalition of Automotive Component
and Supply Workers

David J. Fitzmaurice, President, International Union of
Electrical, Radio and Machine Workers

H. Wayne Yarman, International Executive Vice President,
United Glass and Ceramic Workers of North America

Dominick D'Ambrosio, President, International Union Allied
Industrial Workers of America

Jerry Thompson, on behalf of George J. Poulin, General
Vice President, International Association of Machinists
and Aerospace Workers

- more -

Peter Bommarito, President, United Rubber, Cork, Linoleum
and Plastic Workers of America

Edmund Ayoub on behalf of Lloyd McBride, President,
United Steelworkers of America

Dr. Brian Turner, Director of Economic Policy,
Industrial Union Department - AFL-CIO

V. James Adduci, II }
Ms. Catherine E. Bocskor }--OF COUNSEL

Collier, Shannon, Rill & Scott--Counsel
Washington, D.C.
on behalf of

The Automotive Materials Industry Council of the United States
(AMICUS)

Economic Consulting Services, Inc.

Stanley Nehmer, President

Mark F. Eaton

Robert W. Carlton, Senior Vice President-Administration,
Hayes-Albion Corporation, Jackson, Michigan

Fred Meyer, Vice President for Public Relations of
Arvin Industries

Thomas F. Shannon }
Paul D. Cullen }
Ms. Lauren R. Howard }--OF COUNSEL

Butler, Binion, Rice, Cook & Knapp--Counsel
Washington, D.C.
on behalf of

Automobile Dealer's Panel

Robert P. Mallon, Mallon Motors Inc., Takoma, Washington

James B. Woulfe, Shamrock Ford, Dublin, California

Nate Conyers, Conyers Ford, Detroit, Michigan

Tom Coward, Tom Coward Ford, Oxnard, California

Richard Hatfield, Dick Hatfield Chevrolet, Augusta, Kansas

- more -

Dois Rosser, Hampton, Virginia

Charles T. Wickersham, Courtesy Pontiac, AMC Jeep, Orange, Texas

Nat Shulman, Best Chevrolet, Hingham, Mass.

Stephan M. Minikes)
Jeffrey W. Jacobs)--OF COUNSEL
Bruce A. Leicher)

Hughes, Hubbard & Reed--Counsel
Washington, D.C.
on behalf of

Ford Motor Company

Philip Caldwell, Chairman of the Board and
Chief Executive Officer, Ford Motor Company

Fred Secrest, until June 1, 1980, Executive Vice President,
Ford Motor Company, and currently a consultant to the company

David N. McCammon, Vice President - Corporate Strategy and
Analysis, Ford Motor Company

Professor H. Hymans

Daniel B. Suits, Professor of Economics, Michigan State University

Peter D. Ehrenhaft--OF COUNSEL

H. R. Nolte - Vice President & General Counsel

INTERESTED PARTIES:

General Motors Corporation, Detroit, Michigan

Dr. David S. Potter, Vice President and Group Executive in charge
of Public Affairs

David N. Goldsweig)
Geoffrey S. Walker)--OF COUNSEL

Donohue and Donohue--Counsel
New York, N. Y.
on behalf of

Volkswagen of America, Inc.

Philip A. Hutchinson, Jr., Esq., Director, Government
& Industry Relations

Joseph F. Donohue, Sr.)
Joseph F. Donohue, Jr.)--OF COUNSEL

- more -

IN OPPOSITION TO THE PETITIONS:

Busby, Rehm and Leonard--Counsel
Washington, D.C.,
on behalf of

Automobile Importers of America, Inc. (AIA)

Ralph T. Millet, Chairman, Board of Directors, AIA

John G. Reilly, Economist, ICF Incorporated

David Busby)
John B. Rehm)
Will E. Leonard)--OF COUNSEL
Michael J. Glennon)

Patton, Boggs & Blow--Counsel
Washington, D.C.,
on behalf of

American International Automobile Dealers Association (AIADA)

Robert M. McElwaine, President, AIADA

Edward Connelly, Chairman, AIADA

Dr. Charles Pearson, Economist

Bart S. Fisher)
Steven M. Schneebaum)--OF COUNSEL
George M. Borababy)

Tanaka, Walders & Ritger--Counsel
Washington, D.C.,
on behalf of

The Japan Automobile Manufacturers Association, Inc.

Robert Nathan, President, Robert Nathan & Associates

Dr. Stephen J. Hellebusch, Research Director, Burke Marketing
Research

H. Willian Tanaka)
Lawrence R. Walders)
B. Jenkins Middleton)--OF COUNSEL
Craig A. Schwandt)
Robert S. Schwartz)
James Davenport)

Webster, Johnston, McGeorge & Davidson--Counsel
Washington, D.C.
on behalf of

Toyota Motor Sales, U.S.A., Inc.

Norman D. Lean, Senior Vice-President and General Operations
Manager, Toyota Motor Sales, U.S.A., Inc., Torrence,
California

Dr. Conlin J. Loxley, Director of Contracts Research, Wharton
Econometric Forecasting Associates, Inc.

Edward L. Lindquist, National Marketing Planning and Research
Manager

Dan Webster)	
Charles R. Johnston, Jr.)	
Robert L. McGeorge)	--OF COUNSEL
Mark L. Davidson)	
Bruce W. Owens)	
William A. Plourde)	--CORPORATE
Patrick J. McGill)	COUNSEL--
		TOYOTA

Verner, Liipfert, Bernhard and McPherson--Counsel
Washington, D.C.,
on behalf of

Nissan Motor Corporation in U.S.A.

Michael A. Cornelius, General Counsel, Nissan Motor
Corp. in U.S.A.

Technicon Analytic Research, Inc., Philadelphia, Pennsylvania

William F. Finan

Robert Edelstein

John Gladen, Director of Market Planning, Nissan Motor Corp.
in U.S.A.

Alan William Wolff)	
Elliott Abrams)--OF COUNSEL
R. Michael Gadbaw)	

- more -

Covington & Burling--Counsel

Washington, D.C.

Lyon & Lyon--Counsel

Los Angeles, California

on behalf of

Honda Motor Co., Ltd., American Honda Motor Co., Inc.
and Honda of America Mfg., Inc.

Thomas G. Elliott, Assistant Vice President, Sales
Operation Manager, American Honda Motor Co., Inc.

Isao Suzuki, Assistant to the President, American
Honda Motor Co., Inc.

Covington & Burling

Harvey M. Applebaum)
Ms. Lyn M. Schlitt)
John Warden)--OF COUNSEL
Mark D. Herlach)

Lyon & Lyon

James J. Short)--COUNSEL

Arter, Hadden & Hemmendinger--Counsel

Washington, D.C.

on behalf of

Subaru of America, Inc.

Harvey H. Lamm, President

Arter, Hadden & Hemmendinger

Noel Hemmendinger)
Barry E. Cohen)--OF COUNSEL

Philip L. Lustbader - Chief Corporate
Counsel

- more -

Barnes, Richardson & Colburn--Counsel
Washington, D.C.
on behalf of

Alfa Romeo, Inc.

Rufus R. Jarman, Jr. }--OF COUNSEL
Kenneth G. Weigel }

Weil, Gotshal & Manges--Counsel
Washington, D.C.
on behalf of

BMW of North America, Inc.

John A. Cook, President of BMW of North America, Inc.

Michael DeMarco, Marketing Research Manager for BMW
of North America, Inc.

Stuart M. Rosen }--OF COUNSEL
Bruce H. Turnbull }

Donohue and Donohue--Counsel
New York, N. Y.
on behalf of

Fiat Motors of North America, Inc.

Richard Recchia, President, Fiat Motors of North America, Inc.

Gerald C. Fallon, Vice President & General Counsel, Fiat
Motors of North America, Inc.

Dr. Michael Lucky, Merrill Lynch Economics, Inc.

Joseph F. Donohue, Sr. }--OF COUNSEL
James A. Geraghty }

Barnes, Richardson & Colburn--Counsel
Washington, D.C.
on behalf of

Mercedes-Benz of North America, Inc.

E. Thomas Honey }--OF COUNSEL
Gunter von Conrad }

- more -

Cleary, Gottlieb, Steen & Hamilton--Counsel
Washington, D.C.
on behalf of

Peugeot Motors of America

Anthony Aldarelli, General Manager of Sales & Marketing

Peter Paine }
Richard DeC. Hinds) --OF COUNSEL

Wiggin & Dana--Counsel
New Haven, Connecticut
on behalf of

Saab-Scania of America, Inc., Orange, Connecticut

Robert J. Sinclair, President

Eugene G. Agres, Vice President - Finance & Administration

John Phleps Clark }
J. Drake Turrentine) --OF COUNSEL

Donohue and Donohue--Counsel
New York, N. Y.
on behalf of

Volvo of America Corporation of Rockleigh, New Jersey

Bjorn Ahlstrom, President

Paul E. Dixon, Esq., Vice President and General Counsel

John P. Donohue--OF COUNSEL

Sullivan & Cromwell--Counsel
Washington, D.C.
on behalf of

Renault USA, Inc.

Pierre Gazarian, Executive Vice President and General
Manager, Corporate Group, Renault USA, Inc.

James E. Akers--OF COUNSEL

OTHER INTERESTED WITNESS:

Sheldon Richman, Director of Research, Council for a Competitive
Economy, Washington, D.C.

APPENDIX C

OTHER INVESTIGATIONS CONDUCTED BY THE COMMISSION
INVOLVING THE U.S. AUTOMOBILE INDUSTRY

Inquiry No. AA1921-Inq.-2

On August 7, 1975, the Commission received advice from the Department of the Treasury that antidumping investigations were being initiated with respect to new, on-the-highway, four-wheeled, passenger automobiles from Belgium, Canada, France, Italy, Japan, Sweden, the United Kingdom, and West Germany, and that, pursuant to section 201(c) of the Antidumping Act of 1921, as amended, information developed during Treasury's preliminary investigation which led to the conclusion that there was substantial doubt whether an industry in the United States was being or was likely to be injured, or was prevented from being established, by reason of the importation of such automobiles into the United States. Accordingly, the Commission on August 8, 1975, instituted inquiry No. AA1921-Inq.-2, under section 201(c)(2) of the act to determine whether there was no reasonable indication that an industry in the United States was being or was likely to be injured, or was prevented from being established, by reason of the importation of such merchandise into the United States. Notice of the investigation and of the public hearing was published in the Federal Register of August 13, 1975 (40 F.R. 34027).

On the basis of its inquiry, the Commission determined that Treasury's investigation into the nature and extent of sales at less than fair value should continue with respect to the subject imports from all eight countries under investigation. 1/ 2/ Had the Commission found that there was no reasonable indication of injury, Treasury's investigation would have been terminated.

1/ Commissioners Leonard, Moore, Bedell, and Parker determined that the Treasury investigation should continue with regard to imports from all eight countries covered by the inquiry; Commissioner Ablondi determined that it should continue with regard to Japan, Italy, and West Germany, but that there was no reasonable indication of injury with regard to allegedly less-than-fair-value imports from Belgium, Canada, France, Sweden, or the United Kingdom; and Commissioner Minchew found that there was no reasonable indication of injury with regard to allegedly less-than-fair-value imports from any of the eight countries.

2/ See New, On-the-Highway, Four-Wheeled Passenger Automobiles from Belgium, Canada, France, Italy, Japan, Sweden, the United Kingdom, and West Germany . . . Inquiry No. AA1921-Inq.-2, . . . , USITC Pub. 739, September 1975. A-98

The Treasury Department instituted its investigation after receiving a complaint on July 8, 1975, from Congressman John H. Dent of Pennsylvania. A similar complaint was received on July 11, 1975, from the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America-UAW. On the basis of the Commission's 30-day inquiry determination, Treasury continued its investigation and, on Friday, August 13, 1976, announced the discontinuance of its antidumping investigation of imported passenger automobiles. Beginning in May of 1976, the Treasury Department sought written price assurances from the motor-vehicle manufacturers of imports found to be selling at less than fair value in the United States. Treasury chose not to withhold appraisement of passenger automobiles imported from the eight countries or to send the case to the Commission because of possible disruption of sales of the imported vehicles in question and the effect this would have on the foreign producers and countries in question.

In May of 1976, Treasury announced that, of the 28 firms investigated, only 5 firms (Nissan, Toyota, Honda, Porsche, and Rolls Royce) were found to be selling all of their automobiles in the United States at fair value during the period January-August 1975. All of the other 23 firms in the eight countries in question were found to be selling at least some of their vehicles at less than fair value during January-August 1975. However, Treasury noted that if the cost of emission control equipment comparable to that required for cars produced for sale in the United States were added to the cost of vehicles produced for the home markets of the countries in question, combined with allowances for certain exchange rate fluctuations, de minimus margins would be eliminated for 14 of the 23 firms. These 14 firms, including all of the remaining Japanese firms, were not required to provide letters of assurance to Treasury, but were required to submit to price

monitoring by Treasury for at least the next 2 years. Included among the 14 firms were Fiat and British Leyland, which had withdrawn their lowest priced vehicles from the U.S. market earlier in 1976.

Canadian-made passenger automobiles, with the possible exception of those produced by AMC, were found to be selling in the United States at less than fair value during the period January-August 1975. As a result, GM, Ford, and Chrysler were required to assure Treasury, in writing, that they would continue their efforts to eliminate the price differential between vehicles sold in Canada and those sold in the United States. No deadline was required for the elimination of the price differential.

During the period May-August 1976, Treasury sought and finally obtained written assurances from the five remaining firms (Volkswagen, Renault, Ford of West Germany, Saab, and Volvo) that their prices would be adjusted to fair levels. As a result of the receipt of these assurances, Treasury discontinued its antidumping investigation but announced that it would monitor prices of the 5 firms for at least 2 years to assure that less-than-fair-value sales would not resume.

Investigation No. 332-76

On July 9, 1975, the U.S. International Trade Commission received a request from the Committee on Finance of the United States Senate to conduct an indepth study of the U.S.-Canadian automotive agreement, its history, its terms, and its impact, and to answer several specific questions on the operations of the agreement, which had been in effect since 1965. The Commission's report on investigation No. 332-76, under section 332 of the Tariff Act of 1930, was

transmitted to the Senate Finance Committee on January 22, 1976, and was published as a document of the Senate Finance Committee shortly thereafter. 1/

Other Commission publications on automobiles

In addition to the above cited investigative reports, the Commission publishes in the spring and fall of each year two statistical surveys of automotive trade. Series A, usually published in June, concentrates on U.S.-Canadian trade in automobiles, trucks, buses, snowmobiles, and automotive parts; while Series B, usually published in September, concentrates on U.S. trade in automobiles with the major sources of automobile imports. 2/

1/ See Canadian Automobile Agreement, United States International Trade Commission Report on the United States-Canadian Automotive Agreement: its history, terms, and impact . . . published by the Committee on Finance, United States Senate, U.S. Government Printing Office (62-478-0), January 1976.

2/ See Automotive Trade Statistics, 1964-79: U.S. Factory Sales, Imports, Exports, Apparent Consumption, and Trade Balances with Canada and All Other Countries (Series A: Motor Vehicles), USITC Publication 1078, June 1980 and Automotive Trade Statistics, 1964-78: U.S. Factory Sales, Retail Sales, Imports, Exports, Apparent Consumption, Suggested Retail Prices, and U.S. Bilateral Trade Balances, with the Eight Major Producing Countries (Series B: Passenger Automobiles), USITC Publication 1002, September 1979.

APPENDIX D

STATISTICAL DATA RELATED TO TRUCKS OVER 10,000 POUNDS GVW
BUT UNDER 33,000 POUNDS GVW

Table D1.--Trucks over 10,000 pounds GVW but under 33,000 pounds GVW and chassis therefor: U.S. imports for consumption, by principal sources, 1975-79, January-June 1979, and January-June 1980

Source	1975	1976	1977	1978	1979	January-June--	
						1979	1980
Quantity (units)							
Canada-----	37,200	41,900	26,637	11,283	8,765	5,313	2,705
Brazil 1/-----	1,163	1,516	1,560	2,500	3,041	1,000	1,852
Sweden 1/-----	101	251	211	557	559	230	269
Belgium 1/-----	-	2	143	230	1,223	300	425
Federal Republic of							
Germany 1/-----	-	-	66	479	973	570	788
France 1/-----	-	-	-	-	3	3	496
Italy 1/-----	-	-	-	-	8	8	74
Total-----	38,464	43,669	28,617	15,049	14,572	7,424	6,629
Percentage distribution, by quantity							
Canada-----	96.7	95.9	93.1	75.0	76.4	71.6	41.1
Brazil-----	3.0	3.5	5.4	16.6	12.4	13.5	27.9
Sweden-----	.3	.6	.7	3.7	2.3	3.1	4.1
Belgium-----	-	-	.5	1.5	5.0	4.0	6.4
Federal Republic of							
Germany-----	-	-	.3	3.2	4.0	7.7	11.9
France-----	-	-	-	-	-	-	7.5
Italy-----	-	-	-	-	-	-	1.1
Total-----	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1/ Estimated							

1/ Estimated

Source: Wards Automotive, Automotive News, and official statistics of the Department of Commerce.

Table D2.---Trucks over 10,000 pounds GVW but under 33,000 pounds GVW and chassis therefor: U.S. producers' shipments, imports for consumption, exports of domestic merchandise, and apparent consumption, 1975-79, January-June 1979, and January-June 1980

Period	(units)										Ratio (percent) of imports		
	U.S. pro- ducers shipments	Imports			Exports 2/ Total	Apparent consumption	to consumption		All others	Total			
		From Canada 1/	From all other countries				Canada						
1975-----	227,581	3/37,200	3/1,264	38,464	3/44,703	221,342	16.8	16.8	.6	17.4			
1976-----	223,687	3/41,900	3/1,769	43,669	3/34,237	233,119	17.9	17.9	.8	18.7			
1977-----	204,441	26,637	3/1,980	28,716	29,222	203,935	13.1	13.1	1.0	14.1			
1978-----	233,077	11,283	3/3,766	15,049	30,601	217,525	5.2	5.2	1.7	6.9			
1979-----	205,206	8,765	3/5,807	14,572	32,583	187,195	4.7	4.7	3.1	7.8			
January-June--													
1979-----	121,227	5,313	3/2,110	7,424	16,810	111,841	4.7	4.7	1.9	6.6			
1980-----	67,521	2,725	3/3,904	6,629	11,582	62,568	4.4	4.4	6.2	10.6			

1/ Virtually all imports from Canada are captive imports by U.S. producers.

2/ Approximately 50 percent of all exports are exports to Canada; for the periods indicated above, exports to Canada (beginning 1975) were 20,235; 16,347; 14,255; 14,128; 17,010; 9,576; and 6,109, respectively.

3/ Estimated

Source: Motor Vehicle Manufacturers Association, Automotive News, Wards Automotive, and official statistics of the U.S. Department of Commerce.

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APPENDIX E

SURVEY OF AUTOMOTIVE TRADE RESTRICTIONS
MAINTAINED BY SELECTED NATIONS

Industrialized Countries Surveyed

Australia: A local content requirement of 85 percent is in effect. However, under the Export Facilitation Scheme, due to commence on March 1, 1982, Australian car manufacturers would be allowed to credit exports against local content requirements. These credits will increase from 5 percent in 1982 to 6.25 percent in 1983 and 7.5 percent in 1984 and can be used to import components duty free. The effect would be to reduce the local content requirement to 75 percent by 1984. Australia maintains a quota limiting imports of assembled vehicles to 20 percent of the existing market. There are import tariffs of 35-57.2 percent depending on stage of assembly. No export incentives exist. General Motors, Ford, Chrysler, Toyota and Nissan produce vehicles in Australia.

Austria: No local content regulations or export requirements are in effect in Austria. The automobile import duty is 20 percent. The value added tax (VAT) on automobiles is 30 percent. Steyr-Daimler-Puch (S-D-P) produces mopeds, trucks, buses and tractors. General Motors will shortly begin production of automobile engines and transmissions. S-D-P and PMA will soon produce diesel automobile engines.

Belgium: No local content regulations or export requirements are maintained by Belgium. There are reportedly quantitative restrictions on imports from Japan, Taiwan, South Korea, Indochina, and Eastern European countries. The import tariff on automobiles is the EC's 10.9 percent common external tariff. A 25 percent value added tax is levied on all automobiles sold in Belgium. Ford, GM, British Leyland, Peugeot-Citroen, and Volvo assemble cars and trucks, while Renault and Volkswagen assemble only automobiles in Belgium.

Canada: U.S.-Canadian auto trade is conducted under the terms of the Automotive Parts Trade Agreement (APTA). This trade is duty free. Canada has a 14.2 percent import duty on imports of non-U.S. cars and trucks and has safety and emission requirements similar to the United States. There are no local content requirements or quantitative restrictions. Chrysler, GM, Ford, AMC and Volvo have manufacturing facilities in Canada.

Denmark: There are no restrictions on automobile imports except the 10.9 percent EC common external tariff. A 20.25 percent VAT is levied.

France: There are no local content regulations or export requirements. Imports of Japanese automobiles have never risen to over 3 percent of the market and the French government has announced that it does not want them to exceed this level. The EC's 10.9 percent automobile tariff applies. There is a 33.3 percent VAT. General Motors and Ford produce components in France.

Germany: There are no local content, export requirements, or quantitative limitations. Germany applies the EC's 10.9 percent common external tariff on automobiles and has a 13 percent VAT. Germany maintains rigid safety and emissions standards. In addition, there is a graduated motor vehicle tax based on horsepower. General Motors and Ford have manufacturing/assembly plants.

Italy: No local content regulations or export requirements exist. Italy applies the EC's 10.9 percent common external tariff on automobiles. Italy has formal quantitative restrictions on vehicle imports from certain Far Eastern (1980 allotment from Japan is 2,200 cars) and Eastern European countries. In addition, Italy's strict safety standards make certification of imported automobiles difficult to obtain. The automobile import duty is 10.9 percent. A VAT varying from 18-35 percent depending on engine size is applicable to all automobile sales.

Japan: Japan maintains no local content requirements or quantitative restrictions or import duties on automobiles. There is a 15 or 20 percent commodity tax levied on automobiles depending on engine size and on overall auto dimensions, and an annual automobile tax which also increases by engine size. The mechanical safety and environmental modifications required to comply with Japanese stringent vehicle regulations have discouraged imports. Additional disadvantages to American automobiles include the higher dealer margins and a complicated multi-layered distribution system.

Netherlands: The Dutch vehicle manufacturing industry is relatively small. DAF a Dutch firm, manufactures commercial and military vehicles. Volvo produces passenger cars and there are a number of smaller Dutch bus and trailer manufacturers. The tariff on automobiles is 10.9 percent for imports of automobiles from the U.S. into the EEC. There is an 18 percent value-added tax. Additionally, manufacturers or importers of passenger cars have to pay a special consumption tax of 16 or 17 percent. Imports are not subject to any special import licenses or quantitative restrictions.

New Zealand: There are no specific regulations dictating the amount of local content in automobiles assembled in this country. However, an import licensing system mandates the use of local components. Tariffs for completely built up autos (CBU) are: 55 percent for general tariff; 20 percent for Australia and the U.K.; and 33.3 percent to 55 percent for Canada depending on the level of commonwealth country content. Import tariffs for completely knocked down (CKD) units are: 45 percent general tariff rate; preferential rates of 6.25 percent for Australia and the U.K., and 13.75 percent to 45 percent for Canada depending on the level of Commonwealth country content. Certain Australian CKD autos are duty free and certain CKD autos are subject to a 10 percent duty under terms of the New Zealand Australian Free Trade Association. Licenses are required to import CKD cars but are, in effect, obtained automatically by assemblers. Licenses for CKD units are strictly controlled and currently maintained at a level of approximately 4 to 5 percent of the total annual sales of 65,000 to 70,000 units. Ford, General Motors, Chrysler, Toyota, British Leyland, Honda, Mazda, Skoda, Subaru, Datsun, Mitsubishi, and Talbot (Peugeot) have local assembly plants.

Norway: There are no local content regulations or vehicle import restrictions. Automobile import tariffs are 7.6 percent with an additional vehicle tax varying from 68-153 percent of the vehicle value. There is no automobile production in Norway.

Spain: Local content requirement for vehicles assembled in Spain is 55 percent. There are no import quotas. The import tariff for non-EC/EFTA source vehicles is 68 percent with a compensatory import tax of 13 percent. Luxury tax varies between 17.6-35 percent depending on horsepower of vehicle. Fiat, Renault, Citroen, Peugeot, Ford, General Motors have assembly operations in Spain.

Sweden: There are no local content regulations. There is a 9 percent CIF import tariff on passenger cars and a 20.63 percent VAT on the duty paid value. There are apparently nonrestrictive import licenses, as well as stringent safety and emission standards. Swedish producers receive a rebate of all duties paid on imported components incorporated in a car which is exported. Only Saab and Volvo manufacture in Sweden.

Switzerland: Tariffs on passenger vehicles imported into Switzerland from the U.S. range from Swiss Francs 79.67 to 134.50 per 100 kilograms gross. Swiss impose duties on weight rather than on value. Substantially lower tariffs have been accorded to EC and EFTA suppliers. In addition, a turnover tax of 6.4 percent ad valorem is levied. No quantitative import restrictions are maintained; however, at time of registration of an imported vehicle in Switzerland, the U.S. made product must conform with the Swiss Regulations on Construction and Equipment of Motor Vehicles, amendments to which became effective on January 1, 1980. The objectives of the amendments are to reduce gradually noise level limits by October 1, 1982 and 1986, respectively. Swiss-made trucks and jeeps are manufactured and assembled at Arbon in the Canton of Thurgau.

United Kingdom: There are no local content regulations or export requirements. The import tariff on automobiles is the EC's common external tariff of 10.9 percent. It has been publicly reported that imports from Japan are voluntarily limited by the Japanese manufacturers to approximately 10 percent of the market. British Leyland, Ford, GM, and Peugeot-Citroen manufacture in the U.K. In addition there are numerous small, specialty firms. Current plans are for British Leyland to manufacture Honda designed automobiles in the near future.

Developing Countries SurveyedThe Andean Pact's Automotive Program

In 1977 the five Andean Pact members (Bolivia, Colombia, Ecuador, Peru, Venezuela) signed an agreement calling for the production of vehicles based on local componentry, with local content eventually reaching 70 percent. According to the Pact's schedule, the program will be in effect by the end of 1983. However, due to disagreements by Pact members as to who would produce certain types of vehicles and, even more importantly, key components such as engines, progress in implementing the program has been slow.

A Common External Tariff is to give protection against non-pact vehicles, 115 percent in the case of passenger cars similar to those to be produced in the Andean region and 155 percent for cars other than those produced there.

The following companies have signed agreements to participate in the program: General Motors, Volkswagen, and Fiat; other companies that are considering participating are: Ford, Renault, Mack Trucks, Nissan, Pegaso, and Volvo. In addition to these general provisions, member countries have the following specific rules:

Bolivia: There are no vehicle manufacturing or assembly operations in Bolivia.

Colombia: A 33 percent local content regulation is maintained on firms which assemble automobiles from imported components. Imported automobiles are assessed a 150 percent duty, a 35 percent sales tax, a 5 percent export promotion fee, a 1.5 percent export diversification fund tax, and a 1 percent consular invoice fee. There are no quantitative restrictions, but import licenses are used to restrict imports. Renault produces passenger cars. GM produces automobiles, trucks and van chassis. Fiat produces cars, trucks and buses.

Ecuador: There are presently no local content restrictions or export requirements in Ecuador. Import duties on automobiles range from 100 percent to 190 percent depending on price; on trucks and vans duties are 80 percent or 100 percent depending on type and capacity; and on four wheel drive vehicles they are 60 percent or 70 percent depending on price. In addition, an import surcharge of 30 percent on the c.i.f. value is applied to all motor vehicle imports except trucks. On all items, importation requirements call for a 1 percent service charge and a 50 percent prior deposit, both on the c.i.f. value. Importers are required to prepay 80 percent of the import duties before the import license is received. This license is issued by the Ministry of Industries, Commerce and Integration. In addition to the overall quota, each automotive dealer or distributor is assigned an individual quota. This is computed on the basis of past imports, and therefore, it varies for each distributor/dealer. Newly established dealers are assigned a quota of \$40,000 per each six months.

Ecuador has begun to implement its ANCOM (Andean Common Market) assigned rights to manufacture: (1) light passenger cars and engines of 1050-1500 cc. motor size, and (2) light trucks and transmissions of 3.0-4.6 metric tons capacity. The Ecuadorean Government and Volkswagen signed a contract in December 1978 for the production of a passenger car. General Motors is carrying out feasibility studies for the production of light trucks.

Peru: Local content regulations require 10-35 percent local content depending on vehicle type. Although built up vehicle imports have been prohibited to date, reports are that import licenses will be obtainable in 1980. Import tariffs are 60 percent on trucks and 155 percent on automobiles. There is a 14.4 percent manufacturers tax. Exports are encouraged by rebating the import duties paid on imported components in the exported vehicle. Chrysler, Volkswagen, and Nissan assemble cars and trucks. Toyota assembles cars and Volvo assembles trucks.

Venezuela: Local content regulations call for annual increases from 48 percent currently to 90 percent in 1985. Imports are restricted to vehicle types produced locally. The tariff on imports is 120 percent on Venezuelan Government reference price. Export requirements are based on a percent of the value of national automobile production and in some instances they are quantitative requirements written into the assembler's contract. In addition to three local firms, Renault and Volkswagen assemble cars; Fiat, GM, and Ford assemble cars and trucks; Mack and International assemble trucks; and AMC and Toyota assemble jeeps.

According to press reports, the Venezuelan Economic Cabinet approved a new automobile import policy on April 24, 1980. Now prohibited is the importation of 8-cylinder models (except by the government). All other models not produced in the country could be imported without license upon payment of ad valorem duty of 120 percent and a specific duty of 100 Bolivars per kilo. Models similar to those produced in Venezuela would pay an ad valorem duty of 120 percent only. Vans and 9-11 passenger vehicles would pay 135 percent ad valorem and 100 Bolivars per kilogram specific duties. Effective date of this new measure will presumably depend on publication of corresponding decree in the official gazette with new list of reference prices for 1980. Last year this took place on June 1st.

Other Developing Countries

Algeria: There are no automobile manufacturing assembly operations in Algeria. Unspecified quantitative restrictions on automobiles are in effect. Import duties on automobiles range from 40-50 percent.

Argentina: Local content regulations exist for all vehicles as follows: passenger - 93 percent in 1980, reduced to 88 percent in 1982; commercial - from 93-90 percent in 1980, reduced to 75-83 percent in 1982. Import tariffs on vehicles are 35 percent on cars (declining to 55 percent in 1982) and 65 percent on trucks (declining to 45 percent in 1982). Minimum import prices are \$4 per cubic centimeter engine displacement plus 15 percent freight on cars. Export requirements apply only to intercompany parts shipments. Under this requirement exports must be 3 times the import level. Ford, Volkswagen, Fiat-Peugeot, Mercedes-Benz, and Saab have manufacturing facilities in Argentina.

Brazil: Local content regulations are in effect but are now individually negotiated with each firm with factors such as the individual firms balance of payments being taken into account.

Export incentives in the form of reduced import tariffs on parts are granted (under GATT these are being phased out). Imports of automobiles are currently embargoed. Normally, import tariffs on passenger cars are from 185 percent to 205 percent. In addition there is a system of minimum import values based on the car's weight. Passenger cars are produced in Brazil by Ford, GM, Volkswagen, Toyota, Puma and Fiat. Trucks are manufactured by Ford, Chrysler, GM, Mercedes, Fiat, Saab, Volvo, and Toyota.

Chile: Local content regulations requiring 30 percent of assembled cost for automobile manufacturers are in force. Exports are not required unless local content is less than 30 percent. In this case the local assemblers must export sufficient products to reach 30 percent of local production costs. Import tariffs on automobiles range from 10-80 percent depending on engine displacement. The 80 percent tariff will be reduced each year to reach a final rate of 10 percent in 1986. There is a 100 percent consumption tax if an automobile's CIF value plus duty, plus a 20 percent VAT exceeds \$12,000. This consumption tax only applies to the amount over \$12,000. There are no quantitative restrictions. GM assembles automobiles and trucks. Citroen, Fiat and Peugeot-Renault assemble automobiles.

Egypt: Local content regulations vary by contract with each assembler. Fiat has a joint venture for automobiles with 30 percent to 40 percent local content required and AMC Jeeps are assembled with a 15-20 percent local content. There are no export requirements. Import duties vary from 85 percent to 200 percent depending on engine size and number of cylinders. Individuals are allowed to import only one car every two years and the importation of right hand drive cars is forbidden. Payment of import duties must be made in hard currency.

Ghana: There are no local content regulations or export requirements in Ghana. A purchase tax which varies from 5 percent to 100 percent based on the car's value encourages local production. Commercial vehicles assembled in Ghana do not pay this tax. Under the vehicle standardization policy in effect since October 3, 1979, only vehicles - passenger cars, pick-ups, cross country vehicles, and buses - manufactured by approved manufacturers may be imported. The list includes Peugeot, Datsun, Volkswagen, Renault, Mazda, and Mack Truck. Cars for diplomats and Ghanaian officials are exempt from this requirement. Renault and Toyota Kogyo assemble cars. Nissan, Toyota, and Vauxhall assemble cars and buses. British Leyland, Ford, and Mercedes-Benz assemble buses and trucks. Chrysler, Datsun, Hino, M.A.N., and Mack assemble trucks. Neoplan assembles buses. Import tariffs range from 15 to 15 percent.

Greece: The value added component requirement imposed on local motor vehicle assembly is a minimum of 25 percent without mandatory upward escalation. Tariffs on imports from non-EEC countries range from 10 to 20.7 percent. In November 1979, a voluntary system designed to restrain imports was adopted providing for a reduction of 20 percent in car imports. Bus imports require an import license. The issuance of licenses is, at times, delayed or withheld. A pre-import cash deposit of 56 percent for buses and 28 percent for passenger automobiles is also required. The deposits are retained by the government for two months.

India: Local content regulations exist only for the domestic Indian automobile producers. There is no investment by foreign automobile manufacturers. Exports are encouraged by cash subsidies and import replenishment licenses. Import tariffs on other vehicles vary from 100-140 percent depending on type and axle weight. Import licenses are generally not issued for passenger cars and those for commercial vehicles are issued on a limited basis.

Indonesia: Progressively stringent local content regulations are being instituted in the motor vehicle industry although laws in component manufacture are slowing implementation. While the Government hoped to achieve full local manufacture of components for the most popular types of passenger and light commercial vehicles by 1984, it has extended this deadline until an unspecified date for components not yet manufactured in Indonesia or not manufactured in sufficient quantity. Presently all passenger vehicles, and all commercial vehicles imported into Java and Sumatra, are to be imported completely knocked-down. Import tariffs on built-up passenger vehicles range from 20 percent plus a 10 percent sales tax on Jeeps to 200 percent plus a 20 percent sales tax on passenger cars. There are no export requirements or quantitative restrictions. Local assembly plants produce the following makes of passenger cars: Suzuki, Datsun, Hino, Landrover, Holden, Isuzu, Volkswagen, Mercedes, Mitsubishi, Renault, Peugeot, Alfa Romeo, BMW, Dodge, Fiat, Tata, Steyr, Citroen, Perlet, Moskvitch, Subaru, Volvo, Ford, Toyota, Honda, Chevrolet, Bedford, Morina, Daihatsu, and Mercedes-Deutz.

Israel: There are no local content or export requirements maintained by Israel. Import duties are from 40 percent plus 2.50 shekels per kilogram for automobiles with engines 1,800 cc and less and 52 percent plus 1.25 shekels per kilogram for cars with engines 1,801 cc and larger. In addition, there is a purchase tax based on engine size which ranges from 85 percent to 150 percent plus a 5-7 percent import price uplift. These are assessed on a cascade basis. There are quantitative requirements attached to import licenses which are only granted to approved importers. Three Israeli firms assemble Ford cars: Ford, Doka, Rao and Mack Trucks and AMC Jeeps. One local firm produces its own brand of trucks and passenger cars.

Kenya: No local content regulations exist but components manufactured locally may not be imported. Commercial and certain other vehicles are permitted to be imported only completely knocked-down. There are no export requirements. An import license accompanied by a 100 percent refundable prior import deposit is required. Import duties (CIF) on assembled passenger cars (other than public service-type vehicles) range from 40 percent for cars with an engine capacity not exceeding 1,200 cc, 75 percent for cars with a 1,751-2,000 cc engine capacity, to 150 percent with an engine capacity exceeding 2,250 cc. The duty on non-public service passenger cars, unassembled, for assembly into complete vehicles by an authorized assembler is 25 percent. Importers have been directed to seek 90-180 days credit overseas. The four authorized assemblers are Leyland Kenya Limited, General Motors Limited, Associated Vehicle Assemblers Limited and Fiat Kenya Limited. GM assembles Isuzu and Bedford trucks, British Leyland assembles trucks, Landrovers, Volkswagen microbuses and Mitsubishi light buses. Associated Vehicles assembles Datsun cars and buses, Peugeot trucks, Toyota trucks, Ford trucks, and Volvo trucks.

Import protection is accorded to local producers of the following automotive components: sealers, adhesives, batteries, tires, tubes, paints, flat glass, canvas, soft trim, upholstery, insulation, radiators, exhaust systems, leaf springs, spare wheel carriers, seat frames, wiring harnesses and brake linings.

Kuwait: There are no general restrictions on vehicle imports. A 4 percent ad valorem import tariff is in effect.

Malaysia: Under the ASEAN Automotive Federation (AAF) scheme for complementary ASEAN production, Malaysia will produce timing chains for cars; arm spokes, nipples, and roller chains for motorcycles. Trade preferences by other ASEAN members would be granted these parts. Probably no further accreditation of additional capacity for the same product would be allowed until the ASEAN Committee on Industry, Minerals, and Energy determined that the market had expanded sufficiently to warrant further accreditation of similar projects.

Mexico: Local content regulations requiring 70 percent for passenger cars and 80 percent for trucks exist with a planned 5 percentage point increase of both in 1981. Imports of components are required to be offset by exports. Vehicle import duties range from 35 to 100 percent ad valorem. Vehicle imports are not allowed with the exception of a special customs zone near the U.S. border. Exceptions are usually only made if there is a shortfall in domestic supply. Chrysler, Volkswagen, Ford, GM and Nissan manufacture/assemble cars and trucks. American Motors produces cars and jeeps. Renault produces cars.

Morocco: Local content regulations requiring 40-50 percent levels are in effect. All vehicle imports are restricted. All assembly operations are in part or totally Moroccan-owned. Through this system, Fiat, Opel, Simca, and Renault automobiles are assembled in Morocco. Perlet, Volvo, Bedford, Ford, DAF, Landrover, and Jeep utility, and industrial vehicles are assembled.

Nigeria: A 30 percent local content regulation is imposed after three years of assembly. Vehicle imports are restricted by import licenses and passenger vehicles with engines over 2,500 cc are prohibited. Passenger vehicles with smaller engines face duties of 50 to 250 percent. Volkswagen manufactures/assembles cars and minibuses. Peugeot manufactures/assembles cars. British Leyland manufactures/assembles trucks and Landrovers. Steyr manufactures/assembles trucks. Mercedes and Fiat will shortly begin to manufacture trucks and Nissan will start manufacturing automobiles.

Pakistan: There are no local content regulations as such but current use of locally produced components is encouraged by regulation and is reported to range from 26-60 percent of value depending on vehicle type. Projected use of local products is reported to be about 80 percent by 1985. Exports and imports are controlled. Commercial vehicle imports are prohibited. Imports of built up passenger vehicles are dutiable (75-350 percent ad valorem) depending on engine size. A state-owned corporation has a monopoly over the automobile industry. It has assembly arrangements with AMC (jeeps), Chrysler (trucks), GM (Isuzu trucks), Vauxhall (trucks and buses), Ford (minibuses), Suzuki (vans and pickups), Nissan (trucks), Toyo Kogyo (buses), Sumitomo (trucks), and Pind (trucks). This monopoly (PAO) controls the import of both completely knocked down and completely built up vehicles. Completely built up imports are limited to those being brought in by returning expatriate Pakistanis (6 months or more continuous stay overseas).

Philippines: The current local content regulations requirement is 62.5 percent. The import tariff rate varies from 30-72 percent for completely knocked down vehicles to 100 percent for assembled vehicles. There are three local automobile companies. One assembles Mitsubishi products and one assembles Volkswagens. The other assembles its own vehicles (the Tamaraw utility vehicle, a mini cruiser military vehicle and various trucks). Ford has a body stamping plant and automobile assembly facilities. GM assembles cars and trucks, and manufactures transmissions.

Portugal: Local content regulations for vehicles assembled in Portugal are 22 percent in 1980 declining to zero in 1985. Current import quotas for completely knocked down and completely built up vehicles are scheduled to end in January 1985. Import duties for non-EC/EEA source vehicles is approximately 4.5 U.S. cents per kilogram. Import quotas are scheduled to be phased out by 1985. GM, Ford, Renault, Citroen, Alfa Romeo, British Leyland, Peugeot, Talbot, Audi, BMW, Mercedes, Volkswagen, Toyota, Nissan, Mazda, Subaru, Honda, and Daihatsu have assembly operations in Portugal.

Saudi Arabia: There are no local content regulations or import restrictions. The import tariff is 3 percent of CIF value. Mercedes assembles trucks. A Saudi firm assembles buses using American-made chassis. The Saudi Arabian Government provides a subsidy to the National Company for Car Manufacturing, located in Jidda, in the form of an interest-free loan.

Singapore: There are no local content regulations or quantitative restrictions on vehicle imports. Import tariffs are 45 percent. There is a 150 percent additional registration fee, a \$1,000 base registration fee for private and rental cars (\$5,000 on company cars), and scaled road taxes. Mercedes, Ford, British Leyland and Volvo produce cars. Nissan produces vans.

South Africa: Passenger cars must contain 66 percent by weight local content. Starting in 1980, the local content regulations have been extended to light goods vehicles (approximately up to 2,000 pounds). The 1980 and 1981 requirements for these are 50 percent by weight. By 1982 these too must meet the requirement of 66 percent. Import licenses are required, but are granted to meet the full and reasonable requirements of components and subassemblies for passenger and light goods vehicles covered by a currently valid manufacturing program approved by the Minister of Economics. There are no export requirements. Fully manufactured cars may be imported without a license, but the duty is 100 percent. Excise tax for cars with less than 66 percent local content is 95 percent. For those with 66 percent local content, the excise duty per Rand value is a maximum of 13 Rand cents. There are excise duty decreases for percentages of local content achieved beyond the minimum 66 percent.

Nissan, Fiat, Ford, GM, British Leyland, Mercedes, Volkswagen, Sigma, and UCDU produce automobiles and trucks. Alfa Romeo, BMW, and Peugeot produce autos. Toyota South Africa produces its own brand of autos and trucks and assembles Renault autos and trucks.

South Korea: There are four auto manufacturing companies in Korea - Kia, Hyundai, Saehan, and Shin Jin. The first three companies also manufacture buses, and two - Hyundai and Saehan - manufacture trucks.

The tariff rate for automobiles is 80 percent.

Automobiles and auto components are on the "Restricted List", meaning prior approval of the Auto Trade Association is required before an import license can be issued. With regard to 100 percent foreign-made cars, the Association will issue import licenses depending on the "supply and demand situation" in Korea; however, such licenses are rarely approved.

Local content requirements are set by the Korean government for domestic manufacture and assembly of all cars, trucks, and buses. Those for cars, effective January 1, 1980, are as follows:

<u>Maker</u>	<u>Type of vehicle</u>	<u>Local content requirement (Percent)</u>
Kia	Brisa	44
-	Brisa II	92
-	Fiat 132	62
-	Peugeot 404	20
Hyundai	Pony	43
-	Cortina Mark IV	62
-	Granada	21
Saehan	Gemini	88
(Cars)	Rekord	65
Shin Jin	Jeep (J-5)	73
-	Diesel Jeep	91

There are no specific export requirements per se for Korean auto manufacturers, although there are export targets and some moral pressure to meet those targets. According to the Korean auto industry association, however, there is one stipulation imposed on Hyundai and Kia: in order to obtain permission to import one knocked down Ford Granada or Peugeot 404 for local assembly and sale, the companies must export five domestically manufactured passenger cars.

Taiwan: Current local content requirement for vehicles is as follows: automobiles (including sedans, wagons and jeeps of 3.5 tons and below): 70 percent with proviso that manufacturer must produce one of the following components: (1) engine, (2) piston, connecting rod, and piston pin, (3) crankshaft, (4) axle transmission, (5) spring, (6) cylinder valve. Light motor vehicles (including truck, pick-up, and station wagon of 3.5 tons and below): 70 percent with proviso similar to sedans. Import duties on automobiles are from 65 percent to 75 percent depending on type.

Tanzania: No local content regulations exist. Imports are limited almost entirely to the government. Import tariffs vary from 40-100 percent depending on engine size. Except for trucks, the only automobile assembly operation is by British Leyland.

Thailand: Local content regulations requiring 35 percent local sourcing by August 1990 increasing annually to 50 percent in 1993 are in effect. Imports of built up passenger cars are prohibited. Duties of 150 percent are levied together with a 40 percent business tax on imported automobiles. Toyota, Nissan, Isuzu, and Ford produce cars, trucks and buses. Hino produces trucks and buses. Fiat, British Leyland and Volvo produce cars and buses. Mitsubishi, Mazda, Daihatsu, Subaru, GM, Volkswagen, Peugeot, Renault, BMW, Alfa Romeo, Citroen, Lancia, and Audi produce cars.

Turkey: Local content regulations are contained in the "Assembly Industry Regulation" enforced by the Turkish Ministry of Industry and Technology. Locally produced items are not permitted to be imported. Therefore, importation of automobiles is not permitted except under special circumstances. Import tariffs are 175 percent. Automobiles are produced under license from Ford (the Reliant Motor Company of U.K.), Fiat and Renault.

Uruguay: Local content regulations are in effect requiring local content of 25-32 percent of vehicle weight. Imports of automobiles are prohibited. Export regulations require the export of 40-105 percent (depending on vehicle type) of the import value of the completely knocked down kits the assembler imports. Peugeot-Citroen, Renault, Volkswagen, BMW, Ford, GM, and Fiat assemble automobiles in Uruguay.

Yugoslavia: Local content regulations require 50 percent local content to avoid imposition of higher sales taxes. Imports from other countries are only permitted by authorized dealers. Import tax on vehicles is 17 percent *ad valorem* and the duty is 25 percent. Authorized dealers are required to export goods totaling 30 percent of the value of each imported automobile. Quotas are maintained on imports from the USSR, East Germany, and Czechoslovakia and may be paid for in local currency. Other imports must be paid for in hard currency. Fiats, Lancias, Volkswagens, Audis, and Citroens are manufactured locally.

Source: Compiled by the Office of International Sectoral Policy, U.S. Department of Commerce from information supplied by U.S. Embassies, Commerce country analysts, and industry sources.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is crucial for ensuring transparency and accountability in the organization's operations.

APPENDIX F
MAJOR WORLD MOTOR-VEHICLE PRODUCERS

MAJOR WORLD MOTOR VEHICLE PRODUCERS AND NUMBER OF UNITS PRODUCED, 1974-78

Ranked According to 1978 Production Units

	1974	1975	1976	1977	1978
1. General Motors (U.S.A.).....	4,672,684	4,649,530	6,233,972	6,700,294	6,875,555
2. Ford Motor (U.S.A.).....	3,097,981	2,500,238	2,942,051	3,744,691	3,790,440
3. Toyota-Daihatsu-Hino.....	2,433,795	2,655,341	2,807,300	3,097,108	3,319,315
4. Nissan (Nissan-Fuji).....	2,002,322	2,280,559	2,572,111	2,595,264	2,727,848
5. Volkswagen-Audi-NSU.....	2,083,485	1,940,017	2,159,779	2,219,544	2,376,110
* 6. Renault-Saviem-Berliet.....	1,527,089	1,427,287	1,724,448	1,793,221	1,767,346
* 7. Peugeot-Citroen.....	730,769	659,277	1,513,530	1,612,813	1,691,819
Citroen.....	688,600	601,002	-	-	-
8. Chrysler Corporation (U.S.A.)	1,538,670	1,222,596	1,775,251	1,710,860	1,614,348
9. Ford Europe (G.-C.R.-B.-Sp.)	988,037	1,099,095	1,355,154	1,647,367	1,554,479
10. Fiat-Autobianchi-Lancia-O.M.	1,498,208	1,231,709	1,372,742	1,340,299	1,390,342
11. Opel (General Motors).....	604,351	675,299	938,040	946,340	995,935
12. Mitsubishi.....	498,518	520,238	647,623	776,412	972,818
13. Chrysler Europe (F.-G.B.-Sp.)	780,779	719,619	756,641	754,060	898,713
14. General Motors (Canada)....	646,151	598,876	713,714	776,993	855,999
15. Toyota-Kogyo (Mazda).....	740,088	642,614	716,672	800,003	850,155
16. British Leyland.....	863,161	738,240	808,409	770,973	743,103
17. Honda.....	428,809	413,753	560,075	664,931	742,682
18. Lada (Fiat U.S.S.R.).....	650,000	690,000	710,000	725,000	740,000
19. Daimler-Benz.....	512,393	556,470	626,078	661,982	647,562
20. Ford Canada.....	598,621	481,362	527,237	589,295	629,485
21. Isuzu.....	248,213	244,821	335,739	340,632	408,186
22. American Motors.....	487,005	463,702	366,178	312,954	359,131
23. B.H.W.....	188,965	221,298	275,022	290,219	320,853
24. Moskvitch.....	260,000	300,000	315,000	320,000	320,000
25. Polski Fiat.....	104,000	135,000	183,000	200,000	292,000
26. Seat (Licence Fiat).....	366,695	332,078	347,057	332,943	288,103
**27. Volvo (Sweden-Netherlands).	257,480	331,337	335,587	245,037	275,816
28. Chrysler Canada.....	250,806	285,980	329,604	327,091	255,500
29. Suzuki.....	203,860	184,215	201,581	239,989	247,729
30. Alfa Romeo.....	210,995	191,810	203,176	203,175	222,599
					38,173,971

* Since 1976 group Renault-Saviem + Berliet and group Peugeot-Citroen.

** Since 1975 total Volvo production Sweden + Netherlands.

L'ARGUS DE L'AUTOMOBILE ET DES LOCOMOTIONS.

Source: MVMA World Motor Vehicle Data, 1979, Motor Vehicle Manufacturers Association, Inc. 1977, p.9

APPENDIX G
STATISTICAL TABLES

* * * * *

Tables G1 - G38

Table G39.--Passenger automobiles: U.S. producers' imports from Canada, by class of vehicle, 1975-79, January-June 1979, and January-June 1980

Class of vehicle	1975	1976	1977	1978	1979	January-June--	
						1979	1980
	Quantity (1,000 vehicles)						
Subcompacts-----	238.3	240.8	187.9	0	24.0	0	37.7
Compacts-----	82.4	64.5	106.9	226.5	141.7	99.7	49.0
Intermediate-----	260.0	278.0	284.0	367.0	312.0	175.0	139.0
Full size and luxury--	152.3	244.2	261.7	176.5	110.0	78.5	61.7
Total-----	733.0	827.5	840.5	770.0	587.5	353.2	287.4
	Value (million dollars) <u>1/</u>						
Subcompacts-----							
Compacts-----							
Intermediate-----							
Full size and luxury--							
Total-----							

1/ Not available.

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

Table G40.--New Passenger automobiles: U.S. production, by months, 1976-80

Period	Quantity (1,000 units)					Percentage change		
	1976	1977	1978	1979	1980	1977-78	1978-79	1979-80
	:	:	:	:	:	:	:	:
January-----	666	708	683	785	529	-3.5	14.9	-32.6
February-----	682	697	685	736	619	-1.7	7.5	-15.9
March-----	823	932	899	888	638	-3.5	-12.4	-28.1
April-----	793	814	870	722	581	6.9	-17.0	-19.9
May-----	774	874	922	933	524	5.5	1.2	-43.8
June-----	854	949	862	826	532	-8.8	-4.6	-35.6
July-----	532	661	576	584	415	-12.9	1.3	-28.9
August-----	542	514	537	448	312	4.6	-16.6	-30.4
September-----	652	755	737	624	<u>1/</u>	-2.4	-15.2	<u>1/</u>
October-----	690	870	910	787	<u>1/</u>	4.5	-13.5	<u>1/</u>
November-----	771	787	856	631	<u>1/</u>	8.7	-26.2	<u>1/</u>
December-----	714	648	632	457	<u>1/</u>	-2.4	-27.7	<u>1/</u>
Total-----	8,492	9,211	9,174	8,422	<u>1/</u>	-0.4	-8.2	
January-February-----	1,348	1,405	1,368	1,521	1,148	-2.6	11.2	-24.5
January-March-----	2,171	2,337	2,267	2,409	1,786	-3.0	6.2	-25.8
January-April-----	2,964	3,152	3,138	3,131	2,367	-0.4	-0.2	-24.4
January-May-----	3,738	4,026	4,060	4,064	2,891	0.9	0.1	-28.9
January-June-----	4,592	4,975	4,926	4,890	3,423	-1.0	-0.7	-30.0
January-July-----	5,124	5,636	5,502	5,474	3,838	-2.3	-0.5	-29.9
January-August-----	5,666	6,151	6,039	5,923	4,150	-1.8	-1.9	-29.9
January-September-----	6,318	6,906	6,776	6,547	<u>1/</u>	-1.9	-3.4	<u>1/</u>
January-October-----	7,008	7,776	7,686	7,334	<u>1/</u>	-1.2	-4.6	<u>1/</u>
January-November-----	7,779	8,563	8,541	7,965	<u>1/</u>	-0.3	-6.7	<u>1/</u>
January-December-----	8,492	9,211	9,174	8,422	<u>1/</u>	-0.4	-8.2	<u>1/</u>

1/ Not available.

Source: Ward's Automotive Reports.

Table G41.--New passenger automobiles: U.S. retail sales of U.S.-made and Canadian vehicles, by months, 1976-80

Period	Quantity (1,000 units)					Percentage change		
	1976	1977	1978	1979	1980	1977-78	1978-79	1979-80
	:	:	:	:	:	:	:	:
January-----	583	601	545	635	588	-9.3	16.5	-7.4
February-----	651	666	628	666	591	-5.7	6.1	-11.3
March-----	815	895	883	852	670	-1.4	-3.5	-21.4
April-----	788	822	863	753	541	5.0	-12.8	-28.2
May-----	793	833	963	786	498	15.6	-18.4	36.6
June-----	829	919	950	690	511	3.4	-27.4	-26.0
July-----	737	731	762	679	544	4.2	-10.9	-19.9
August-----	616	726	751	697	486	3.4	-7.2	-30.3
September-----	644	657	662	592	486	0.8	-10.6	-17.9
October-----	730	870	884	720	<u>1/</u>	1.6	-18.6	<u>1/</u>
November-----	721	737	770	599	<u>1/</u>	4.5	-22.2	<u>1/</u>
December-----	694	646	647	554	<u>1/</u>	0.2	-14.4	<u>1/</u>
Total-----	8,607	9,104	9,308	8,225	<u>1/</u>	2.2	-11.6	<u>1/</u>
January-February-----	1,238	1,267	1,173	1,301	1,179	-7.4	10.9	-9.4
January-March-----	2,054	2,163	2,056	2,153	1,849	-5.0	4.7	-14.1
January-April-----	2,842	2,985	2,919	2,906	2,390	-2.2	0.4	-17.8
January-May-----	3,635	3,818	3,882	3,692	2,888	1.7	4.9	-21.8
January-June-----	4,464	4,737	4,831	4,383	3,399	2.0	-9.3	-22.5
January-July-----	5,201	5,468	5,593	5,062	3,942	2.3	-9.5	-22.1
January-August-----	5,817	6,195	6,344	5,759	4,428	2.4	-9.2	-23.1
January-September-----	6,461	6,851	7,007	6,351	4,914	2.3	-9.4	-22.6
January-October-----	7,191	7,721	7,891	7,072	<u>1/</u>	2.2	-10.4	<u>1/</u>
January-November-----	7,912	8,458	8,660	7,671	<u>1/</u>	2.4	-11.4	<u>1/</u>
January-December-----	8,607	9,104	9,308	8,225	<u>1/</u>	2.2	-11.6	<u>1/</u>

1/ Not available.

Source: Automotive News.

Table G42.--New passenger automobiles: U.S. retail sales of imports (except imports from Canada), by months, 1976-80

Period	Quantity (1,000 units)					Percentage change		
	1976	1977	1978	1979	1980	1977-78	1978-79	1979-80
	:	:	:	:	:	:	:	:
January-----	90	123	142	139	218	15.4	-2.1	56.8
February-----	106	144	149	165	220	3.5	10.7	33.3
March-----	130	188	195	251	224	3.7	28.7	-10.8
April-----	125	206	180	223	202	12.6	23.7	-9.4
May-----	127	220	194	255	197	-11.8	31.4	-22.8
June-----	126	197	187	203	190	-5.1	8.6	-6.4
July-----	127	181	167	196	230	-7.7	17.4	17.4
August-----	145	204	206	210	199	1.0	2.0	5.2
September-----	146	171	166	172	185	-2.9	3.6	7.6
October-----	137	144	150	170	<u>1/</u>	4.2	13.3	<u>1/</u>
November-----	120	143	139	171	<u>1/</u>	-2.8	23.0	<u>1/</u>
December-----	112	149	127	171	<u>1/</u>	-14.8	34.6	<u>1/</u>
Total-----	1,493	2,071	2,001	2,328	<u>1/</u>	-3.4	16.4	<u>1/</u>
January-February-----	197	267	290	304	437	8.6	4.8	43.8
January-March-----	327	455	485	556	662	6.6	14.6	19.1
January-April-----	452	661	665	779	864	0.6	17.2	10.9
January-May-----	579	881	859	1,035	1,061	-2.5	20.5	2.5
January-June-----	705	1,078	1,046	1,238	1,251	-3.0	17.9	1.5
January-July-----	832	1,259	1,213	1,434	1,481	-3.7	18.2	3.3
January-August-----	978	1,463	1,419	1,645	1,680	-3.0	15.9	2.1
January-September-----	1,124	1,634	1,585	1,816	1,865	-3.0	14.6	2.7
January-October-----	1,261	1,778	1,735	1,986	<u>1/</u>	-2.4	14.5	<u>1/</u>
January-November-----	1,381	1,921	1,874	2,157	<u>1/</u>	-2.4	15.1	<u>1/</u>
January-December-----	1,493	2,071	2,001	2,328	<u>1/</u>	-3.4	16.4	<u>1/</u>

1/ Not available.

Source: Automotive News.

Table G43.--New passenger automobiles: U.S. retail sales of imports and domestically-produced vehicles, by months, 1976-80

Period	Quantity (1,000 units)					Percentage change		
	1976	1977	1978	1979	1980	1977-78	1978-79	1979-80
	:	:	:	:	:	:	:	:
January-----	678	725	686	774	805	-5.4	12.8	4.0
February-----	757	810	777	831	811	-4.1	7.0	-2.4
March-----	946	1,084	1,078	1,104	895	-.6	2.4	-18.9
April-----	913	1,028	1,043	976	743	1.5	-6.4	-23.9
May-----	920	1,053	1,156	1,042	696	9.8	-9.9	-33.2
June-----	955	1,116	1,137	893	701	1.9	-21.5	-22.5
July-----	864	912	929	875	772	1.9	-5.8	-11.8
August-----	761	930	957	908	685	2.9	-5.1	-24.6
September-----	791	828	828	764	670	-	-7.7	-12.3
October-----	867	1,014	1,034	891	<u>1/</u>	2.0	-13.8	<u>1/</u>
November-----	840	881	909	770	<u>1/</u>	3.2	-15.8	<u>1/</u>
December-----	806	795	774	725	<u>1/</u>	-2.6	-6.3	<u>1/</u>
Total-----	10,099	11,175	11,308	10,554	<u>1/</u>	1.2	-6.7	<u>1/</u>
January-February-----	1,435	1,534	1,463	1,606	1,616	-4.6	9.8	.6
January-March-----	2,381	2,618	2,541	2,709	2,511	-3.0	6.6	-7.3
January-April-----	3,294	3,646	3,584	3,685	3,254	-1.7	2.8	-11.7
January-May-----	4,214	4,699	4,740	4,727	3,949	.9	-.3	-16.5
January-June-----	5,169	5,815	5,877	5,621	4,650	1.1	-4.4	-17.3
January-July-----	6,034	6,727	6,806	6,496	5,423	1.2	-4.6	-16.5
January-August-----	6,794	7,657	7,764	7,404	6,107	1.4	-4.6	-17.5
January-September-----	7,585	8,486	8,592	8,168	6,778	1.2	-4.9	-17.0
January-October-----	8,453	9,499	9,625	9,059	<u>1/</u>	1.3	-6.0	<u>1/</u>
January-November-----	9,293	10,380	10,534	9,829	<u>1/</u>	1.5	-6.7	<u>1/</u>
January-December-----	10,099	11,175	11,308	10,554	<u>1/</u>	1.2	-6.7	<u>1/</u>

1/ Not available.

Source: Automotive News.

Table G44.--New passenger automobiles: Ratio of retail sales of imports (except imports from Canada) to total U.S. retail sales of domestically-made and imported vehicles, by months, 1976-80

Ratio (in percent)					
Period	1976	1977	1978	1979	1980
January-----	13.4	17.0	20.6	18.0	27.0
February-----	14.0	17.8	19.1	19.9	27.1
March-----	13.8	17.4	18.1	22.8	25.1
April-----	13.7	20.0	17.3	22.9	27.2
May-----	13.8	20.9	16.7	24.5	28.4
June-----	13.2	17.6	16.4	22.7	27.2
July-----	14.7	19.9	18.0	22.4	29.8
August-----	19.1	21.9	21.6	23.2	29.0
September-----	18.5	20.7	20.0	22.5	27.6
October-----	15.8	14.2	14.5	19.1	1/
November-----	14.2	16.3	15.3	22.8	1/
December-----	13.8	18.8	16.4	23.6	1/
Total-----	14.8	18.5	17.7	22.1	1/
January-February-----	13.7	17.4	19.8	19.0	27.1
January-March-----	13.7	17.4	19.1	20.5	26.4
January-April-----	13.7	18.1	18.6	21.2	26.6
January-May-----	13.7	18.8	18.1	21.9	26.9
January-June-----	13.6	18.5	17.8	22.0	26.9
January-July-----	13.7	18.7	17.8	22.1	27.1
January-August-----	14.3	19.1	18.3	22.2	27.1
January-September-----	14.8	19.3	18.4	22.2	27.1
January-October-----	14.9	18.7	18.0	21.9	1/
January-November-----	14.8	18.5	17.8	22.0	1/
January-December-----	14.8	18.5	17.7	22.1	1/

1/ Not available.

Source: Automotive News.

Note.--Imports from Canada accounted for 8.2 percent of U.S. consumption in 1976, 7.8 percent in 1977, 7.5 percent in 1978, 6.6 percent in 1979, and 6.6 percent during January-June 1980. These ratios are not included in the above data. Total import consumption ratios should be adjusted for such imports from Canada.

APPENDIX H

U.S. GOVERNMENT'S AID TO CHRYSLER

On January 7, 1980, the President signed into law the Chrysler Corporation Loan Guarantee Act of 1979 (H.R. 5860-P.L. 96-185), which authorized Chrysler Corp. to receive a maximum of \$1.5 billion in government loan guarantees over the next 10 years.

Chrysler Corp., the nation's 10th largest corporation and third largest auto maker, sought federal aid in mid-1979 after suffering losses of \$205 million in 1978 and estimating losses of more than \$1 billion for 1979. According to financial studies conducted by independent concerns, without Federal aid Chrysler would have been forced to file for bankruptcy, jeopardizing the jobs of approximately 200,000 U.S. workers.

The aforementioned Act established the Chrysler Corporation Loan Guarantee Board to oversee the implementation of the loan. Members of the board are the Secretary of the Treasury, the Comptroller General, and the Chairman of the Federal Reserve Board, plus two ex-officio, non-voting members, the Secretaries of Labor and Transportation.

The Act stipulated that several conditions had to be met before the board could make commitments to guarantee the payment of principal and interest on the loans to Chrysler. Among these provisions were the requirements that 1) Chrysler must raise \$2.1 billion in private non-federally backed aid and 2) Chrysler must submit an operating plan to the board demonstrating the company's ability "to continue operating as a going concern" and to do so after 1983 without further federal assistance. The \$2.1 billion in private aid was to be obtained from loans and credits from U.S. and foreign banks and financial institutions, the sale of corporate assets, from state, local, and other governments, from suppliers and dealers, the sale of stock, and from the reduction of union and non-union wage benefits. The operating plan Chrysler submitted to the board in conjunction with its loan guarantee application provides for a downsizing of the company and for accelerated introduction of

new, small, fuel efficient cars, with the K car scheduled for introduction in the fall of 1980. By model year 1984, according to the plan, Chrysler will produce only front-wheel drive cars and trucks powered predominantly by four cylinder engines. The number of distinct vehicle lines will drop from five to three. There will be increased use of the same or similar parts on different vehicles, thus improving efficiency and facilitating service. Fixed costs have been reduced by plant closings and layoffs and variable margin improvements are expected, especially in connection with the introduction of the K car.

In receiving Chrysler's Operating Plan, the Board made its own independent analysis of the soundness of the loan. In this market analysis the board made projections through 1983 of: 1) the general state of the U.S. economy and those factors which have a direct impact on the auto industry (e.g. GNP, interest rates, the price of gasoline, inflation); 2) actions of competitors (e.g. General Motors, imports); and 3) the options available to Chrysler to compete in such an environment (e.g., cost reductions, quality improvement, downsizing).

According to the Board's analysis, U.S. production and imports of small body vehicles are not sufficient to fill demand. The board projects that imports of small cars will remain at a level of 2 million per year while U.S. production will increase from 3.8 million in 1980 to 8.0 million in 1983. Demand for larger cars, however, are expected to decline. Imports are projected to decrease from 200,000 cars in 1980 to 100,000 in 1983 and U.S. production of those larger cars will decrease from 5.3 million to 3.5 during the same period.

On May 10, 1980, the Board determined that the loan was sound and approved the issuance of up to \$500 million in loan guarantees. On July 15, 1980, the board approved the issuance of an additional \$300 million in loan guarantees, bringing the total to \$800 million.

APPENDIX I

CHRONOLOGY OF U.S. PRODUCERS'
INTRODUCTIONS OF NEW MODELS,
1974-81

Year	Model/(Firm)	Remarks
1974	: Bobcat (Ford)	: Mercury Version of Ford Pinto
	: Granada/Monarch (Ford)	: Downsized standard
	: Astre (GM)	: Pontiac Version of Chevrolet Vega
	: Monza, Sunbird, Starfire, Skyhawk (GM)	: Sporty subcompacts
	: Seville (GM)	: Downsized Cadillac
1975	: Chevette (GM)	: Subcompact
	: Volare/Aspen (Chrysler)	: Replaced Dart/Valiant
1976	: Version (Ford)	: A downsized Lincoln
	: Ltd II (Ford)	: A downsized standard
	: Diplomat/LeBaron (Chrysler)	: Luxury
	: All standard GM models downsized	
1977	: Fairmont/Zephyr	: Replaced Maverick
	: Omni/Horizon (Chrysler)	: Subcompact; first U.S.-produced
		: front-wheel-drive car
1978	: GM luxury cars and Ford Standard cars	
	: downsized	
1979	: X-body car (Citation,	
	: Phoenix, Skylark, and Omega) (GM)	: Front-wheel-drive compact
	: VW Rabbit (VW)	
	: Ford Thunderbird and Chrysler Cordova	
	: downsized	
1980	: Escort/Lynx (Ford)	: Front-wheel drive
	: K-cars (Reliant/Aries) (Chrysler)	: Front-wheel-drive compact
1981	: J-cars (GM)	: Replaces Chevrolet
		: Monza and Pontiac
		: Sunbird

Before 1986, GM plans to introduce a J-car (which replaces the Chevrolet Monza and Pontiac Sunbird), an F-car (which replaces the Camaro/Firebird), a replacement for the Chevette, and an electric car; little is known of Ford's or Chrysler's product plans.

