

NONRUBBER FOOTWEAR

**Report to the President on
Investigation No. TA-201-55
Under Section 201 of the
Trade Act of 1974**



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Note.--Information which would reveal the confidential operations of individual concerns may not be published and therefore has been deleted from this report.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

UNITED STATES INTERNATIONAL TRADE COMMISSION
July 1, 1985

REPORT TO THE PRESIDENT ON INVESTIGATION NO. TA-201-55

NONRUBBER FOOTWEAR

Determination

On the basis of information developed during the course of investigation No. TA-201-55, the Commission determines that footwear, provided for in items 700.05 through 700.45, inclusive, 700.56, 700.72 through 700.83, inclusive, and 700.95 of the Tariff Schedules of the United States (hereafter referred to as nonrubber footwear), 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 articles like or directly competitive with the imported articles. 1/

Findings and recommendations 2/

Chairwoman Stern and Commissioners Eckes, Lodwick, and Rohr find and recommend that, in order to prevent 3/ or remedy 4/ the serious injury found to exist, it is necessary for the President to impose quantitative

1/ Commissioners Eckes, Lodwick, and Rohr determine that such footwear is 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. Chairwoman Stern and Vice Chairman Liebler determine that such footwear is being imported into the United States in such increased quantities as to be a substantial cause of the threat of serious injury to the domestic industry producing articles like or directly competitive with the imported articles.

2/ Under sec. 213(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)), footwear is ineligible for duty-free treatment when imported from Caribbean Basin countries. The Commission therefore makes no finding under sec. 213(e)(2) of the Act (19 U.S.C. 2703(e)(2)).

3/ Having found the threat of serious injury, Chairwoman Stern finds the relief necessary to prevent such injury.

4/ Having found serious injury, Commissioners Eckes, Lodwick, and Rohr find the relief necessary to remedy such injury.

restrictions for a 5-year period on such imported footwear valued by the U.S. Customs Service over the amount of \$2.50 per pair as follows--

<u>Year</u>	<u>Quantity</u> <u>(million pairs)</u>
First	474
Second	474
Third	488
Fourth	517
Fifth	564

with such footwear to be entered pursuant to import licenses sold by the Government through an auctioning system as provided for in 19 U.S.C. 2581. Commissioners Eckes, Lodwick, and Rohr find and recommend that such quantitative restrictions should be imposed retroactive to June 1, 1985.

Chairwoman Stern and Commissioner Rohr find and recommend that it would be appropriate for the President to administer the quota quantity as follows--

<u>Year</u>	<u>Licenses for</u> <u>nonathletic footwear</u> <u>valued over \$2.50</u> <u>but not over \$5.00</u> <u>per pair</u> <u>(million pairs)</u>	<u>Licenses for</u> <u>nonathletic footwear</u> <u>valued over \$5.00</u> <u>per pair</u> <u>(million pairs)</u>	<u>Licenses for</u> <u>athletic footwear</u> <u>valued over \$2.50</u> <u>per pair</u> <u>(million pairs)</u>
First	150	214	110
Second	150	214	110
Third	155	220	113
Fourth	164	233	120
Fifth	179	254	131

but licenses for athletic footwear shall be reserved only for athletic footwear; licenses for nonathletic footwear valued over \$2.50 but not over \$5.00 per pair may also be used for athletic footwear; and licenses for nonathletic footwear valued over \$5.00 may be used for any footwear subject to the quota. Commissioners Eckes and Lodwick find and recommend that it is not appropriate for the President to divide the quota into three segments.

Vice Chairman Liebeler finds that no import restraint will remedy the injury to the domestic industry and is, therefore, compelled by the statute to recommend adjustment assistance to the workers in its stead.

Background

The Commission instituted the present investigation effective December 31, 1984, following receipt of a resolution by the Senate Committee on Finance. The Committee's resolution requested an investigation under section 201(b)(1) of the Trade Act of 1974 to determine "whether increasing imports of nonrubber footwear are a substantial cause of serious injury or the threat thereof to the domestic industry producing a like or directly competitive product." The Committee's resolution, and this investigation, cover all footwear provided for in items 700.05 through 700.45, inclusive, 700.56, 700.72 through 700.83 inclusive, and 700.95 of the Tariff Schedules of the United States.

The Commission gave notice of this investigation and of a public hearing to be held in connection with the investigation by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of January 30, 1985 (50 FR 4278). A public hearing was held in Washington, DC, on April 16-18, 1985, and all persons who requested the opportunity were permitted to appear in person or through counsel.

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, responses to Commission questionnaires, information from other Federal agencies, testimony at the public hearing, briefs submitted by interested parties, the Commission's files, and other sources.

VIEWS OF CHAIRWOMAN PAULA STERN

1984 and 1985

One year ago, I joined my colleagues in concluding that the U.S. footwear industry had been successful and would continue to be successful in meeting competition from abroad. Notwithstanding, I now find that increased imports threaten this industry with serious injury. Why is a different conclusion now warranted? What has changed since 1984 that now justifies a five year period of import relief? How could a Commission which found neither serious injury nor causation one year later find both? Is the present finding the correction of some unacknowledged error? Were increasing imports threatening this industry with serious injury in 1984? Readers will find that I have not recanted. Rather, my present findings stem from changes in the factual situation.

In 1984, imports were indeed penetrating the U.S. market rapidly. Imports had increased an average of 25 percent a year since 1981. In the first quarter of 1984 this pace continued. But the data then indicated that the composition of these imports was such that direct competition with domestic production was limited. The vast majority of the increase in imports between 1979 and 1983 was imports of low-cost footwear, and attributable to a new, strong demand for athletic shoes. Many domestic producers were not then seriously affected by this increase in imports -- in fact, almost half of the imports were imported by domestic producers themselves. Moreover, the industry's economic indicators, while neither uniformly positive nor negative, did not reflect a seriously injured industry. Production had apparently stabilized at its 1982 level;

the number of plants closed during the period of investigation was the same or below the average level for the last two decades; data regarding employment were mixed; yet most of the industry was financially healthy on its domestic operations.

In short, the data before the Commission in 1984 supported neither a finding of serious injury nor threat of serious injury, despite the fact that imports were quickly penetrating the U.S. market. To draw another conclusion would have required speculation beyond the parameters of the data and the mandate of the Commission under section 201. In the Commission's analysis of injury, the data dictate.

My finding in 1984 that this industry was successfully meeting import competition did not contemplate that this industry's adjustment efforts were complete. It did not imply that there would be no future difficulties. It was not anticipated that production, employment and profits would increase in the near term. It was assumed that domestic producers would continue to import, and perhaps even increase their imports of low-cost and athletic footwear. ^{1/}

The data in this investigation include updated statistics from the Department of Commerce, which revise, in some cases, figures going back to 1982. Data also include ITC questionnaire responses covering all of 1984 and the first quarter of 1985. These

^{1/} The large producers, which constitute about half of domestic production, did in fact continue to expand their retail operations and increase their imports of nonrubber footwear. And in 1984, athletic footwear accounted for 46 percent of all imports by domestic producers. Report at A-17, A-19.

new data reveal that there are now trends in production, capacity, shipments, and employment that could not be discerned in the previous investigation. The data also indicate that this industry experienced injury, well beyond any normal adjustment, since the last half of 1984.

There is a question, however, as to whether increasing imports were the only cause of the industry's problems during the latter half of last year. Coincident with a distinct decline in industry indicators was a sharp fall in domestic consumption of nonrubber footwear. Both imports and domestic production were affected.

However, when consumption recovered in the first quarter of 1985, the industry's condition continued to deteriorate, and imports resumed their rapid advances. New data also show another important trend. Imports were making significant inroads into the medium- and high-cost segments of the market traditionally dominated by U.S. producers. At the remarkable rate imports are now increasing, by the end of 1985 domestic producers will be left with only a small fraction of the U.S. market.

I therefore find, in this investigation, that increasing imports of nonrubber footwear threaten the domestic industry with serious injury.

One Domestic Industry

The primary question raised in this investigation regarding the definition of domestic industry is whether to distinguish

between athletic and nonathletic footwear. Importers and foreign exporters of athletic footwear, including Nike, Adidas, Puma, and the Korean Exporters Association, argued that the Commission should find that athletic footwear is neither "like," nor "directly competitive" with nonathletic footwear and that, therefore, they are not products of the same industry.^{2/}

It is true that there is some overlap between the production processes and marketing of athletic and nonathletic footwear. However, there are also significant differences. Most athletic footwear is produced in different establishments from those used for the production of nonathletic footwear. Distinct research and development efforts emphasizing performance and comfort, and

^{2/} Section 201 defines the "domestic industry" in terms of the domestic producers of "an article like or directly competitive with" the imported article (19.U.S.C. sec. 2251(b)(3)). In the legislative history of section 201, the Senate explained that by "like or directly competitive," it meant domestic articles--

which are substantially identical in inherent or intrinsic characteristics (i.e., materials from which made, appearance, quality, texture, etc.), and . . . 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. (S. Rept. No. 1298, 93d Cong., 2d sess., p. 122.)

The Senate noted further that the terms "like" and "directly competitive" appear in the disjunctive ("or"). The statute thus indicates that these terms are--

not to be regarded as synonymous or explanatory of each other, but rather to distinguish between 'like' products which, although not 'like,' are 'directly competitive.' (Ibid., pp. 121-122.)

different technology and employee skills are utilized for the production of athletic shoes.^{3/}

Based on these distinctions, I cannot find that athletic and nonathletic shoes are "substantially identical in inherent or intrinsic characteristics," since they are made from different materials, a different process and have a distinctly different appearance.

Even though athletic and nonathletic footwear are not "like" one another, producers of such footwear may be deemed to be a single domestic industry if these products are found to be "directly competitive." The legislative history defines "directly competitive" as "substantially equivalent for commercial purposes," that is, products that are adapted to the same uses and are "essentially interchangeable."

The argument was made that while athletic footwear may be used for the same purposes as nonathletic footwear, nonathletic footwear seldom can be used for athletic purposes. While running shoes are frequently used by many as casual footwear, traditional casual shoes, such as loafers or pumps, are not usually used for sport activities. Thus, it was argued that athletic and nonathletic footwear are separate industries because the two are not completely interchangeable or, therefore, "directly competitive."

^{3/} Moreover, many domestic producers of athletic footwear, who are also major importers, argued that they are not seriously injured or threatened with serious injury.

While two-way substitutability would be "perfect" interchangeability, the statute refers only to "essential" interchangeability. In the present investigation, there are clearly many types and styles of both athletic and nonathletic footwear. Some of this footwear has only a limited range of uses. Yet a substantial portion of both athletic and nonathletic footwear is purchased and used in contexts in which either is suitable. It is therefore appropriate to define this industry as those domestic producers of both nonathletic and athletic footwear.^{4/}

Imports Have Increased

Imports of nonrubber footwear have increased every year since 1980.^{5/} In 1981, imports increased slightly from 366 million pairs to 376 million pairs. But beginning in 1982, imports increased by more than 100 million pairs each year, growing to 480 million pairs in that year, 582 million pairs in 1983, and to 726 million pairs in 1984. During the first quarter of 1985, imports reached their highest quarterly level.^{6/} If imports continue at

^{4/} Nevertheless it is clear that not all products within the domestic industry have the same impact on the domestic industry's condition. This distinction is relevant to my findings regarding remedy. See infra.

^{5/} Report at Table 7, A-20 - A-21.

^{6/} During the first quarter of 1983, nonrubber footwear imports were 160.4 million pairs. In the first quarter of 1984, imports reached 193.1 million pairs. In the first quarter of 1985 imports reached 218.3 million pairs of shoes. This was a 13-percent increase over first quarter 1984. Nonrubber Footwear Quarterly Statistical Report, USITC Publication 1706, June 1985, p. 4.

their present pace, they will reach 820 million pairs by the end of 1985.^{7/}

In 1980 and 1981, imports closely matched domestic production, with ratios of imports to domestic production of 95 and 101 percent, respectively. In 1982, the ratio of imports to domestic production was 134 percent. That ratio grew steadily to 169 percent in 1983, and to 243 percent in 1984. In the first two months of 1985, the ratio grew to an astounding 302 percent.^{8/}

Imports as a portion of domestic consumption followed the same trend. In 1980 and 1981, imports averaged 50 percent of the U.S. market. In 1982, the ratio increased to 58 percent. In 1983, imports jumped to 63 percent of consumption. Last year the ratio climbed to 71 percent. During the first quarter of 1985, imports reached 77 percent of domestic consumption of nonrubber footwear.^{9/}

In 1984, the Commission evaluated the question of increased imports in terms of both volume and value. We found in the last investigation that there were significant differences between the increases in the value of imports and the increases that occurred in volume. While import penetration measured in volume terms increased from 51 to 65 percent between 1979 and 1983, when measured in terms

^{7/} At the current consumption level this represents an import penetration ratio of approximately 83 percent.

^{8/} Yearly declines in domestic production account for some of the rapidity with which imports overtook domestic production. Report at A-24.

^{9/} Nonrubber Footwear Quarterly Statistical Report, USITC Publication 1706, June 1985, p. 4.

of value, imports had increased from 36 to 44 percent.^{10/} We concluded that the disparity between the impact of imports in volume and value terms represented the growing concentration of domestic production in higher price segments of the market, and an increasing price segmentation of the market.

In 1985, the data indicate that this trend is now less distinct. Imports, in terms of value, as a portion of domestic consumption, increased from 44 percent in 1983 to 54 percent in 1984, and have now reached 62 percent in the first quarter of 1985^{11/} --almost twice that of U.S. producers' domestic shipments in the same period. This is true despite the fact that the value of U.S. producers' shipments and imports was substantially equivalent in the last quarter of 1984, and the value of imports in 1983 was significantly lower than the value of U.S. shipments^{12/} Thus, unlike the previous investigation where it appeared that U.S. consumers were still spending more than half of their footwear dollars on domestic shoes, in 1985, domestic shoes represent only about one-third of consumer expenditures on footwear.

Thus, the first criteria for an affirmative finding, that imports are being imported into the United States in increased quantities, is met.

^{10/} See Nonrubber Footwear, USITC Publication 1545, July 1984, Views of Chairwoman Stern, Vice Chairman Liebeler, and Commissioner Rohr, pp. 9-10.

^{11/} Nonrubber Footwear Quarterly Statistical Report, USITC Publication 1706, June 1985, p. 5.

^{12/} Ibid.

Threat of Serious Injury

In 1984, the Commission found that some of the data were characteristic of an industry suffering injury while some were characteristic of a healthy industry.^{13/} Although an analysis of the economic criteria enumerated by the statute^{14/} did not reveal

^{13/} Production had been stable for 2 years. The number of plants that had closed during the period of the investigation was at the same level or below the number of plant closings for the last two decades. Historical employment data showed that there was an overall trend toward increased unemployment among footwear workers. Yet this data also showed a drop in the number of unemployed workers in 1982 and 1983. Questionnaire data revealing trends in firms currently producing footwear showed a slight increase in the last two years and an increase of 7 percent over the entire investigative period. Profit data established that only a small portion of domestic production was not making reasonable, if not healthy profits on its domestic operations. Nonrubber Footwear, USITC Publication 1545, July 1984, pp. 11-18.

^{14/} The specific economic factors the Commission should consider in its analysis of serious injury are--

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 (19 U.S.C. sec. 2251(b)(2)(A)).

The Commission may also take into consideration any other economic factors it deems relevant (19 U.S.C. sec. 2251(b)(2)).

The Trade and Tariff Act of 1984 amends section 201, addressing the relevant weight to be accorded any factor listed in subsections (b)(2)(A) and (b)(2)(B):

(T)he presence or absence of any factor which the Commission is required to evaluate in subparagraphs (A) and (B) shall not necessarily be dispositive of whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic industry (19 U.S.C. sec. 2251(b)(2)(D)).

that this industry had completed its adjustment to intense import competition, neither did such an analysis establish that the condition of the domestic industry met the statutory requirements for serious injury or threat of serious injury.^{15/}

In 1985, the Commission has a more complete, and more recent, picture. Now there are distinct, declining trends in production, capacity, shipments, and employment, which could not be foreseen in the last investigation.^{16/} It is also clear that this industry began to experience problems, beyond adjustment, in the last half of 1984.

Adjustment and Injury. When an industry is facing stiff competition from any source, it is expected that consolidation and contraction will occur. Employment, at least at first, will

^{15/} Since the trends apparent in this investigation were not apparent in 1984, a finding of threat of serious injury would have been speculative. There is no provision in sec. 201 for remedy of injury "in its incipiency." Once the Commission has made a negative injury finding, the industry subject to that finding may repetition the ITC when 1 year has elapsed since the Commission made its report to the President (S. Rept. No. 1298, 93d Cong., 2d sess. p. 123). However, if there is a finding of "good cause," or changed circumstances sufficient to raise the possibility that an affirmative determination could be reached, the Commission can reinstitute an investigation within a 1 year period. This was the series of events in the case of the footwear industry. See GC-I-006, Memorandum to the Commission from the General Counsel regarding good cause determination to institute a new investigation under sec. 201 concerning imports of nonrubber footwear.

^{16/} An affirmative finding of threat of serious injury is mandated only when "serious injury, although not yet existing, is clearly imminent if import trends continue unabated." S. Rept. No. 1298, 93d Cong., 2d sess., p. 121.

decline. Capacity will similarly fall as some firms go out of business and the industry becomes more concentrated. As the industry's "viable core" is established, market share might be lost and overall profits will fluctuate. Economic indicators will decline and stabilize before ultimately recovering.^{17/ 18/}

The footwear industry faces considerable competition from foreign producers with substantially lower production costs.^{19/} This competition clearly has increased since 1982.^{20/} Because this industry is in the midst of coming to grips with global competition, it was not anticipated that any of the economic indicators examined in our last investigation would improve dramatically. Even slight declines in some indicators would not be unusual for such an industry.

^{17/} It should be noted that an important purpose of the escape-clause statute is to assist industries adjust out of a situation where there has been a fundamental shift in comparative advantage to low cost producers.

^{18/} Petitioners argued in this investigation that the footwear industry was unusual in its response to increased competition. It was asserted that the nature of the industry was such that its likely strategy when faced with increased imports was to cut production, liquidate redundant assets, and operate on a smaller scale with profit margins intact. Because the industry is characterized by high variable costs, with few economies of scale, the industry "contracts through amputation." (Petitioner's prehearing Brief, p. 33.)

^{19/} Respondents alleged that petitioners faced a cost disadvantage between 20 and 40 percent in some market segments--a difference, they argued, that precludes the domestic industry from being competitive in most lines of low-cost footwear. See Volume Shoe Corporation's Prehearing Brief, pp. 10 and 15; see also VSC Remedy brief, p. 24.

^{20/} See discussion of increased imports, supra at pp. 7-10.

Yet the data show that this industry is now experiencing considerable declines in production, capacity, shipments and employment, particularly since the last half of 1984. Moreover, these declines now have the appearance of a long-term trend, rather than a mere short-term dislocation.

Production. Data from the Department of Commerce in our previous investigation indicated that domestic nonrubber footwear production had declined from 372 million pairs in 1981 to 342 million pairs in 1982. However in 1983, domestic production appeared to stabilize at 341 million pairs.^{21/}

Updated information now shows that the overall pattern is one of consistent decline in production since 1981.^{22/} Production fell from 372 million pairs in 1981 to 359 million pairs in 1982. In 1983, production fell to 344 million pairs. The decline continued into 1984, when production reached only 298 million pairs.

Rather than an industry that appears to be experiencing stability, the picture is now one of a 17 percent decline since 1982, with most of that reduction occurring in 1984.^{23/} Moreover, production was 20 percent less during the last half of 1984 than in the first part of the year. When Department of Commerce data for

^{21/} See Nonrubber Footwear, USITC Publication 1545, July 1984, p. A-30.

^{22/} Report at A-27.

^{23/} USITC questionnaire data also substantiate a declining trend in production. The percentage change since 1982 is slightly less, at 13 percent.

the first quarter of 1985 is compared with the same period in 1984, there is an even more acute decline of 23 percent.

Similarly, in the last investigation, capacity appeared to be stabilizing. Although there had been a decline between 1981 and 1982 coincident with the lifting of the OMAS with Taiwan and the Republic of Korea, in 1983, capacity stood approximately at its 1982 level.^{24/}

Now that 1984 figures have been added to previous data, it is clear that capacity has not stabilized. Rather, capacity has fallen 9 percent since 1982.^{25/} Despite this decline in capacity, domestic producers have been unable to increase their capacity utilization rates. Utilization of domestic capacity has remained at 70 percent since 1983.^{26/}

This decline in domestic capacity has clearly been the result of a striking increase in the number of firms that have recently closed. While only 3 plants closed in 1980, 11 plants in 1981 and 1982, and 14 plants in 1983; in 1984, an alarming 84 plants closed.^{27/} This is indeed an irregular, and significant

^{24/} Capacity rose from 409 million pairs in 1981 to 417 million pairs in 1982. In 1983, capacity was 413.5 million pairs. See Nonrubber Footwear, USITC Publication 1545, July 1984, p. A-35.

^{25/} Capacity fell from 428 million pairs in 1982 to 426 million pairs in 1983, and to 388 million pairs in 1984. See Report at A-34.

^{26/} Report at A-34.

^{27/} These figures represent net plant closings (i.e., the number of plants closed less the number of plants opened), which were verified by the Commission staff. See INV-I-107, Memorandum from the Acting Director, Office of Investigations, to the Commission regarding plant closings, May 15, 1985. See also Report at A-35-37.

idling of productive facilities^{28/} and goes beyond the normal difficulties associated with the adjustment process.

Financial Health of the Industry. In 1984, the Commission saw an industry that had experienced several years of high and stable profits, as well as an overall healthy balance sheet. Operating income rose from 9.1 percent of net sales in 1980 to 10.1 percent of net sales in 1981. Once import relief was removed in 1982, the industry's profit level fell slightly to 8.0 percent of net sales. However, in 1983, operating profits rose to 8.7 percent of net sales. These profit levels compared favorably with other U.S. manufacturing industries.^{29/} Financial ratios were also quite healthy.^{30/}

In 1984, operating income on domestic footwear operations fell to 5.8 percent of net sales. In contrast, average operating profits for all manufacturing increased to 6.8 percent.^{31/}

^{28/} See 19 U.S.C. sec. 2251(b)(7).

^{29/} In 1982 and 1983 the average ratio of net operating income to net sales for total U.S. manufacturing industries was 5.1 percent and 5.9 percent, respectively.

^{30/} Operating income as a ratio to total assets reached a 4-year high of 20.5 percent in 1983. Report at A-62, Table 34. Operating income as a percent of net worth was above 30 percent between 1980 and 1983.

^{31/} Even when compared to the nondurable goods industry, the performance of the domestic nonrubber footwear industry appears to have declined in 1984. In 1983 domestic shoe producers compared favorably to nondurable goods producers with a margin of 8.7 percent compared with 6.6 percent. Yet in 1984, nondurable goods producers surpassed producers of nonrubber footwear with operating margins of 7.0 percent. See Report at A-53, and INV-I-112, May 20, 1985.

Moreover, while the data in the previous investigation showed that producers of the majority of domestic production were experiencing strong profits, our most recent data show otherwise. Declines in operating income from 1983 to 1984 occurred for all sized firms, except those producing 2 to 4 million pairs of shoes annually.^{32/}

The overall decline in the industry's profitability is apparently attributable to a particularly severe drop in operating profits during the last half of 1984. While profits were a reasonable 6.4 percent during the first half of 1984, near the level of those for all manufacturing, during the latter half of the year they fell to 5.3 percent.^{33/}

Financial indicators also plummeted in 1984. After a 4-year high of 21 percent in 1983, the ratio of operating income to total assets fell to 13 percent in 1984.^{34/} Operating income as a percent of net worth also fell from its stable level of about 30 percent in 1983 to 20 percent in 1984. The burden of debt to net worth for the smallest firms soared from 95 percent in 1983 to 180 percent in 1984.^{35/}

^{32/} Report at A-55-59, Table 32. As a share of net sales, operating income fell less for the largest firms (producing over 4 million pairs per year) than for firms producing between 1 and 2 million pairs annually.

^{33/} See INV-I-099, Memorandum from the Acting Director, Office of Investigations, to the Commission re Income and Loss Data by 6-month periods for calendar years 1983-84, May 14, 1985.

^{34/} Report at A-62.

^{35/} Report at A-150.

Employment. Whereas the employment picture was mixed in last year's investigation,^{36/} this year's questionnaire data show that overall employment in this industry has in fact fallen 8 percent since 1983.^{37/} The number of workers in this industry has fallen gradually since 1981.^{38/} The drop to only 87,000 workers in 1984, however, is much sharper than in earlier periods.^{39/}

The new information presented in this investigation thus shows that by the end of 1984 and continuing into 1985, this industry is clearly becoming less able to meet the increasing intensity of global competition than the industry the Commission examined in its last investigation. However, in order to render an affirmative finding, it must also be established that imports are a substantial cause of this threat to the industry's current condition.

Increasing Imports are a Substantial Cause 40/ Of the Threat of Serious Injury

We have seen that there was a deterioration in the condition of the domestic industry in 1984, particularly in the last

^{36/} Historical employment data showed that there was an overall trend toward increased unemployment among footwear workers. However, these data also showed a drop in the number of unemployed workers in 1982 and 1983.

^{37/} Report at A-44.

^{38/} There were 107,000 production and related workers in 1981, 101,000 in 1982, and 96,000 in 1983.

^{39/} It should be noted that the number of workers exiting this industry voluntarily is approximately the same as the number exiting involuntarily. Report at A-49.

^{40/} Section 201(b)(4) defines substantial cause as "a cause which is important and not less important than any other cause."

half of the year. But during this period there was also a precipitous drop in consumption.^{41/} This decline in consumption affected imports, as well as domestic production.^{42/} Several parties argued that the industry in fact suffered primarily from the consequences of an overestimation of demand in the last half of 1984. Demand for footwear had been quite strong every year since 1982.^{43/} Presumably over-ordering by domestic producers in the last quarter of 1983 of both domestic and imported shoes for early 1984 contributed to the decline in production, shipments, and the closing of plants that was so severe in the last half of the year. If a short-term decline in consumption was indeed a major factor in the decline in the performance of the domestic industry during the last half of 1984,^{44/} then it could be the case that imports do not in fact threaten the domestic industry with serious injury.

^{41/} Consumption was 13 percent lower in the latter half of the year.

^{42/} Imports in the last half of 1984 were 9 percent lower than in the first half of the year.

^{43/} See Report at Table 5.

^{44/} A shift-share analysis, which evaluates the comparative impact of imports and the decline in consumption during the last half of 1984, was performed and considered as part of my causal assessment. Such an analysis did not unequivocally establish that the decline in production between the first half and last half of 1984 was mostly attributable to the decline in demand. Imports were responsible for approximately 40 percent of the decline in production, while the decline in apparent consumption was responsible for the remainder. Despite the difficulty the Commission encounters in its efforts to "weigh causes" in escape clause cases, Congress did not intend for us to base our findings regarding causation primarily on mathematical tests (S. Rept. 1298, 93d Cong., 2d sess., pp. 120-121).

Two factors suggest that this is not the case. First, an examination of 1985 data indicates that although consumption has recovered and inventories^{45/} have been worked off, the performance of the domestic industry has yet to follow suit. Indeed, during the first quarter of 1985 production fell 23 percent between the first quarter of 1984 and 1985. When first quarter 1985 is compared with first quarter 1984, employment of production workers similarly fell 14 percent. And imports have quickened their pace even more, increasing 13 percent between the two first-quarter periods.

Second, in the last investigation it appeared that the increases in imports were largely in market segments of the industry where domestic producers either lacked comparative advantage or interest. However data in this investigation suggest that imports are increasing their presence in the higher end of the market.^{46/} Now, the decline in the condition of the domestic industry seems to reflect the fact that imports are having a more direct impact on domestic production.

^{45/} Some industry analysts believe that inventories were as high as 200 million pairs in 1984. Respondent Footwear Retailers of America asserts that there was a "temporary excess in inventories" in 1984, which has largely disappeared. See Report at A-14.

^{46/} Figures for imports other than those by U.S. producers show that while 44 percent of imports entered by nonproducers in 1981 were below \$5 (wholesale value), in 1984, only 19 percent of such imports were located in this segment. Twenty-nine percent of such imports in 1981 were valued between \$5.00 and \$10.00. In 1984, almost half--44 percent--of these imports were in this area. In 1981, 27 percent of the imports were above \$10.00. In 1984, 37 percent of the imports entered the United States at the highest end of the market. Report at Table 53. Imports of U.S. producers show similar, though less dramatic trends. Report at Table 56. Official statistics also show a higher than average rate of growth in imports with a customs value of over \$5.00 from 1983 to 1984.

Hence, even if the decline in demand during the last half of 1984 were a cause of injury to the domestic industry equal to or greater than imports, recent trends in the data substantiate a finding that this industry is currently threatened with serious injury from imports.

VIEWS OF VICE CHAIRMAN SUSAN W. LIEBELER

PART ONE - INJURY

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VIEWS OF VICE CHAIRMAN SUSAN W. LIEBELER

PART ONE - INJURY

I. Introduction

Section 201 of the Trade Act of 1974¹ authorizes the International Trade Commission ("Commission") to recommend temporary import relief, under certain circumstances, to domestic industries. The Commission begins a Section 201 investigation by defining the domestic industry. Then it must inquire whether three statutory requirements are met: 1) Have competing goods been imported in increased quantities? 2) Is the domestic industry seriously injured or threatened with serious injury? 3) Are the increased imports a substantial cause of the injury or the threat of injury? Only if the Commission majority answers all three questions affirmatively, can it consider the question of remedy. In the remainder of Part One of this opinion I consider these matters in turn, and because the Commission made an affirmative injury determination, I conclude with my remedy recommendation in Part Two.

II. Domestic Industry

I determine that there is one domestic nonrubber footwear industry. My determination is based on the statutory language

¹19 U.S.C. 2251 (1982).

of Section 201 and its legislative history. Section 201 defines the domestic industry as the domestic producers of "an article like or directly competitive with" the imported article.² In the legislative history of Section 201, the Senate Finance Committee explained that "like" and "directly competitive" are two distinct concepts:

"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.³

In the instant investigation the domestic industry argues for a single industry definition encompassing all domestic producers of nonrubber footwear.⁴ On the other hand, several

²19 U.S.C. 2251(b)(3) (1982).

³S. Rep. No. 1298, 93rd Cong., 2d Sess. 122 (1974). The producers of a like product as well as the producers of a directly competitive product can both be part of the same domestic industry under Section 201. Carbon and Certain Alloy Steel Products: Report to the President on Inv. No. TA-201-51, USITC Pub. No. 1553 (1984), at 12 (hereinafter cited as Carbon Steel). See also United Shoe Workers of America v. Bedell, 506 F.2d 174, 185-86 (D.C. Cir. 1974).

⁴Prehearing Brief of Footwear Industries of America, Inc., Amalgamated Clothing and Textile Workers Union and United Food & Commercial Workers International Union at 11-15 (hereinafter cited as FIA Prehearing Brief).

importers and foreign exporters of athletic footwear⁵ urge the Commission to find two domestic industries, one producing athletic footwear and the other producing nonathletic footwear.⁶ They contend that the phrase "directly competitive" requires that there be two-way substitution between the products. They argue that athletic and nonathletic shoes are not interchangeable because nonathletic shoes cannot be worn for athletic activities.⁷

I do not agree that there must be two-way substitution in order for the products to be considered "directly competitive". The appropriate inquiry is whether the products are competitive over a large range of uses. If there is a sufficient overlap between athletic and nonathletic footwear, they are "directly competitive".

Both athletic and nonathletic footwear come in a variety of styles and prices. Some of these shoes have only a limited

⁵ These include Nike, Adidas, Puma, and the Korean Footwear Exporters Association.

⁶ See e.g., Korean Footwear Exporters Association, Posthearing Brief, at 3-9 (hereinafter cited as KFEA Posthearing Brief).

⁷ They also assert that athletic and nonathletic footwear are not "like" because they are produced in separate establishments, by separate firms, on different equipment, and by employees with different skills, ultimately to be sold in different outlets through distinct channels of distribution and marketing. I do not reach this argument because I find imported athletic footwear to be directly competitive with domestic nonathletic footwear.

range of practical uses, whereas others have a much broader range. According to a survey that appeared in Footwear News, approximately 60 percent of those adults owning at least one pair of jogging shoes used them exclusively for nonathletic purposes, and a substantial portion of the remainder probably used them only occasionally for athletic activity.⁸ Thus, there is significant overlap between the two groups. Therefore, I find that athletic and nonathletic footwear are directly competitive and are part of a single domestic nonrubber footwear industry.

III. Increased Imports

After defining the domestic industry, the statute 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. . . ." ⁹ If the Commission finds that imports have not increased, it may not recommend any remedy.¹⁰

Several Commission opinions, including those of other Commissioners in the instant investigation, suggest that the 'increased quantities' requirement can be satisfied by an

⁸Footwear News, Nov. 7, 1983, at 34, col. 4.

⁹19 U.S.C. 2251(b)(1) (1982) (emphasis added).

¹⁰19 U.S.C. 2251(d)(1) (1982).

increase in the relative market share of imports.¹¹ Such an interpretation is contrary to the clear language of the statute and the intent of Congress.¹² When Congress wanted the Commission to consider the relative market share of imports it

¹¹See, e.g., Stainless Steel and Alloy Tool Steel: Report to the President on Inv. No. TA-201-48, USITC Pub. No. 1377, at 16 (1983); Sugar: Report to the President on Inv. No. TA-201-16, USITC Pub. No. 807, at 11 (1977); Unwrought Copper: Report to the President on Inv. No. TA-201-52, USITC Pub. No. 1549, at 829 (1984) (Views of Commissioners Eckes, Lodwick and Rohr) (hereinafter cited as Copper); Certain Canned Tuna Fish: Report to the President on Inv. No. TA-201-53, USITC Pub. No. 1558, at 8 (1984) (Views of Commissioners Eckes, Lodwick and Rohr) (hereinafter cited as Tuna); Potassium Permanganate: Report to the President on Inv. No. TA-201-54, USITC Pub. No. 1682, at 6-7 (1985) (Views of Chairwoman Stern and Commissioners Lodwick and Rohr) (hereinafter cited as Potassium Permanganate); Nonrubber Footwear: Report to the President on Inv. No. TA-201-55, supra at 11 (Views of Chairwoman Stern) (hereinafter cited as Footwear IV).

Only once has the Commission made an affirmative determination in which the absolute volume of imports had not increased. In response to a question by then-Chairman Eckes at the hearing for Carbon Steel, the petitioners were unable to cite a single case in which the Commission made an affirmative injury determination where imports had not increased absolutely. In the Carbon Steel case the Commission majority made affirmative determinations with respect to plates and structural shapes and units even though imports of both products had declined. (I made negative determinations with respect to both product groups because they failed the increased imports requirement. Carbon Steel, at 145, 153 (Views of Vice Chairman Susan W. Liebeler).)

¹²Last year former Commission Vice Chairman Michael J. Calhoun testified that his prior interpretation of "increased quantities" was erroneous and that Section 201 requires an absolute increase in imports. Import Relief for the U.S. Non-Rubber Footwear Industry: Hearing Before the Subcommittee on International Trade of the Senate Committee on Finance, 98th Cong., 2d Sess. (June 22, 1984).

used precise language to convey its intent.¹³ Later in Section 201 for example, it provided that the Commission can examine both the absolute and relative increase in imports to determine whether the increased quantity of imports has been a substantial cause of serious injury.¹⁴

The quantity of imports of nonrubber footwear has increased every year since 1980.¹⁵ Because shoes are not fungible products, however, the correct way to observe increased imports is by examining their value in constant dollars.¹⁶ The real

¹³See, e.g., Section 406 of the Trade Act of 1974, 19 U.S.C. 2437(e)(2) (1982) ("Market disruption exists within a domestic industry whenever imports of an article, like or directly competitive with an article produced by such domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to such domestic industry.) (Emphasis added)).

¹⁴The Senate Report on the Trade Act of 1974 distinguished between the finding of increased imports and causation. According to the Senate Committee: "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." S. Rep. 1298, 93rd Cong., 2d Sess. 121 (1974). (Emphasis added.)

¹⁵Even when measured in volume units, imports have increased. In thousands of pairs of shoes, imports of nonrubber footwear were 365,743 in 1980, 375,600 in 1981, 479,663 in 1982, 581,857 in 1983, and 725,893 in 1984. Imports also increased for the period January-February 1985 to 131,887 from 124,231 for January-February 1984. Report, at A-20-22.

¹⁶When the quantity of imports is measured by value, it is inappropriate to use nominal values because they do not correct for inflation. Instead the real value, or constant dollar

(Footnote continued on following page)

value of imported shoes increased 70.5 percent from 1980 to 1984, as well as increasing in each year. In 1980 dollars, imports in 1980 were \$2.3 billion, \$2.27 billion in 1981, \$2.77 billion in 1982, \$3.25 billion in 1983, and \$3.92 billion in 1984.¹⁷

IV. Serious Injury-Threat of Serious Injury

A. Definition

In spite of the important role serious injury has in a Section 201 investigation, Congress did not define it. Instead, it listed several factors that are evidence of serious injury or threat.¹⁸ The legislative history only reiterates what is in the statute, and emphasizes that the enumerated factors are only evidence of injury, and not its definition.¹⁹

Section 201 requires that the injury or threat to the industry be serious in order for relief to be granted. This is

(Footnote continued from previous page)
value, of imported shoes should be used. The correct way to determine the value of imported shoes in constant dollars, is to deflate the nominal value of imported shoes by a wide ranging price index, such as the Producer Price Index (PPI).

¹⁷See Report, at A-15, Table 4. Although the Commission Report deflates imports using the import price index for footwear, I use the PPI to obtain a more broad-based indication of the effects of inflation.

¹⁸Sections 201(b)(2)(A) and (B) of the Trade Act of 1974, 19 U.S.C. 2251(b)(2)(A) and (B) (1982).

¹⁹S. Rep. 1298, 93rd Cong. 2d Sess. 121 (1974).

obviously a much stricter standard than the material injury standard used in Title VII investigations. The magnitude that Congress intended when it used the term "serious" was described in the Report of the Senate Finance Committee:

For many years, the Congress has required that an "escape clause" be included in each trade agreement. The rationale for the "escape clause" has been, and remains, that as barriers to international trade are lowered, some industries and workers inevitably face serious injury, dislocation and perhaps economic extinction. The "escape clause" is aimed at providing temporary relief for an industry suffering from serious injury, or the threat thereof, so that the industry will have sufficient time to adjust to the freer international competition.²⁰

The use of the term "serious injury" in the same phrase as "extinction" suggests that "serious injury", if not strictly limited to economic extinction, is something very close. Thus, I have interpreted the phrase "serious injury" as a major contraction of a domestic industry or its extinction.²¹

I directed my inquiry toward the viability of the industry instead of the factors of production only after a careful analysis of the Act as a whole. The statute directs the Commission to conduct an investigation in order to determine

²⁰S. Rep. No. 1298, 93d Cong. 2d Sess. 119 (1974). (Emphasis added.) It is also worth noting that the Committee in proposing to relax the standards for "escape clause" relief decided to weaken the causation standard, rather than change the serious injury standard.

²¹See Potassium Permanganate, at 20 (Views of Vice Chairman Susan W. Liebeler).

whether increased imports are a substantial cause of serious injury "to a domestic industry producing an article like or directly competitive with the imported article."²² Thus, Congress, in enacting Section 201, was concerned with the effect of imports on domestic industries, rather than on those providing labor and capital to individual firms. This interpretation is not weakened by the statutory requirement that the Commission consider the profitability of firms and unemployment as well. Such factors are indicia of injury to an industry. Furthermore, the use of the terms "industry" and "producer" or "firm", sometimes in the same sentence and in opposition to one another,²³ makes it clear that Congress did not equate the firms or workers with the industry. Finally, the House Report on the Trade and Tariff Act of 1984, which amended several provisions of Section 201, underscored this concern with the viability of the industry. It declared that the Commission should not treat the industry's profit data as dispositive, but should also give careful consideration to plant closings and employment trends in assessing the condition

²²19 U.S.C. 2251(b)(1) (1982) (emphasis added).

²³See, e.g., 19 U.S.C. 2251(b)(3)(A) (1982) ("The Commission may, in the case of a domestic producer which also imports, treat as part of such domestic industry only its domestic production.")

of the industry.²⁴ An industry may be profitable in an accounting sense, while at the same time, it may be shrinking or dying. If the providers of capital are earning their opportunity costs and barriers to entry and exit in the industry are low, then plant closings and employment trends may indicate a contracting or dying industry.²⁵

B. Serious Injury

Section 201(b)(2)(A) sets forth specific economic factors the Commission must consider in determining whether there is serious injury:

[T]he 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.²⁶

In addition, the Commission may take into account any other economic factors it considers relevant.²⁷ The 1984 amendments to Section 201 add a subsection which addresses the relevant weight to be accorded these factors:

[T]he presence or absence of any factor which the Commission is required to evaluate in subparagraphs (a) and

²⁴H. R. Rep. No. 1156, 98th Cong., 2d Sess. 142 (1984).

²⁵See my discussion of serious injury in Carbon Steel, at 135-36 (Views of Vice Chairman Susan W. Liebeler).

²⁶19 U.S.C. 2251(b)(2)(A) (1982).

²⁷19 U.S.C. 2251(b)(2) (1982)

(b) shall not necessarily be dispositive of whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic industry.²⁸

Section 201(b)(7), as amended by the 1984 Act, defines the phrase "significant idling of productive facilities" as "the closing of plants or the underutilization of production capacity".²⁹ For the five-year period ending in December 1984, I conclude that there has not been a "significant idling of productive facilities". Domestic nonrubber footwear capacity declined by less than 10 percent between 1980 and 1984, from 412 million pairs in 1980, to 388 million pairs in 1984.³⁰

Much of the reduced capacity is attributable to plant closings. According to data verified by the Commission staff, there were 123 (net) closures in the industry between 1980 and 1984, which translates into a decline in the number of plants of about 25 percent.³¹ Meanwhile, capacity utilization

²⁸19 U.S.C. 2251(b)(2)(D) (Cum. Supp. 1985).

²⁹Id., (amending 19 U.S.C. 2251(b)(7) (1982)).

³⁰Report at A-34, Table 19.

³¹See INV-1-107 (May 15, 1985), Memorandum from Acting Director, Office of Investigations, to the Commission, regarding plant closings. See also Report at A-35-37.

dropped from 78.0 percent in 1980 to 70.1 percent in 1984.³² From 1980 to 1984 there has been a 26 percent decline in United States producers' shipments measured in 1980 dollars from \$4.62 billion in 1980 to \$3.42 billion in 1984. This decline is significant, but not sufficient to constitute serious injury.

The profitability as measured by the ratio of operating income to net sales, of groups of firms segregated by size of production, declined in 1984 from 1980 for all sized firms. In 1984, only firms producing less than 200,000 pairs annually, which accounted for less than 2 percent of domestic production in 1984,³³ showed a net loss. Their ratio of operating loss to net sales was 3.0 percent.³⁴ For firms producing 4 million or more pairs of shoes, which accounted for 59.0 percent of domestic production in 1984,³⁵ the ratio of operating income to net sales fell in 1983 and again in 1984 to 7.4 percent, a level only below the 1980 level of 10.3 percent.³⁶

The traditional indicators used by financial analysts do not reveal that the industry has been seriously injured over

³²Id. at A-34, Table 19.

³³Report at A-31, Table 16.

³⁴Report at A-55, Table 32.

³⁵Report at A-31, Table 16. Preliminary official statistics show such firms accounting for 51.2 percent of 1984 domestic production. Report at A-136, Table F-5.

³⁶Report at A-58-59, Table 32.

the period of the investigation. Rather, the data show that the industry's adjustment from 1980 through 1983 was orderly and the industry overall remains profitable.³⁷

The industry is in a period of consolidation. The nonrubber footwear industry is characterized by a ratio of fixed to total assets of less than 17 percent. This low fixed asset requirement makes entry and exit easy.³⁸ The optimal scale for firms in this industry appears to be over one million pairs per year.³⁹ Since a large number of firms in the industry operate below this level of production, consolidation of firms will and should continue.

In an industry characterized by consolidation and rapid adjustment to changing competitive conditions, the impact of imports is not apparent in the financial data for the industry in the years 1980-83. In fact, many of the financial ratios typically used for industry analysis continue to show stability in 1984.⁴⁰ The quick and current ratios, which indicate industry liquidity, improved in 1983 and remained constant in

³⁷See Report at A-18, Table 6 and A-35, Table 20.

³⁸Report at A-62, Table 34. In addition, total long term assets, which include capitalized lease values of production equipment are less than 24 percent of the total asset structure in each of the five years of the investigation.

³⁹See Report at A-149-55, Appendix H.

⁴⁰Report at A-62, Table 34.

1984. The ratios of net sales to fixed assets and net sales to total assets show little variation over the five years. The ratio of debt to net worth actually declined in each year during the period 1980-83 indicating a smaller proportional burden of debt in relation to equity and the resulting enhanced ability to borrow in the market place. In addition, firms producing less than 200,000 pairs increased their total capital expenditures as a percentage of both net worth and fixed assets in 1984 over 1983.⁴¹

The average number of production and related workers producing footwear, and the number of hours worked by those employees, declined by 16 percent over the period of investigation.⁴² There were 104,000 such workers in 1980 compared with 87,000 in 1984.

Although the industry has contracted in the last few years, and some indicia of industry performance indicate that it is worse off today than at any time in the recent past, the industry's decline has not been sufficient to constitute serious injury.⁴³ Thus, I turn to the question of threat of serious injury.

⁴¹Report at A- 150, Table H-1.

⁴²Report at A- 44, Table 26.

⁴³I do not believe that a finding of serious injury can be based on data for one year only because we do not know if the one year is an aberration.

C. Threat of Serious Injury

In order to find threat of serious injury the injury must be clearly imminent.⁴⁴ In determining whether there is threat of serious injury, the Commission must consider:

a decline in sales, a higher and growing inventory, and a downward trend in production, profits, wages, or employment (or increasing underemployment) in the domestic industry concerned. . . . and all [other] factors which it considers relevant."⁴⁵

I have already discussed these factors.⁴⁶ Although they were insufficient evidence of serious injury, many of them showed declining trends which could evidence threat of serious injury.

The Commission traditionally requires that the threat be real rather than speculative and that serious injury be highly probable in the foreseeable future.⁴⁷ The question of threat cannot be neatly separated from the question of causation. A

⁴⁴The Senate Finance Committee's Report on the Trade Act of 1974 states that "[i]t is the intention of the Committee that the threat of serious injury exists when serious injury, although not yet existing, is clearly imminent if imports trends continued unabated." S. Rep. 1298, 93d Cong., 2d Sess. 121 (1974).

⁴⁵19 U.S.C. 2251 (b)(2) (1982).

⁴⁶See supra notes 31-43 and accompanying text.

⁴⁷Nonrubber Footwear: Report to the President, Inv. No. TA-201-50, USITC Pub. No. 1545 (1984) at 19 (hereinafter referred to as Footwear III).

threat must come from some outside source and does not rest solely on the condition of the domestic industry. My affirmative threat determination is based on elementary economics. The major foreign suppliers of nonrubber footwear enjoy significant cost advantages relative to U.S. producers. This comparative advantage will allow them to continue expanding their production and increasing their exports to the United States.

In 1980, imports accounted for 33.8 percent of domestic consumption by value. In 1980, however, footwear imports into the U.S. were restricted by Orderly Marketing Agreements with Taiwan and Korea. In 1982, the first full year during the period of investigation in which imports were not restricted, imports accounted for 41 percent of domestic consumption by value. In 1984, imports accounted for 52.3 percent of domestic consumption by value.⁴⁸ In 1984, the two largest foreign suppliers of nonrubber footwear to the United States by volume, Taiwan and Korea, together accounted for 59 percent of all imports by quantity, and 46 percent by value. From 1982 to 1984, the volume of imports from these two countries increased over 55 percent, while their real value increased over 43

⁴⁸Report at A-15, Table 4. Because shoes are not a fungible good, it is appropriate to examine the relative market share held by imports by value, rather than volume.

percent.⁴⁹ An examination of the footwear industries in these two countries reveals the extensive steps they are taking to become still more competitive and to increase their share of the United States market.

Taiwan: Taiwan is the world's largest exporter of nonrubber footwear to the United States. From 1980 to 1984, in terms of both quantity and value, imports of nonrubber footwear from Taiwan exceeded those from any other country. In 1984, imports from Taiwan accounted for 42 percent of the quantity and 29 percent of the value of U.S. imports of nonrubber footwear, and 30 percent of the quantity and 16 percent of the value of apparent U.S. consumption. The United States is Taiwan's largest footwear export market. In 1984, the United States accounted for 60 percent of the volume and 68 percent of the value of Taiwan's footwear exports.⁵⁰

Plastic footwear accounts for most of the footwear exported to the United States from Taiwan. The significance of plastic footwear, however, is declining at the expense of leather footwear. Between 1982 and 1983, the value of the latter increased 66 percent, while the value of the former increased

⁴⁹Report, at A-82, calculated by deflating the Customs value by the Producer Price Index.

⁵⁰Report at A-66.

only 6 percent.⁵¹ From 1980 to 1983, the production of leather shoes increased at an annual rate of 46 percent. As part of Taiwan's plan to develop high value-added footwear, the industry has acquired the capability of manufacturing an artificial leather requiring sophisticated techniques and machinery. In addition, in 1984 a large Italian leather company announced plans to establish a leather processing factory in Taiwan. This plant is expected to improve the quality of locally-produced footwear.⁵² Taiwan also expanded its capacity by 27 percent and increased its capacity utilization rate from 77 percent to 85 percent since 1980.⁵³ Finally, Taiwan enjoys a large cost advantage over the United States because the hourly compensation of a Taiwanese footwear worker is less than one-fourth of the American counterpart. This difference is especially significant in the footwear industry where labor is a substantial portion of the total cost of production.⁵⁴

Korea: By volume, Korea is the second largest source of imported footwear into the United States. Over half of the

⁵¹Report at A-64.

⁵²Report at A-64.

⁵³Report at A-65.

⁵⁴See FIA Prehearing Brief at 32 (for leather shoes produced in the United States, labor accounts for nearly a third of the total cost of production).

nonrubber footwear produced in Korea is athletic footwear. Since 1980, Korean production of leather shoes has nearly doubled to 39.6 million pairs a year. Because Korean compensation is currently 13 percent of U.S. compensation, Korea has a significant cost advantage in producing footwear. According to the FIA, the cost gap between U.S. and Korean footwear producers is almost 30 percent for a typical ladies' pump.⁵⁵ The Korean Footwear Exporter's Association (KFEA) estimates the price gap between United States and Korean leather shoes to be even larger.⁵⁶

Available data show that the rate of productivity growth in Korea and Taiwan has been consistently high in recent years. Between 1982 and 1984, Taiwanese plastic products producers increased their productivity 7.5 percent annually. Similarly, Korean footwear producers increased their productivity 5 percent annually.⁵⁷

There is also evidence to suggest that much of the technology in the footwear industry is rapidly becoming available throughout the world. Footwear machinery is sold in

⁵⁵FIA Prehearing Brief at A-54-56.

⁵⁶Posthearing Brief of Korean Footwear Exporters Association at 1677.

⁵⁷Volume Shoe Corp. Posthearing Brief at 27.

South America, and Southeast Asia.⁵⁸

It is clear that the comparative advantage enjoyed by foreign producers will enable them to increase their production and exports to the United States. I, therefore, determine that the domestic nonrubber footwear industry is threatened with serious injury.

V. Causation

Section 201 requires that increased imports be a substantial cause of serious injury or threat of serious injury to the domestic industry.⁵⁹ Increased imports must be an important cause of serious injury as well as a cause equal to or greater than any other cause.⁶⁰ Crucial to this inquiry, but often overlooked, is that imports must be a cause of serious injury, and not an effect.

The amount of imports are not wholly exogenous to the domestic economy, but are in part endogenous. Thus, in order to implement the causation requirement I use an economic framework that allows me to determine whether "increased

⁵⁸Acting Director, Office of Investigations, Memo to the Commission, INV-I-106, May 15, 1985.

⁵⁹The term "substantial cause" is defined as "a cause which is important and not less than any other cause." 19 U.S.C. 2251(b)(4) (1982).

⁶⁰S. Rep. 1298, 93rd Cong., 2d Sess. 120 (1974).

imports" are a substantial cause of serious injury or an effect of it.⁶¹

By defining "substantial cause" as a cause "which is important and not less than any other cause," Section 201(b)(4) requires the Commission to compare and weigh causes. In order to do so, it is important to examine causes at the same level of generality⁶² and to include all possible causes of injury to the domestic industry.⁶³

At the broadest level of generality there are only three causes that can inflict injury on a domestic industry. They

⁶¹This framework is set forth in more detail in Appendix A, which follows my views on remedy. I used it in previous 201 cases. Carbon Steel at 137-42, Copper at 60-65, Tuna at 29, Potassium Permanganate at 23-26. It is the causation framework presented by the Federal Trade Commission in Carbon Steel, Copper, Tuna, Potassium Permanganate, and the instant case. The FTC's participation and critical analysis in these cases has been particularly helpful to me.

⁶²If the Commission compares causes at different levels of generality, overlapping causes may result in double counting. Furthermore, because any other comparison would be arbitrary, such a requirement is implicit in a directive to compare causes absent a strong contrary indication. In addition, one can obviously increase the likelihood of an affirmative determination by disaggregating causes. For example, if one separates a decrease in domestic supply into "separate" causes such as increased costs of pollution abatement, increased costs due to management inefficiency, increased costs due to new local taxes, increased labor costs, increased costs associated with complying with a new "Buy America" state statute, the more likely it is that imports will be the greater cause.

⁶³If the list of causes is not exhaustive, then the Commission cannot determine whether increased imports is "not less [important] than any other cause."

are: 1) a decline in demand; 2) a decline in domestic supply; and 3) an increase in foreign supply.⁶⁴ These changes in the market for nonrubber footwear can be expressed through shifts in the relevant supply and demand curves. Because equilibrium in the market for nonrubber footwear is determined by the intersection of supply and demand curves, any injury to the industry can be explained in terms of shifts in those curves. A decrease in domestic demand is represented by an inward and leftward shift of the demand curve; a decrease in domestic supply is represented by an inward and leftward shift of the domestic supply curve; and an increase in foreign supply is represented by an outward and rightward shift of the foreign supply curve. The consequence of an adverse shift in any of these curves is either a decline in the price of nonrubber footwear or a decline in the quantity of domestically produced nonrubber footwear, or both.

An adverse shift in the demand curve for nonrubber footwear, representing a decline in domestic demand, will injure the domestic industry.⁶⁵ Such a shift will reduce both domestic output and imports, and it will result in a

⁶⁴There could also be a decline in demand for United States exports, but it is unlikely that a domestic industry could have a significant export industry and be seriously injured by imports.

⁶⁵See e.g. Potassium Permanganate, at 23-25 (Views of Vice Chairman Susan W. Liebeler).

decline in price. An adverse shift in the domestic supply curve for nonrubber footwear (reflecting increased costs or reduced productivity, or both) can also injure the domestic industry, but unlike a decline in demand, it will cause an increase in imports.⁶⁶ Finally, an adverse shift in the foreign supply curve for nonrubber footwear (reflecting decreased costs or increased productivity, or both) can also injure the domestic industry and produce an increase in imports.⁶⁷ Only in the last case are increased imports a substantial cause of injury.

This analysis of causation is supported by the legislative history of Section 201, which lists several causes of injury that cannot justify relief:

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.⁶⁸

All of the factors listed in the Senate Report as insufficient bases for an affirmative determination relate

⁶⁶See Tuna at 29-30 (Views of Vice Chairman Susan W. Liebeler).

⁶⁷See Copper at 65 (Views of Vice Chairman Susan W. Liebeler).

⁶⁸S. Rep. 1298, 93rd Cong., 2d Sess. 120 (1974).

either to domestic demand or supply.⁶⁹ Changes in technology, competition from substitutes, and consumer taste are reflected in the domestic demand curve. The rising costs associated with plant obsolescence and poor management are reflected in the domestic supply curve. On the other hand, no cause of injury that relates to changes in import supply is listed among the causes which do not justify relief.

A framework which examines only three curves has several advantages. First, it accords with the statutory language requiring that imports be at least as great as any other cause, because it allows causes to be compared. The effect on the domestic industry of the shift of each curve can be measured and can be compared.

Second, in most instances this approach is based on quantitative rather than qualitative data. In order to measure the shifts in different curves over time, only price and quantity data in the current and base periods are needed. Such data is generally available from a number of different public sources as well as from the Commission's questionnaires, and it is among the most reliable data available in a Commission investigation.

⁶⁹The listed factors that affect domestic supply will also cause an increase in imports. There will be movement along the import supply curve but there will be no shift in this curve. Thus, the increased imports are not a cause of injury.

Third, this approach is transparent. Unlike other possible approaches to causation, which can be quite opaque, this one is easy to follow. One only has to compare the effects of different shifts in the curves, rather than make a subjective judgment on which of a variety of qualitative effects is most important. Furthermore, Commission precedent offers no other meaningful, analytical framework with which to identify and compare causes.

Fourth, because the data is readily available and the approach is transparent, this method provides reasonable certainty. In most cases the parties involved should be able to anticipate what the Commission will do on the causation issue.

Fifth, this approach is consistent with intuitive notions about causation. It makes sense to say increased imports are the cause of injury to the domestic industry when foreign producers are now able to sell their product in the United States more cheaply. It is somewhat perverse, however, to interpret increased imports as the cause of injury to a domestic industry when the quantity of imports have increased because the cost of producing the item domestically has increased.

The economic approach I use to analyze causation differs from the shift share analysis that is gaining adherents at the Commission.⁷⁰ Shift share analysis allows for only two

⁷⁰See EC-I-172 (May 21, 1985), Memorandum from Director, Office of Economics, to the Commission, regarding shift share analysis for nonrubber footwear 1980-84; EC-I-174 (May 21, 1985), Memorandum from Director, Office of Economics, to the Commission, regarding shift share analysis for nonrubber footwear in 1984.

possible causes of serious injury: decreased demand and increased imports. It does not conform with notions of causality, because it treats declines in domestic productivity as increased imports. Thus, shift share analysis is inconsistent with Congressional intent, which explicitly precludes relief when increased imports result from rising domestic production costs. In the instant investigation, shift share analysis and the economic approach both yield affirmative causation determinations. This is because the increase in imports is a result of a downward shift in the foreign supply curve rather than an upward shift in the domestic supply curve. In the next case, however, the results might differ.

I have previously applied this economic approach to causation, to determine whether increased imports are a substantial cause of serious injury. This is its first application to threat of serious injury. Because in a threat case the injury is prospective, one must judge the future. This is relatively easy to do in this case.

The serious injury threatening the domestic industry is a result of a downward and outward shift in the import supply curve. The growth in imports is a lagged response to a fall in real import prices. Most shoes are produced according to customer specifications. It takes at least several months for foreign producers to deliver such custom orders. In addition, the identity of the shoe supplier is important to the

commercial purchaser who is likely to increase purchases from sources over time if they perform satisfactorily.

Consequently, the effects of a reduction in the price of imported shoes on the United States market will not be fully realized for several years. Thus, the appropriate way to employ the analysis would not be to use contemporaneous prices and quantities, but to use quantities and lagged prices.

The available data strongly support the proposition that foreign productivity has improved and foreign prices have declined in the last few years. The data compiled by the Federal Trade Commission show a slight decrease in the weighted average price of imported shoes.⁷¹ The index of footwear import prices in the report when deflated by the Producer Price Index for all finished goods, indicates that real import prices fell by 17.4 percent from 1974 to 1982,⁷² and by an additional 2.1 percent between 1982 and 1984.

Estimates of foreign productivity show significant gains for many major sources of shoes. Available data show that the rate of productivity growth in Taiwan and Korea consistently has been high in recent years. Between 1982 and 1984, Taiwanese producers of plastic products increased their

⁷¹FTC, Prehearing Brief (Appendix A).

⁷²Report at A-159, Table 1-2.

productivity 7.5 percent annually.⁷³ Korean footwear producers increased their productivity over 5 percent annually from 1982 to 1984.⁷⁴

The available data does not suggest any pronounced upward shift in the domestic supply curve for footwear. According to the Department of Labor and responses to the Commission's questionnaire, U.S. productivity increased by only 0.2% annually between 1980 and 1983.⁷⁵ The real wages of footwear workers fell between 1983 and 1984 and the price of domestically produced nonrubber footwear declined precipitously by 8.1 percent between 1983 and 1984.⁷⁶

The final factor in the equation is domestic demand for shoes. There has been no evidence that demand has declined over the period of investigation.⁷⁷ In fact, because both

⁷³Republic of China, Monthly Bulletin of Labor Statistics, 187 (November 1984). Footwear accounts for about 50 percent of the products reflected in this productivity index. Cited in Posthearing Brief at Volume Shoe Corporation, at 27.

⁷⁴Posthearing Brief of Korean Footwear Exporter's Association, Appendix B.

⁷⁵Report at A-43, A-46.

⁷⁶FIA Posthearing Brief, Appendix 4.

⁷⁷Domestic consumption has increased steadily only falling in the fourth quarter of 1984. Data indicating increases in consumption, however, do not necessarily mean that demand increased. For example, outward shifts in the import supply curve will cause increased consumption. There will be movement
(Footnote continued on following page)

income and population in the United States have increased, there is strong reason to believe that domestic demand has actually increased.⁷⁸

The available data suggests that there has not been a large rise in domestic costs or a substantial fall in domestic demand. In addition, there is nothing to suggest such shifts are imminent. On the other hand, the data support the conclusion that foreign costs have fallen. Thus, I conclude that there has been a large downward shift in the import supply curve. This shift has injured the domestic industry, but not yet seriously. Because foreign producers are expanding production in higher value-added market segments where they have not traditionally been a major factor and because the effects of a shift in foreign supply take time to be fully realized, I conclude that an adverse shift in the import supply curve is a substantial cause of the serious injury that threatens the domestic industry. Therefore, I determine that increased imports are a substantial cause of the threat of serious injury to the domestic nonrubber footwear industry.

(Footnote continued from previous page)
along the demand curve but there will be no shift in the demand curve. Changes in demand are reflected by shifts in the curve, not by movement along it.

⁷⁸This will be reflected by an outward and rightward shift of the domestic demand curve.

VIEWS OF COMMISSIONER ALFRED E. ECKES

I determine that nonrubber footwear 1/ is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic nonrubber footwear industry. Since I have found that the requirements of section 201 of the Trade Act of 1974 2/ are satisfied, I have joined the Commission majority in recommending to the President that quotas be imposed on imports of nonrubber footwear into the United States during the next five years. The details of that recommendation are contained in our joint views, as well as my additional views regarding certain aspects of the remedy recommendation.

The Commission last considered the impact of imports on the domestic industry almost a year ago. At that time the conventional indicators of serious injury--employment, production, and profitability, among others--did not demonstrate the level of injury required for an affirmative determination in a escape clause investigation. In the present investigation, conducted at the request of the Senate Finance

1/ Footwear, provided for in items 700.05 through 700.45, inclusive; 700.56; 700.72 through 700.83, inclusive; and 700.95 of the Tariff Schedules of the United States (TSUS).

2/ 19 U.S.C. sec. 2251.

Committee, those same indicators now direct an affirmative finding of serious injury, and a further finding that imports are the substantial cause of such injury. 3/

Based on the requirements outlined in section 201, the Commission customarily employs a four-step analysis in each section 201 investigation. First, it defines the industry in terms of a product that is like or directly competitive with the imported article. Second, it considers whether the imported article is increasing either in actual terms or relative to domestic production. Third, the Commission considers whether the domestic industry is experiencing serious injury or threat of serious injury. And last, the Commission assesses whether increased imports are a substantial cause of the serious injury or threat thereof.

Domestic Industry

For purposes of a section 201 investigation, the domestic industry consists of the producers of articles which are "like or directly competitive" with the imported article. 4/

Domestic articles which are "like or directly competitive with" imported articles are:

3/ This is the fourth footwear investigation which the Commission has conducted under section 201. The results of the earlier investigations and their historical perspective are summarized in my separate views in Footwear: Report to the President on investigation No. TA-201-50 . . ., USITC Publication 1545 (1984) at 26-27. (Hereinafter "Footwear TA-201-50"). See also Appendix D of the Commission report.

4/ 19 U.S.C. Sec. 2251(b)(1).

those which are substantially identical in inherent or intrinsic characteristics (i.e., materials from which made, appearance, quality, texture, etc.), and . . . 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. 5/

The parties in this investigation have raised many of the same questions regarding the definition of domestic industry considered in last year's investigation. Once again the fundamental issue is whether the Commission should find one domestic nonrubber footwear industry, or two domestic nonrubber footwear industries, one oriented to athletic footwear and the other to nonathletic footwear. Respondents now arguing for a two industry approach focus, in part, on the meaning of the statutory phrase "directly competitive" and contend that this language requires "two-way substitution" between athletic and nonathletic footwear for these to be included in a single industry.

I have reviewed the briefs and listened carefully to argumentation on these points, but have found no compelling reason to modify my previous conclusion that the footwear industry should be viewed as a single industry. 6/ To accept the view of some respondents that "two-way substitution" must

5/ S. Rep. No. 1298, 93rd Cong., 2d Sess. at 122.

6/ I also reject arguments that differences in skills, facilities, equipment, and marketing of athletic and non-athletic footwear justify treating these as separate industries.

exist would be to apply an overly restrictive meaning to the phrase "directly competitive." The statute indicates that the domestic and imported products must be "like" or "directly competitive." To assume that "directly competitive" means "two-way substitution" would be to say that domestic and imported products all must be "like" products, since "like" products possess the same characteristics and, thus, are necessarily equivalent. Such an interpretation makes the phrase "directly competitive" merely a redundant version of "like" product. I do not believe our lawmakers intended such redundancy when they drafted section 201.

Furthermore, I do not share some of the respondents' interpretations of the 1980 Certain Motor Vehicles investigation. ^{7/} It is asserted that the present case is analogous to the Commission's decision to distinguish among different types of motor vehicle industries. The Commission identified three separate industries--one producing passenger cars, a second producing light trucks, and a third producing medium and heavy trucks. In my view the more analogous comparison is among the various types of passenger cars available. The range extends from small two-seat sports cars to large multi-passenger limousines. There is an enormous variety of colors, body styles, and special features. The

^{7/} Certain Motor Vehicles and Certain Chassis and Bodies Therefor: Report to the President on Investigation No. TA-201-44 . . . , USITC Publication 1110 (1980).

decision to identify one industry consisting of producers of passenger cars more closely resembles the situation regarding nonrubber footwear. There are inexpensive running shoes, high performance athletic shoes, work boots, moccasins, pumps, wingtips and others. They come in a rainbow of colors; some are plastic, some leather, some pigskin. Some have spiked heels and open toes, some have flat heels, some are intended for leisure activities and others for specialized sporting interests such as hiking, baseball, football or golf. Some are designed for fashion. In these instances, there are endless choices of sizes and features, yet all share a basic similarity of uses: they are worn on feet. In this situation, as in Certain Motor Vehicles, it seems appropriate to consider a continuum-type analysis in which there is at least one-way substitution and often two-way substitution among the various products along the continuum. It is not necessary that nonathletic shoes be used regularly or significantly for athletic activities. In my judgment, one-way substitution of athletic shoes for nonathletic shoes is sufficient to conclude that imports of athletic footwear are "directly competitive" with domestic non-athletic footwear.

This approach is consistent with my analysis in the 1984 footwear investigation. In my opinion in that investigation, I observed that "Section 201, however, does not require that the goods produced by a given industry be perfect substitutes for one another." In short, I believe that there is sufficient

interchangeability among all segments of the nonrubber footwear production to warrant a finding of a single nonrubber footwear industry.

Increasing Imports

Turning next to the second analytical issue, I note that the statutory requirement that imports be increasing is satisfied when an increase is "either actual or relative to domestic production." 8/ In fact, imports have increased according to both standards. From 1980 to 1983 actual imports increased from 365.7 million pairs to 581.9 million pairs and further increased to 725.9 million pairs in 1984. Measured by the second standard, imports were almost equal to domestic production in 1980, but by 1983 imports were one and two-thirds times domestic production. By 1984, rising imports amounted to two and one-half times domestic production. Considered either way, import trends clearly satisfy the "increasing" requirement.

At this point, it may be appropriate to emphasize another point. I do not share the view that imports must be increasing absolutely in order to satisfy this requirement. Over a long period of time the Commission majority have consistently taken the position that "relative to domestic production" is also

8/ 19 U.S.C. Sec. 2251(b)(2)(C).

part of the test for increased imports. ^{9/} To abandon this practice without good reason or legislative instruction, would be to raise understandable concerns about the Commission's lack of consistency in administering the law.

Serious Injury

Last year in Inv. No. TA-201-50, the Commission unanimously concluded that increasing imports were not seriously injuring or threatening with serious injury the domestic nonrubber footwear industry. Consequently, the third statutory criterion--that the domestic industry be seriously injured or threatened thereof--is a critical element of the current investigation and my determination.

Before analyzing the latest data, it is appropriate to address several threshold issues. Normally in a section 201 investigation the Commission evaluates carefully the data for a full five-year period. In this investigation, however, it is arguable that the Commission should give special attention to the most recent of the five years, 1984, which was not fully considered in the preceding investigation. In reviewing the

^{9/} For a more complete discussion of this issue, see "Views of Chairwoman Stern, Commissioner Eckes, Commissioner Lodwick, and Commissioner Rohr on Domestic Industry, Increasing Imports, and Serious Injury," Carbon Steel and Certain Alloy Steel Products, Report to the President on Inv. TA-201-51, vol. 1 (1984) USITC Publication 1553, at 24-28. Compare "Views of Vice Chairman Susan Liebeler," id. at 132-134, and "Additional Views of Vice Chairman Liebeler," Potassium Permanganate, Report to the President on Inv. TA-201-54, (1985) USITC Publication 1682, at 19-20.

statute and legislative history I conclude that the Commission has discretion to consider any reasonable time period, but the period chosen should permit the Commission to assess trends and factor out aberrations. Because the preceding investigation was completed in mid-1984, changes in the conditions of the footwear industry since that time obviously warrant special emphasis. However, these short-term changes must also be examined within the context of the industry's historical performance.

There are other compelling reasons for looking at the traditional five-year time period again. Subsequent to our investigation last year, the Departments of Commerce and Labor changed certain preliminary data for 1982 and 1983. It is important for the Commission to consider whether such adjustments affect the interpretation of the overall pattern of the performance of the nonrubber footwear industry. Also, Congress amended several provisions of section 201 in the Trade and Tariff Act of 1984. One amendment (subsection (b)(2)(D)) addresses the relevant weight to be accorded any factor listed in subsection (b)(2)(A) and (b)(2)(B) of section 201. A second adds section 201 (b)(7) which defines the phrase "significant idling of productive facilities" as encompassing both "the closing of plants or the underutilization of production capacity." Finally, a third amendment, subsection (b)(2)(B), specifies which inventory levels should be considered in

assessing threat of serious injury. It would appear from the legislative history that these amendments were intended merely to clarify Congressional intent about the proper interpretation of section 201 provisions. It does not seem that the changes radically revised the underlying law.

Consequently, my own analysis of serious injury in the present investigation closely corresponds with the approach I took last year, which I believe was compatible with the 1984 statutory changes. Then, and now, I have considered "all economic factors" and assessed in particular the three criteria specifically enumerated in the statute: Is there significant unemployment or underemployment in the domestic industry? Has there been a significant idling of productive facilities in the industry? Are a significant number of firms unable to operate at a reasonable level of profit?

Significant Unemployment or Underemployment

Last year I concluded that "relatively low capital requirements, coupled with restructuring in the industry and the inherent uncertainties of footwear markets, dictate fluctuating employment trends as the norm in this industry." It is now apparent to me, based on the entire record of the investigation, including new employment data supplied by the Department of Labor on 1983 conditions and information on net plant closings, that present employment trends are not "fluctuating." Rather, the data point unmistakably to "significant unemployment or underemployment within the industry."

Looking at a five-year pattern of data, official U.S. Department of Labor statistics show the number of unemployed workers in the industry has increased from 16,000 in 1980 to 27,000 in 1984. The unemployment rate for these years rose from 7.7 percent to 16.6 percent. Based on ITC questionnaire data, total employment in the industry increased from 124,599 in 1980 to 127,703 in 1981. It then declined to 108,175 in 1984, the lowest level in the entire five-year period, and 8 percent below 1983 levels.

Employment trends for production workers mirror overall footwear employment patterns. The number of production and related workers increased from 103,719 in 1980 to 106,846 in 1981, and then declined throughout the remainder of the five-year period to 86,986 in 1984. From 1983 to 1984 the number of production workers declined by about 10 percent. Moreover, whereas in last year's investigation the Commission found that the number of production and related workers had risen in three of five product categories (women's, athletic, and all other footwear) over the five-year period, the data now show a different pattern. In all five categories the number of production and related workers declined from 1983 to 1984, dropping to the lowest levels in the entire five-year period. 10/ In last year's investigation the Commission

10/ The number of hours worked by these employees declined by 10 percent from 1983 to 1984.

faced a different employment record. Despite an overall shrinkage in jobs, the number of production and related workers had increased in three of five categories. Also, the number of hours worked had climbed over the five-year period. It is now apparent that the present employment trends are not temporary fluctuations. Instead, there is ample evidence of "significant unemployment or underemployment within the industry."

Significant Idling of Production Facilities:

In my views last year I noted that available data obtained from the Department of Commerce and Commission questionnaires appeared to demonstrate "that this industry is by nature an industry in constant transition. The evidence of idle production facilities within the industry does not comport with the image petitioners would create--that of an industry experiencing serious injury." At that time the data appeared to show that production levels "are being maintained without incurring excessive inventory build up." Capacity utilization trends "for product categories accounting for two-thirds of domestic production have not deteriorated significantly during the past five years." And available information on plant closings indicated these were largely either small firms or firms producing injection molded or vulcanized footwear.

From the perspective of 1985 a far different picture emerges of the domestic industry. It is now apparent that the domestic industry is contracting at a rapidly accelerating rate under the relentless hammering of increased quantities of imports. What appeared last year to be orderly adjustment by the industry in response to changing conditions of competition has become a rout accompanied by large numbers of plant closings.

Revisions in the Department of Commerce production data, which were changed from the data available to the Commission last year, now indicate that production declined each year during the five year period of the present investigation. Revised data for 1983 and preliminary data for 1984 show that domestic production declined 13 percent from 1983 to 1984, far greater than the average 3.8 percent decline for the period of the investigation. Exhibiting a similar trend, U.S. production capacity declined over the five-year period from 411.6 million pairs in 1980 to 388.0 million pairs in 1984. During the first part of this period production capacity had climbed to a 427 million pair level in 1981 and then remained stable through 1983 before falling 9 percent from 1983 to 1984. Most of this decline, incidentally, occurred in men's and women's shoe production, which accounts for some two-thirds of U.S. production capacity altogether.

Capacity utilization data show an increase from 78.0 percent in 1980 to 79.1 percent in 1981, and then three declining years to a five year low of 70.1 percent in 1984.

Some of the most compelling data developed in the present footwear investigation by Commission staff show an accelerating rate of plant closings. Over the entire period 1980-1984 a total of 123 footwear plants closed (net of plant openings). Of these 3 closed in 1980, 11 each in 1981 and 1982, 14 in 1983, and 84 in 1984. Closings in 1984 were broad-based, affecting large and small producers, and firms that produced a variety of nonrubber footwear. 11/

It is clear from the record of production levels, capacity declines and plant closings that the domestic footwear industry has experienced a significant idling of production facilities quite different from the trends observed in several earlier investigations.

Profitability

Last year I observed that profit-and-loss information may provide a clearer measure of an industry's recent health than employment or production data. I should add another observation: Where an industry's economic performance is deteriorating rapidly, all Commission data may necessarily lag behind marketplace realities, thus giving the Commission a dated snapshot of the industry's actual condition. The nonrubber footwear industry appears to be such an instance.

11/ See memorandum from Acting Director, Office of Investigations, INV-I-107 (May 15, 1985). The figures cited are net closings which were verified by the Commission staff.

Consistent with my past analysis of profit-and-loss trends in this industry, I have examined data presented to the Commission both in the aggregate and on an individual producer basis. The data come from firms accounting for 82 percent of U.S. production in 1984, and my analysis is based only on sales of domestically produced shoes. ^{12/} What the aggregate statistics show is that for 134 firms reporting profit-and-loss data in 1984, 36 of these reported operating losses for 1984 compared with 25 in 1983, 22 in 1982, and 12 each in 1980 and 1981. It is important to note that a significantly larger number of firms reported lower levels of profitability in 1984. In that year 89 firms reported either losses or ratios of operating income to net sales below 5 percent, compared with 64 such firms in 1983, and 62 in 1982.

One useful indicator for evaluating aggregate industry profitability is the ratio of operating income to net sales. For U.S. producers on their domestic operations producing nonrubber footwear this ratio exhibited a trend compatible with the profit-and-loss trends cited above. Operating ratios increased from 9.1 percent in 1980 to 10.1 percent in 1981, and then declined to 8.0 percent in 1982. After climbing in 1983 to 8.7 percent, the ratio dropped sharply to 5.8 percent in

^{12/} The data do not exclude the impact of imported leather uppers upon domestic profitability. Such uppers, both lasted and unlasted, accounted for almost 10 percent of U.S. production in 1984. The volume of these components does not affect the trends in profitability for the industry; in fact, data suggest that producers accounting for most of such imports have ratios of operating income to net sales below the industry averages for 1983 and 1984.

1984. For the entire period 1980-1983, the operating ratio exceeded the all-manufacturing operating ratio; however, in 1984, the 5.8 percent ratio for nonrubber footwear fell below the 6.8 percent all manufacturing ratio. 13/

Viewed in another way, in 1983, 77 firms accounting for 31 percent of the domestic industry's net sales had operating margins below the all-manufacturing average. By 1984, 103 firms with almost two-thirds of total sales had operating margins below the all-manufacturing average. When all of these considerations are weighed, I believe there is adequate evidence that a significant number of firms have failed to achieve a reasonable level of profit.

In a section 201 investigation the domestic industry must be experiencing or threatened with serious injury. Serious injury is important, crippling or mortal injury; it is injury that has permanent or lasting consequences. In my judgment, based on evidence discussed in this section, the domestic footwear industry is experiencing such serious injury. Without a change in basic trends, domestic shoemakers may soon experience a more acute form of injury--terminal injury.

Nonetheless, the question arises why an industry that has experienced four relatively profitable years in the last five, and then one bad year, should receive import relief under section 201. Can such an industry truly be experiencing

13/ A similar relationship emerges when the footwear ratios are compared with the operating income margins for manufacturers of all nondurable goods.

serious injury? My answer is unambiguous: Such an industry can be seriously injured, and the footwear industry is a perfect example. The Commission knows from previous investigations that nonrubber footwear is an inherently import sensitive industry, one constantly vulnerable to rapidly changing competitive conditions. Within the last decade revolutionary improvements in communications and transportation have rapidly integrated nations with relatively low wage rates into the world shoe production economy. A combination of cheap labor, easily available technology, and ease of entry for new producers has exposed our domestic shoemakers to new sources of competition which are overpowering the domestic industry with massive supplies of nonrubber footwear.

Substantial Cause

I have found that imports are increasing and that the domestic industry is seriously injured. The second and third major statutory tests are more than satisfied. One major test remains: Are increased imports, in fact, a substantial cause of that serious injury?

As background for that determination it is important to review relevant statutory provisions. The law provides:

In making its determinations . . . the Commission shall take into account all economic factors which it considers relevant, including (but not limited to)--

. . . (C) with respect to substantial cause, an increase in imports (either actual or relative to domestic production) and a decline in the proportion of the domestic market supplied by domestic producers. 14/

It further provides:

For purposes of this section, the term "substantial cause" means a cause which is important and not less than any other cause. 15/

During the course of this investigation parties offered only two proposed causes of serious injury. Respondents generally attributed the injury to a decline in demand during 1984. Petitioners, however, asserted that imports were a more important cause. One way to evaluate the relative importance of these two causes is to use what economists call a shift-share analysis. Such an exercise may suggest the relative importance of each factor, but Congress does not want the Commission to perform mathematical weighing. Rather, the Commission is to evaluate "all economic factors which it considers relevant." I used this test only to suggest the relative importance of factors, and it is only one of the ways I sought to answer the primary causation question.

In response to my inquiry Commission economists concluded that for both the five year period (1980-84) and the two year period (1983-84), "all of the decline in overall domestic production for the domestic market, during both time periods,

14/ 19 U.S.C. Sec. 2251(b)(2)(C).

15/ 19 U.S.C. Sec. 2251(b)(4).

is attributable to the increase in the market share of imports (apparent U.S. consumption rose while domestic production declined.)" 16/ When the same type of analysis is done for 1984 alone, Commission economists concluded that 39.6 percent of the production decline from the first to the second half of 1984 was attributable to the increased market share of imports. A strict mathematical weighing of partial year data for 1984 might suggest that declining demand was a more important cause of injury than increased imports in the second half of the year, but I do not consider this conclusion either valid or determinative. For one thing, it reflects the type of mathematical weighing that Congress warned against in the statute. For another, partial year figures are subject to a variety of data distortions. A more defensible approach in the present case is to view the data for 1984 against the data for the preceding years, as I have done.

What is most impressive in resolving the causation question here is the pattern of imports and import penetration. As noted earlier, imports have virtually doubled since 1980, rising from 365.7 million pairs in 1980 to 725.9 million pairs in 1984. As a share of domestic consumption, imports have also increased from 49 percent in 1980 to 71 percent in 1984. Based on annual data alone, the trend is obvious. This industry has lost 22 percentage points of domestic market share over only

16/ Memorandum to Commissioner Eckes from the Industry Economist, (EC-I-172), dated May 21, 1985.

four years. Nor does the pattern change when one looks at imports according to value. According to this measure, imports have increased from 33.8 percent of domestic consumption in 1980 to 54 percent in 1984.

Based on this record there can be no question that imports are both an important cause of injury and a cause of serious injury "which is important and not less than any other cause." These overwhelming trends make it evident that imports "represent a substantial cause of . . . injury, and not just one of a multitude of equal causes or threats of injury." 17/

Last year the nonrubber footwear case seemed puzzling. On the one hand the domestic industry was steadily losing market share. There was a relatively high level of unemployment among shoeworkers and there were some disturbing plant closings. Even so, while the industry was clearly not healthy, it was not mortally injured, either. As I indicated in that opinion, in 1983, 26 firms accounting for 46.5 percent of total sales earned a net operating margin of 10 percent or better, while only 30 firms accounting for 6.3 percent of sales had a negative operating margin. The nonrubber footwear industry average exceeded the all industry average. As I said on that occasion, section 201 was "not designed to rescue troubled firms within an industry; instead it was designed to shelter entire industries that are seriously injured so that they have the opportunity to adapt to competitive conditions." Even

17/ S. Rep. No. 1298, 93rd Cong., 2d Sess. at 120.

though I concluded at that time that the surge in imports did not warrant an affirmative determination, I noted that "import trends are disturbing," and I anticipated that the domestic nonrubber footwear industry "could experience serious injury at some point in the future."

In 1985 there is no puzzlement concerning the impact of imports on the nonrubber footwear industry. The small and shrinking domestic industry is literally being overwhelmed by cheaper imports. Undoubtedly, a major factor at work is the strong dollar, but as I have indicated there are changing competitive factors at work, too. With instantaneous communications, Boeing 747 jet freighters, and containerization as well as the diffusion of shoemaking skills and technology, Americans now produce and sell in a world shoe economy in which many domestic firms are finding competitive advantages disappearing, if not already vanished.

The Commission has no responsibility to determine in a section 201 proceeding why imports are increasing. The fact that a strong dollar has harmed U.S. exports and attracted imports is not determinative. Nor, is it relevant to inquire in the present determination whether foreign producers are subsidized by governments or are engaging in unfair dumping practices. 18/ As I see it, we have a responsibility to

18/ Sec. 19 U.S.C. Sec. 2251(b)(6).

determine whether the facts of the case warrant relief under the trade laws of the United States. Because imports are increasing, because the domestic industry is seriously injured, and because increasing imports are the substantial cause of serious injury, I have made an affirmative determination in this investigation.

VIEWS OF COMMISSIONER SEELEY G. LODWICK ON INJURY

After considering all of the information in this investigation, I have determined that nonrubber footwear 1/ is 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.

In this case I have joined with my four colleagues in making an affirmative determination. Nonetheless, I have chosen to write separate views since I do not share all of their observations concerning injury. My views are set forth below. 2/

Introduction

Section 201 of the Trade Act of 1974 3/ requires that all three of the following conditions be satisfied:

- (1) imports are increasing either in actual terms or relative to domestic production;
- (2) the domestic industry is seriously injured or threatened with serious injury; and
- (3) such increased imports are a substantial cause of the serious injury or threat thereof.

1/ That is, footwear provided for in items 700.05 through 700.45, inclusive; 700.56; 700.72 through 700.83, inclusive; and 700.95 of the Tariff Schedules of the United States.

2/ I have also joined with three of my colleagues in a majority finding on remedy. Those joint views and some additional views on the recommendation of relief are presented separately.

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

A year ago I participated in the previous case involving nonrubber footwear, Inv. No. TA-201-50. 4/ The product coverage of the case was identical to the present case. At that time, the Commission found that while the first condition was met, the second was not, thereby making an affirmative decision impossible. As a result, a decision regarding the third condition was never reached.

At that time, I determined that although imports were increasing, the domestic industry was not then seriously injured or threatened with serious injury. I found that the industry was "reasonably profitable" and that the indicators that showed serious injury during the late 1970's, were no longer doing so. I stated that this stabilizing did not mean that the industry had regained the production levels it achieved in the 1950's and 1960's, but only that under the law the industry was not "presently" seriously injured or threatened with injury. I indicated that the information I reviewed clearly indicated that imports had seriously injured the industry in the past and that it was "possible that they will again if conditions and trends change." 5/

In the year since that decision, significant changes occurred within the domestic nonrubber footwear industry that have altered my analysis and finding regarding the second

4/ Footwear: Report to the President on Investigation No. TA-201-50, USITC Publication 1545 (1984).

5/ Id. at 46.

condition. Considering the period 1980-84, as compared to the 1979-83 period of last year's case, I find that the indicators relevant to injury are once again showing serious injury.

While imports continued to increase at a rapid pace, there was a "significant idling of productive facilities" as a large number of domestic footwear producers reduced production and closed facilities due to declining shipments and profitability. This, in turn, caused substantial declines in employment within the industry. Thus, the second condition of the statute is now satisfied.

Finally, turning to the third condition, causation, there is no doubt that the rapidly increasing, overwhelming volume of imports, both in absolute and relative terms, is an important cause, and no less important a cause than any other, of the serious injury suffered by the domestic nonrubber footwear industry.

Domestic industry

The Trade Act defines the term "domestic industry" in terms of producers of an article "like or directly competitive" with the imported article. ^{6/} As in the prior case, I find the appropriate domestic industry in this case consists of the domestic facilities producing all nonrubber footwear.

As in the prior case, there was again considerable argument that we should find two domestic industries producing

^{6/} 19 U.S.C. § 2251(b)(3) and S. Rep. No. 1298, 93rd Cong., 2d Sess. 122 (1974).

like or directly competitive articles, an athletic footwear industry and a nonathletic footwear industry. It was argued, among other things, that athletic and nonathletic footwear are not like or directly competitive with each other and therefore cannot be the products of the same industry.

Our statutory task in deciding the industry question is twofold. First, we must determine whether there is domestic production of articles like or directly competitive with the imported article (or articles), and second, if there is, we must determine what domestic facilities are producing these articles.

In the present case, there is domestic production of articles corresponding to each of the various types of imported footwear covered by the scope of this investigation.

In past cases, in determining whether there is one industry or several industries, I have considered such factors as whether the domestic products are made by the same firms, in the same plants, and on the same or similar equipment, involve the same or similar worker skills, are generally marketed through the same retail outlets, and serve the same basic function. Applying those conceptions to the present case, I have found that there is a single industry producing the various types of nonrubber footwear.

While there is a tendency in the industry to produce only certain types of footwear in certain plants and there are some important differences in certain of the equipment and skills

used in producing the various types, the larger firms tend to produce a wide variety of nonrubber footwear, including athletic and nonathletic. ^{7/} Furthermore, the various types of nonrubber footwear are generally marketed through the same retail outlets.

The question of whether two products are like or directly competitive with each other is relevant to but not dispositive of the domestic industry issue. While I believe that athletic and nonathletic footwear are directly competitive with each other, I need not make such a finding in order to conclude that athletic and nonathletic footwear are the product of the same industry, any more than I need find that size 6 and size 10 shoes of a given style are like or directly competitive with each other. I would have difficulty finding that certain types of footwear, such as soft-soled infants' footwear and steel-toed work boots, are like or directly competitive with each other, but I believe that such footwear is still the product of the same industry.

Increased imports

The first criterion the Commission must consider in making a determination under section 201 is whether the imported articles are being imported in "increased quantities," in

^{7/} At the hearing, two witnesses representing the domestic industry testified that their companies had produced athletic footwear in the same plants and on the same production lines as nonathletic footwear. Two other domestic producers testified that the machinery and worker skills necessary for the production of athletic and nonathletic shoes are substantially similar. See Transcript at 352-55.

either absolute quantities or quantities relative to domestic production.

Under either measure, imports of nonrubber footwear have increased considerably over the 5-year period of investigation, 1980-84. U.S. imports of nonrubber footwear nearly doubled between 1980-84, increasing every year, from 366 million pairs in 1980 to 726 million pairs in 1984. 8/

During this same period, domestic production fell steadily. 9/ Thus, the ratio of imports to production increased from 95 percent in 1980 to 243 percent in 1984. 10/ Therefore, the first criterion is clearly satisfied.

Serious injury

Section 201(b)(2)(A) sets forth specific economic factors that the Commission is to consider in determining whether there is serious injury:

[T]he 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. 11/

Further, the statute notes that the Commission may take into account any other economic factors it considers relevant. 12/

The Trade and Tariff Act of 1984 amended several provisions of section 201 including that which states the

8/ Report at A-20-21, Table 7.

9/ Id. at A-26, Table 11.

10/ Id. at A-24, Table 10.

11/ 19 U.S.C. § 2251(b)(2)(A).

12/ 19 U.S.C. § 2251(b)(2).

relevant weight to be accorded any factor listed in subsections (b)(2)(A) and (b)(2)(B) of section 201. It states:

[T]he presence or absence of any factor which the Commission is required to evaluate in subparagraphs (A) and (B) shall not necessarily be dispositive of whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic industry. 13/

During the course of this investigation, as was the case a year ago, I analyzed each of the industry performance indicators enumerated in section 201. This analysis establishes that those indicators, which, at best, were described as stabilizing just a year ago, now show a deterioration in the condition of this industry to the point of serious injury.

Significant idling of productive facilities. Section 201(b)(7), as amended by the 1984 Act, defines the phrase "significant idling of productive facilities" as encompassing both "the closing of plants or the underutilization of production capacity." 14/ There was clearly a "significant idling of productive facilities" during the period 1980-84.

Domestic nonrubber footwear capacity increased during the first three years of the period under investigation, from 412 million pairs in 1980, to 427 million pairs in 1981 and 428 million pairs in 1982. Capacity dropped slightly in 1983, to

13/ 19 U.S.C. § 2251(b)(2)(D).

14/ 19 U.S.C. § 2251(b)(7).

426 million pairs, and then fell sharply in 1984, to 388 million pairs. 15/

By looking at capacity utilization rates and the number of plant closures over the period of investigation, it is apparent that much of the reduced capacity in 1984 was due to the closing of domestic plants. According to data verified by the Commission staff, while only three plants were closed (net) in 1980, 11 plants in 1981 and again in 1982, and 14 plants in 1983, in 1984, 84 plants (net) were closed. 16/ Meanwhile, capacity utilization increased slightly between 1980 and 1981, from 78.0 percent to 79.1 percent, before dropping to 73.1 percent in 1982, to 70.3 percent in 1983, and to 70.1 percent in 1984. 17/ It is significant that even though capacity declined between 1983 and 1984, domestic producers were unable to increase their capacity utilization rates. In summary, the declines in domestic production, capacity and capacity utilization have reached serious proportions.

Profitability. The decline in the financial performance of domestic footwear manufacturers over the period of investigation is unmistakable. As shipments and net sales by domestic producers declined, the number of firms, and the size of firms, unable to earn a reasonable level of profits soared.

15/ Report at A-34, Table 19.

16/ See INV-I-107 (May 15, 1985), Memorandum from Acting Director, Office of Investigations, to the Commission, regarding plant closings. See also Report at A-35-37.

17/ Report at A-34, Table 19.

Thus, domestic producers shipped 300 million pairs of shoes in 1980, with a value of \$3.6 billion, 309 million pairs in 1981, with a value of \$4.1 billion, 292 million pairs in 1982, with a value of \$3.9 billion, 280 million pairs in 1983, with a value of \$4.0 billion, and only 259 million pairs in 1984, with a value of \$3.8 billion. 18/ Significantly, unlike prior years, in 1984, producers in every size category, from those producing fewer than 200,000 pairs to those producing 4 million pairs or more, showed declines in the quantity of shipments. 19/

Operating income for domestic footwear manufacturers' operations producing nonrubber footwear rose from \$297 million, or 9.1 percent of net sales in 1980, to \$375 million, or 10.1 percent of net sales in 1981, before falling in 1982 to \$290 million, or 8.0 percent of net sales. Although operating income increased in 1983 to \$312 million, or 8.7 percent of net sales, in 1984 operating income fell precipitously to \$204 million, or 5.8 percent of net sales.

Significantly, the number of firms reporting losses grew alarmingly in 1984. Of 130 reporting producers in 1982, 22, or 17 percent, reported operating losses and 23, or 18 percent, reported net losses before taxes, and of 133 reporting producers in 1983, 25 reported operating losses and 25, or 19

18/ Id. at A-40, Table 23.

19/ Also, producers in all size categories but those manufacturing between 200,000 and 500,000 pairs annually showed declines in the value of their shipments between 1983 and 1984. However, even in that instance, the increase in value was minimal. Id.

percent, reported net losses before taxes. In 1984, of 134 reporting producers, 36 firms, or 27 percent, had operating losses and 43 firms, or 32 percent, had net losses before taxes. 20/ Moreover, the declines in operating income from 1983 to 1984 occurred for all sized firms, except those producing 2 million to 4 million pairs of shoes annually. 21/

Clearly, a significant number of domestic firms are unable to operate at a reasonable level of profitability. Unlike a year ago, it is now apparent that domestic footwear manufacturers are not faring as well as other U.S. industries. Although domestic footwear producers showed a ratio of net operating income to net sales of 8.0 percent in 1982 and of 8.7 percent in 1983, compared with a ratio of net operating income to net sales of 5.1 percent and 5.9 percent for total U.S. manufacturing in 1982 and 1983, respectively, that ratio for footwear producers fell in 1984 to 5.8 percent while for total U.S. manufacturing, the ratio increased to 6.8 percent. 22/

Employment. The average number of production and related workers producing footwear, and the number of hours worked by

20/ Id. at A-50-54, Table 31.

21/ Id. at A-55-59, Table 32.

22/ Id. at A-53. See also INV-I-112 (May 20, 1985). Even when compared to the performance of nondurable goods industry, the performance of the domestic footwear industry during the most recent period appears poor. In 1983, domestic shoe producers' operating margins were above those of the nondurable goods industry, with shoe producers showing a margin of 8.7 percent while the nondurable goods industry showed a margin of 6.6 percent. Yet, in 1984, U.S. footwear producers' margins fell to 5.8 percent and were below the 7.0 percent margins of firms producing nondurable goods.

those employees, declined over the period of investigation. 23/ There were 104,000 such workers in 1980, 107,000 in 1981, 101,000 in 1982, 96,000 in 1983, and 87,000 in 1984, a decline of 19 percent between 1981 and 1984 and 10 percent between 1983 and 1984. Not surprisingly, unemployment in the footwear industry was high throughout this period. 24/ In 1980, there were 16,000 unemployed footwear workers and an unemployment rate among footwear workers of 7.7 percent. In 1981, the number of unemployed footwear workers rose to 27,000 and the unemployment rate rose to 12.5 percent. Between 1982 and 1984, unemployment in this industry rose to its highest levels in the last 10 years. There were 41,000 unemployed footwear workers in 1982, and an unemployment rate of 19.4 percent, 37,000 unemployed workers in 1983, with an unemployment rate of 18.6 percent, and 27,000 unemployed workers in 1984, for an unemployment rate of 16.6 percent.

Not only were there substantial declines in the number of production and related workers producing nonrubber footwear, but also there was a large drop in the number of hours worked by those workers. 25/ The number of hours worked rose from 1980 to 1981, to 197 million hours, however, from 1981 to 1984, there was a continual decline of 19 percent to 159 million hours.

These declines in employment and hours worked are significant. They indicate the serious injury being faced by

23/ Report at A-44, Table 26.

24/ Id. at A-48.

25/ Id. at A-44, Table 26.

this industry and its workers as shipments have fallen and production has had to be reduced, causing worker hours to be cut back and plants to be closed down.

Substantial cause

In order to make an affirmative determination, the Commission also must determine that increased imports are a "substantial cause" of the serious injury it has found to exist. Section 201(b)(4) defines substantial cause as "a cause which is important and not less than any other cause." 26/

Further, the statute instructs the Commission 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. 27/

The Senate Report notes:

The Committee recognizes 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. . . 28/

In our last investigation of the nonrubber footwear industry, the Commission did not reach the question of causation. In this investigation, I considered a number of possible causes for the serious injury to the domestic

26/ 19 U.S.C. § 2551(b)(4).

27/ 19 U.S.C. § 2251(b)(2)(c).

28/ S. Rep. No. 1298, 93rd Cong., 2d Sess. 120-21.

nonrubber footwear industry. Among these were: shifts in footwear fashions reflecting consumer preferences for athletic and athletic-style footwear and for "softie" and woven leather shoes, which are produced more inexpensively outside the United States; the high value of the dollar compared to other currencies; the relatively lower labor costs within competing countries; and the domestic producers' decisions to increase imports in order to supplement their own lines. These other causes are, in fact, part of the reason why imports have increased and cannot be construed as separate causes of serious injury on their own.

The fact remains, however, that the growth rate of imports to domestic consumption has been phenomenal over the past few years, and now stands at over 71 percent. This has occurred despite a large and rapid increase in the total domestic demand for nonrubber footwear since 1981. As a result, the domestic producers of nonrubber footwear have been unable to share in any of the growth.

I therefore find that the increase in imports, both actual and relative to domestic production, along with the steady decline in domestic producers' share of the U.S. market, establishes that increased imports are a substantial cause of the serious injury suffered by the domestic nonrubber footwear industry.

VIEWS OF COMMISSIONER DAVID B. ROHR
ON INJURY

On July 9, 1984, I transmitted to the President my formal views on the condition of the domestic nonrubber footwear industry as revealed by the data gathered in Investigation No. TA-201-50. Today, one year later, I am again reporting to the President my views on whether increasing imports are a substantial cause of serious injury to the domestic nonrubber footwear industry. Since the time of last year's investigation, imports have continued to enter the country at an accelerating pace, the condition of the industry has deteriorated extensively, and the trends toward a stabilized industry which appeared in last year's data can now be seen as short-lived and/or based on inaccurate official data. In light of these new developments and data, I conclude that, in Investigation No. TA-201-55, increasing imports are a substantial cause of serious injury to the domestic industry.

DOMESTIC INDUSTRY

The question of the proper definition of the domestic industry has been difficult in past investigations involving footwear. The issue was raised

in the present investigation whether to determine there is a domestic athletic footwear industry separate from the industry producing other nonrubber footwear. Recognizing that there are domestic producers of athletic footwear, the resolution of this issue rests on whether imported athletic footwear is "like" or "directly" competitive¹ with domestic nonathletic footwear.

The first question I address is whether imported athletic and domestic nonathletic footwear are "like" articles. There is some overlap in the production processes and marketing of athletic and nonathletic footwear. However, there are also significant differences.

As a practical matter, most athletic footwear is produced in different establishments from those used for the production of nonathletic footwear. Research and

¹ The Senate Report explains that in defining the domestic industry which produces articles "like or directly competitive with imports, the Commission should look at articles:

which are substantially identical in inherent or intrinsic characteristics (i.e., materials from which made, appearance, quality, texture, etc.), and . . . 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 essential interchangeable therefor.

S. Rep. No. 1298, 93rd Cong., 2d Sess. 122 (1974).

development, emphasizing performance and comfort, and different technology and employee skills are utilized for the production of athletic shoes. Based on these distinctions, I cannot find that athletic and nonathletic shoes meet the statutory test for "like" articles. I therefore find that imported athletic shoes are not "like" domestic nonathletic shoes.

Even though athletic and nonathletic footwear are not "like" products, producers of such footwear may be considered a single domestic industry if domestic nonathletic footwear is deemed "directly competitive" with imported athletic footwear. The legislative history defines "directly competitive" as "substantially equivalent for commercial purposes, that is, are adapted to the same uses and are essentially interchangeable therefor."

The argument was made by several athletic footwear producers that athletic footwear may be used for the same purposes as nonathletic footwear but that nonathletic footwear seldom can be used for athletic purposes. It was then argued that only "two-way substitution" meets the "interchangeability" required by the concept of direct competition. The counterargument made by other domestic producers was that while two-way substitutability would be "perfect" interchangeability, the statute calls only for

"essential" interchangeability. It was argued that this lesser standard would be satisfied by one-way substitutability.

The distinction between one- and two-way substitutability, however, does not resolve the "directly competitive" issue. The proper approach to determine whether athletic and nonathletic footwear are directly competitive is to look at those uses for which either product may be used, comparing the number, size, and commercial importance of these overlapping uses with those uses in which only one or the other product may be used. Upon that basis, we then can determine if the overlapping uses of the two products are sufficiently extensive that the products may be deemed to be directly competitive.

In the present investigation, there are clearly many types and styles of both athletic and nonathletic footwear. Some of this footwear, for reasons of design, custom, price, and other factors, may have only a limited range of uses. Others have a broad range of uses. A substantial portion of both athletic and nonathletic footwear is purchased and used in contexts in which either athletic or nonathletic footwear is suitable. A large portion of the production of both types of footwear is affected by the decision to purchase one or the other type of footwear. These products are thus directly competitive

and it is appropriate to define a single domestic industry in terms of producers of both athletic and nonathletic footwear.

INCREASED IMPORTS

The first criteria the Commission must consider in making a determination under section 201 is whether the imported articles are being imported in "increased quantities." An increase in either absolute quantities or quantities relative to domestic production would suffice to reach an affirmative determination as to increased imports. Under either measure, imports of nonrubber footwear have increased considerably over the period of investigation.

U.S. imports of nonrubber footwear increased every year from 1980 to 1984.² In 1980, 366 million pairs of nonrubber footwear were imported into the United States. Imports increased slightly in 1981, to 376 million pairs, and then by over 100 million pairs in 1982, when 480 million pairs were imported. Imports again grew by over 100 million pairs in 1983, increasing to 582 million pairs. In 1984, imports of nonrubber footwear reached 726 million pairs, an increase of 25 percent over 1983 imports.

² Report at A- 20-21, Table 7.

During these same periods, domestic production fell steadily, causing imports to overtake domestic production of nonrubber footwear.³ Thus, in 1980 and 1981, imports closely matched domestic production, with ratios of imports to domestic production of 95 and 101 percent, respectively. In 1982, the ratio of imports to domestic production was 134 percent. That ratio grew steadily to 169 percent in 1983 and to 243 percent in 1984.⁴

If imports are analyzed in terms of value, the increase in imports over the period of investigation is substantial.⁵ Measured in 1980 dollars, the value of imports grew by 102 percent over the period 1980-84, from \$2.3 billion to \$4.7 billion in 1984. Growth in value between 1983 and 1984 alone was 24 percent.

The significance of these increases is most graphically illustrated by looking at the relationship between the quantity of imports and apparent consumption. In 1980, imports of nonrubber footwear accounted for 49 percent of domestic consumption of nonrubber footwear. Imports increased to 51 percent of domestic consumption in

³ Id. at A- 26, Table 11.

⁴ In the first two months of 1985, the ratio of imports to domestic production reached 302 percent. Id. at A-24 .

⁵ Id. at A- 20-21 .

1981, and to 58 percent of consumption in 1982. In 1983, imports grew to 63 percent of domestic footwear consumption. By 1984, imports accounted for 71 percent of apparent consumption of nonrubber footwear.

CONDITION OF THE INDUSTRY

Section 201(b)(2)(A) of the Trade Act of 1974 sets forth specific economic factors which the Commission is to consider in determining whether an industry is suffering serious injury:

[T]he 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.⁶

Further, the statute notes that the Commission may take into account any other economic factors it considers relevant.⁷

I note that the 1984 amendments to section 201 add a subsection which addresses the relevant weight to be accorded any factor listed in subsections (b)(2)(A) and (b)(2)(B) of section 201. That new subsection states:

[T]he presence or absence of any factor which the Commission is required to evaluate in subparagraphs (A) and (B) shall not necessarily be dispositive of

⁶ 19 U.S.C. § 2251(b)(2)(A).

⁷ 19 U.S.C. § 2251(b)(2).

whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic industry.⁸

As in last year's investigation of the nonrubber footwear industry, I analyzed each of the industry performance indicators enumerated in section 201. These indicators now clearly point to a finding of serious injury.

Significant idling of productive facilities--Section 201(b)(7), as amended by the 1984 Act, defines the phrase "significant idling of productive facilities" as encompassing both "the closing of plants or the underutilization of production capacity."⁹ In this instance, there has clearly been a "significant idling of productive facilities," especially during 1984.

Although domestic nonrubber footwear capacity increased during the first three years of the period under investigation, from 412 million pairs in 1980, to 427 million pairs in 1981 and 428 million pairs in 1982, capacity dropped slightly in 1983, to 426 million pairs, and then fell sharply in 1984, to 388 million pairs.¹⁰

⁸ 19 U.S.C. § 2251(b)(2)(D).

⁹ 19 U.S.C. § 2251(b)(7).

¹⁰ Report at A-34, Table 19.

By looking at capacity utilization rates and the number of plant closures over the period of investigation, it is apparent that much of the reduced capacity in 1984 was due to the closing of domestic plants. According to data verified by the Commission staff, while only three plants were closed (net) in 1980, 11 plants in 1981 and again in 1982, and 14 plants in 1983, in 1984, 84 plants (net) were closed.¹¹ Meanwhile, capacity utilization increased slightly between 1980 and 1981, from 78.0 percent to 79.1 percent, then dropped to 73.1 percent in 1982, to 70.3 percent in 1983, and to 70.1 percent in 1984.¹² I find it significant that even though capacity declined between 1983 and 1984, domestic producers were unable to increase their capacity utilization rates. The declines in domestic production have reached serious proportions.

Profitability--The decline in the financial performance of domestic footwear manufacturers in 1984 is unmistakable. As shipments and net sales by domestic producers declined, the number of firms unable to earn a

¹¹ See INV-I-107 (May 15, 1985), Memorandum from Acting Director, Office of Investigations, to the Commission, regarding plant closings. See also Report at A-35-37.

¹² Report at A-34, Table 19.

reasonable level of profitability has increased significantly.

Thus, domestic producers shipped 300 million pairs of shoes in 1980, with a value of \$3.6 billion, 309 million pairs in 1981, with a value of \$4.1 billion, 292 million pairs in 1982, with a value of \$3.9 billion, 280 million pairs in 1983, valued at \$4.0 billion, and only 259 million pairs in 1984, with a value of \$3.8 billion.¹³ Significantly, unlike prior years, in 1984, producers in every size category, from those producing fewer than 200,000 pairs to those producing 4 million pairs or more, showed declines in the quantity of shipments.¹⁴

Operating income for domestic footwear manufacturers' operations producing nonrubber footwear rose from \$297 million, or 9.1 percent of net sales in 1980, to \$375 million, or 10.1 percent of net sales in 1981, before falling in 1982 to \$290 million, or 8.0 percent of net sales. Although operating income increased in 1983 to \$312 million, or 8.7 percent of net sales, in

¹³ Id. at A-40, Table 23.

¹⁴ Also, producers in all size categories but that manufacturing between 200,000 and 500,000 pairs annually showed declines in the value of their shipments between 1983 and 1984. However, even in that instance, the increase in value was minimal. Id.

1984 operating income fell precipitously to \$204 million, or 5.8 percent of net sales.

The number of firms reporting losses increased substantially in 1984. Of 130 reporting producers in 1982, 22 reported operating losses and 23 reported net losses before taxes, and of 133 reporting producers in 1983, 25 reported operating losses and 25 reported net losses before taxes. In 1984, of 134 reporting producers, 36 firms, or 27 percent of the total, had operating losses and 43 firms, or 32 percent of the total, had net losses before taxes.¹⁵ Moreover, the declines in operating income from 1983 to 1984 occurred for all sized firms, except those producing 2 million to 4 million pairs of shoes annually.¹⁶ As a share of net sales, operating income fell less for the largest firms (producing over 4 million pairs per year) than for firms producing between 1 and 2 million pairs annually.

A significant number of domestic firms are unable to operate at a reasonable level of profitability. In contrasting the profitability data collected during this investigation with that collected during the last investigation of the nonrubber footwear industry, it is

¹⁵ Id. at A-50-54 . Table 31.

¹⁶ Id. at A-55-59 , Table 32.

now apparent that domestic footwear manufacturers are not faring as well as other U.S. industries. Thus, although domestic footwear producers showed a ratio of net operating income to net sales of 8.0 percent in 1982 and of 8.7 percent in 1983, compared to a ratio of net operating income to net sales of 5.1 percent and 5.9 percent for total U.S. manufacturing in 1982 and 1983, respectively, that ratio for footwear producers fell in 1984 to 5.8 percent while for total U.S. manufacturing, the ratio increased to 6.8 percent.¹⁷

Financial indicators--In addition to an analysis of the profitability of the domestic nonrubber footwear industry, I have also analyzed the financial indicators of the general condition of the industry. These indicators include various measures both of profitability and general performance, related to other financial measures, and are used to establish an impression of the industry's

¹⁷ Id. at A-53. See also INV-I-112 (May 20, 1985). Even when compared to the performance of the nondurable goods industry, the performance of the domestic footwear industry during the most recent period appears poor. In 1983, domestic shoe producers' operating margins were above those of the nondurable goods industry, with shoe producers showing a margin of 8.7 percent while the nondurable goods industry showed a margin of 6.6 percent. Yet, in 1984, U.S. footwear producers' margins fell to 5.8 percent and were below the 7.0 percent margins of firms producing nondurable goods. Id.

operation and competitiveness. We undertook a similar analysis in last year's investigation and a comparison with recent indicators highlights the deterioration of the industry in the last year. This analysis of financial indicators therefore supports the conclusion drawn from other indicators of the performance of this industry that it is experiencing serious injury.

The financial ratios for 1980-83 in this investigation show an overall pattern of stability or improvement.¹⁸ In many of the 1984 ratios, however, the financial ratios show a significant reversal from the pattern that existed in 1980-83.¹⁹ The industry was able to adjust both short-term and long-term assets to declining shipments²⁰ as witnessed by the stable quick and current ratios. However, the ability of these assets to generate revenue was severely impaired in 1984. The relative burden of debt, indicated by the ratio of debt to net worth, increased in 1984 as capital expenditures increased.

The earning ability of these increased assets, as reflected by the ratio of operating income to total

¹⁸ Id. at A-62, table 34 and Nonrubber Footwear: Report to the President on Inv. no. TA-201-50, USITC Pub. No. 1545 (1984), table 26 at A-48.

¹⁹ Report at A-62, table 34.

²⁰ Id. at A-38, table 21.

assets, fell drastically in 1984 over the previous year from 21 percent to 13 percent. The return on owner's equity fell by over one-third from the levels that existed in 1980-83. This pattern was repeated in the ratio of net income before taxes to net worth which also fell by over one-third from the levels of the 1980-83 period.

For the smallest producers, conditions were much more severe.²¹ The ratio of debt to net worth almost doubled to 180 percent in 1984. For this group, liquidity fell as operating margins became negative for the first time during the five year period, draining current assets from the producers and reducing net worth. Operating losses were 18.5 percent of reduced net worth in 1984 and were equal to 6.6 percent of total assets for the smallest producers. Net losses before taxes were 34.2 percent of net worth in 1984.²²

Employment--The average number of production and related workers producing footwear, and the number of hours worked by those employees, declined over the period of investigation. There were 104,000 such workers in 1980, 107,000 in 1981, 101,000 in 1982, 96,000 in 1983,

²¹ Id. at table H-1

²² Id. at table H-1. Note that three years of losses of such magnitude would drive net worth for this group below zero.

and 87,000 in 1984, a decline of 19 percent between 1981 and 1984 and 10 percent between 1983 and 1984.²³ Not surprisingly, unemployment in the footwear industry was high throughout this period. In 1980, there were 16,000 unemployed footwear workers and an unemployment rate among footwear workers of 7.7 percent. In 1981, the number of unemployed footwear workers rose to 27,000 and the unemployment rate rose to 12.5 percent. Between 1982 and 1984, unemployment in this industry rose to its highest levels in the last 10 years. There were 41,000 unemployed footwear workers in 1982, and an unemployment rate of 19.4 percent, 37,000 unemployed workers in 1983, with an unemployment rate of 18.6 percent, and 27,000 unemployed workers in 1984, for an unemployment rate of 16.6 percent.²⁴

These declines in employment indicate the serious injury being faced by this industry and its workers. Shipments have fallen and production has had to be reduced. The result has been a cutback in worker hours and the closing of plants.

SERIOUS INJURY

²³ Id. at A-44, Table 26.

²⁴ Id. at A-48.

Based upon my evaluation of the condition of the industry, I conclude and find that the domestic nonrubber footwear industry is currently experiencing serious injury.

There has been a significant idling of productive resources evidenced by production trends, levels of capacity utilization and plant closures. This idling, particularly in 1984 and currently, is much greater than can be explained as the normal entrance and exit of firms from this industry, or the concentration and retirement of outmoded and inefficient production facilities.

Unemployment and underemployment have been a significant problem for the nonrubber footwear industry for many years. Last year, I noted that there was significant unemployment in the industry, caused by the contraction of the industry in recent years. However, there were significant trends which, with the stabilization of production, indicated the employment picture would be improving. The increasing number of plant shutdowns in 1984-85 has exacerbated the unemployment situation. Last year, the stabilization trends in production and employment corroborated each other; today, the production and employment trends corroborate the conclusion that the industry is experiencing serious injury.

It is also clear that a growing and significant number of firms in this industry are unable to operate at a reasonable level of profit. The profitability data collected by the Commission last year showed an industry that had contracted and that had become profitable. The data collected this year indicate that the profits we saw last year were short-term and buoyed by particular segments of the industry enjoying fashion trends. The profitability picture of this industry no longer contributes to a negative serious injury finding.

The overall performance of this industry, reflected in an analysis of financial indicators, is also one which I conclude demonstrates serious injury. Those indicators, which in last year's investigation pointed to a strengthening of operations, now show a deteriorating condition. Last year, while there were some indications of serious injury, the overall picture of this industry was one of improvement which we concluded did not demonstrate serious injury. The picture today, while continuing to show some positive signs, is, on the whole, one which I must conclude is of an industry experiencing serious injury.

CAUSATION

Last year, having found that the domestic nonrubber footwear industry was not experiencing serious injury, I

did not address the question of whether imports were a substantial cause of the condition of the industry. Having determined that the industry is currently experiencing serious injury, I must now determine whether imports are a substantial cause of that injury.

The statutory framework of section 201 requires, as a third independent element of an affirmative finding, that imports be a "substantial cause," that is, an important cause and a cause no less important than any other cause, of the serious injury to the industry. In setting forth this requirement in the statute, Congress recognized: (1) that an analysis of the quantity of imports, both actual and relative to production and consumption is relevant;²⁵ (2) that a causation analysis requires more than a finding of an increasing trend in the volume of imports;²⁶ and (3) that no mathematical test should be applied by the Commission to weigh causes.²⁷ With these strictures in mind, I find that increasing imports are an important cause of the serious injury being

²⁵ 19 U.S.C. 2251(b)(2)(C)

²⁶ The statute states that the Commission is not limited to an analysis of the (b)(2)(C) factors. 19 U.S.C. 2251(b)(2).

²⁷ S. Rep. No. 1298, 93rd Cong., 2d Sess. 120 (1974).

suffered by this industry and that increasing imports are no less important a cause than any other cause of that injury.

Imports have increased both in terms of value and volume, in actual terms and relative to both production and consumption. The same is true for most individual market segments, whether classified by type of shoe or by value of shoe. For example, imports of men's, women's, and children's, athletic and all other shoes, have all almost doubled in volume and value over the period of investigation. Shoes valued at \$2.50 or less (customs value) have increased by 89 percent. Those valued above \$2.50 and up to \$5.00 have increased 85 percent and shoes valued above \$5.00 have increased 111%. At the same time, domestic production of all types of shoes has declined, and while comparison of value categories is difficult, it would also appear that there have been declines in all value categories.

This analysis indicates that, while imported footwear may have created some new demand, it has also replaced significant amounts of domestic production. The fact that imports have replaced, to different degrees, domestic production in most significant market segments further indicates the important impact imports have had on the industry. It must also be noted that in recent years

there has been a significant displacement of domestic footwear in precisely those areas of production in which the domestic industry is most competitive.

The causal nexus between imports and the condition of the domestic nonrubber footwear industry is further demonstrated by the relationship of imports to the changes in the domestic industry in the last year. The data for 1983 and 1984 reveals a significant shift in the condition of the industry and significant changes only in the volume and value of imports to account for the shift. I believe, therefore, that the information gathered permits only the conclusion that imports are an important cause of the condition of the industry.

It is not sufficient, however, that imports be an "important" cause of the serious injury if there are other causes which are more important. Having examined other possible causes of the serious injury currently being experienced by the domestic industry, I conclude that, while other causes may be important, imports are no less important a cause of serious injury to the domestic industry than these other causes.

One possible cause of the condition of the domestic industry is its structure. The argument may be made that the injury being suffered by the industry as a whole is being caused by competition between the larger firms and

the smaller firms as the industry becomes more concentrated. While it is true that the number of plants producing less than 500,000 pairs has decreased more than other groups of plants, the percentage of domestic output represented by firms in various size categories during the period of investigation has remained relatively constant. This indicates that contraction of production has not been a significant factor to explain the serious injury being experienced by this industry.

Further, firms in all different size groupings and producing all different types of shoes are experiencing injury. While some firms are experiencing more injury than others, and competition among domestic firms may account for this, the fact that the industry, as a whole, is experiencing injury, as well as the extent of that injury, persuades me that internal domestic competition is not as important a cause of injury to the domestic industry as is imports.

It has also been alleged that the injury to the domestic industry is the result of shifts in consumer taste. For example, it has been asserted that the shift toward athletic shoes and towards "softies" and woven leather shoes for women-- styles which started abroad and which can be produced more efficiently and economically abroad--have adversely affected the industry. These

shifts, it is argued, are the reason for the decline of the domestic industry.

I do not dispute that shifts in consumer taste have played some role in the current condition of the domestic industry. The use of athletic style shoes in a variety of nonathletic uses has clearly reduced demand for traditional casual styles of footwear. Similarly, the trend towards a greater variety in women's footwear has reduced the need for long production runs of profitable basic styles. However, the pervasiveness of the injury I have found indicates that shifts in consumer taste are not as important a cause of injury to the domestic industry as imports.

Related to the issue of shifts in consumer taste is the impact of historical decisions by the footwear industry itself. Examples of such decisions, such as the decision not to enter what was to be a prospering athletic market in the 1970's, and the decisions not to produce domestically certain styles that subsequently obtained considerable consumer acceptance have adversely affected the industry and have resulted in increased imports. At least some portion of imports are thus the result rather than the cause of the condition of the domestic industry. Again, however, these decisions may explain some portion of imports in certain segments of the market but are not

sufficient to explain the pervasive injury felt by the industry as a whole.

CONCLUSION

Imports of nonrubber footwear into the United States are increasing. The domestic nonrubber footwear industry is currently experiencing serious injury. Increasing imports are a substantial cause of that injury. I therefore have concluded that the requirements for an affirmative determination under Section 201 of the Trade Act of 1974 have been met and have reached an affirmative determination of injury.

VIEWS OF CHAIRWOMAN STERN, COMMISSIONER ECKES,
COMMISSIONER LODWICK, AND COMMISSIONER ROHR
REGARDING REMEDY 1/

Section 201(d)(1) provides that if the Commission makes an affirmative injury determination, it shall--

- (A) find the amount of increase in, or imposition of, any duty or import restriction on such article which is necessary to prevent or remedy such injury, or
- (B) if it determines that adjustment assistance under subchapters 2, 3, and 4 can effectively remedy such injury, recommend the provision of such assistance.

We find that the imposition of a quota on imports of nonrubber footwear valued at over \$2.50 per pair for a five year period is necessary to prevent or remedy serious injury to the domestic nonrubber footwear industry.

In making this finding and recommendation to the President, we considered but rejected the option of providing adjustment assistance to this import-beleaguered industry as the most effective form of relief. As was evident from the testimony presented during the hearing in this investigation, the current adjustment assistance program 2/ is inadequate for meeting the needs of unemployed shoeworkers. The program has been criticized as ineffectively administered and inadequately funded.

We also have rejected as inappropriate in this instance the option of recommending the imposition of tariffs. Although tariffs can be an effective remedy where the injury to the industry is largely the result of price factors, it is the volume of imports that is affecting the condition of the domestic nonrubber footwear industry. Further, importers and foreign

1/ See also the additional views of each of the Commissioners regarding remedy.

2/ See 19 U.S.C. §§ 2271-2391.

producers might absorb part of a tariff, thereby limiting its effectiveness. Our recommendation of a temporary import restriction program provides the domestic industry with the opportunity to adjust to and compete with imports in at least some segments of the market.

The overall plan

Specifically, we find and recommend that nonrubber footwear with a customs value of \$2.50 or less should not be subject to import restrictions. Import restrictions should be placed on nonrubber footwear with a customs value of over \$2.50 per pair. We recommend that in the first and second years of a five-year program, the President allow the importation of 474 million pairs of nonrubber footwear valued at over \$2.50 per pair. Thereafter, the quantity of imports should be permitted to increase by 3 percent in the third year, to 488 million pairs; by an additional 6 percent in the fourth year, to 517 million pairs; and by another 9 percent in the fifth year, to 564 million pairs. In order to administer the quantitative restrictions outlined above, we find and recommend that the President sell import licenses at public auction, in accordance with 19 U.S.C. § 2581. ^{3/} Further, we propose that the first quota year begin retroactively on June 1, 1985. ^{4/}

The exclusion of footwear valued at \$2.50 or less per pair

The remedy proposal outlined above will provide the domestic industry with protection from, and the opportunity to compete successfully with,

^{3/} Enacted as part of the Trade Agreements Act of 1979, 19 U.S.C. § 2581 specifically provides the President with the authority to sell import licenses at public auction "under such terms and conditions as he deems appropriate" where import restrictions are imposed pursuant to an investigation initiated under section 201.

^{4/} Chairwoman Stern finds that it would not be appropriate to make the quota restriction retroactive.

imports in the segments of production where it is most viable and its comparative advantage is greatest. Although imports of nonrubber footwear with a Customs value of \$2.50 or less accounted for 21 percent of total imports in 1984, 5/ only a small portion of domestic production in 1984 was accounted for by such low-value footwear. 6/

Information obtained during the course of this investigation makes it clear that domestic producers cannot produce the volume of such "low-cost" footwear necessary to meet consumer demand. Yet, if import restrictions were placed upon all nonrubber footwear, regardless of value, importers and exporters would be encouraged to increase the value of their shipments in order to compensate for the loss in volume and thereby maintain income and profitability levels. Thus, the restraint on imports would fall disproportionately on this low-cost sector, with little benefit to the domestic industry as a whole. By allowing unrestricted quantities of low-priced footwear to be imported, consumers will be assured a sufficient supply of low-priced footwear while the domestic industry will not be adversely affected.

A base quota level of 474 million pairs

Section 203(d)(2) requires that any quantitative restriction imposed by the President permit the importation of a quantity of the article that is not less than the quantity of imports "during the most recent period which is representative of imports of such article." Given that the purpose of an import restriction under section 201 is to "prevent or remedy serious injury,"

5/ Nonrubber Footwear Quarterly Statistical Report at 13, table 9.

6/ Memorandum from Textiles Division, Office of Industries, to the Commission (June 10, 1985).

the Commission generally has considered the appropriate representative period not to include a period during which it believed the domestic industry to be suffering serious injury. ^{7/} This is not to say, however, that a particular time frame from which a maximum level of import restraint should be determined must be totally free of injury or distortions from import restraints in order for it to be an appropriate representative period. In this instance, where the industry previously has been provided relief from imports in the form of orderly marketing agreements and has been faced with a steadily increasing volume of imports, such a determination is difficult.

The recommended base level quota of 474 million pairs of shoes, exclusive of footwear valued at \$2.50 or under, clearly permits the importation of a quantity of nonrubber footwear that is at or above the average quantity of such imports during any of a number of possible representative periods.

A five-year period of relief permitting growth in imports

We find and recommend that the import relief continue for a period of five years, with the quantity of imports permitted to increase during the third, fourth, and fifth years of the relief period. Five years is necessary to permit the firms and workers to obtain the capital with which to make the necessary investments to prepare for and adjust to the increased competition from imports that will surely occur once import restrictions are lifted in toto. It also could allow for increases in the volume of production of individual firms, which in turn, according to petitioners, should lower unit

^{7/} See the comments of the Senate Finance Committee regarding "representative period": "The Committee feels that this section should not be construed to mean that there could not be any cut-back in imports from the level existing when injury is found to exist." S. Rep. No. 1298, 93rd Cong., 2d Sess. 126 (1974).

costs and permit more competitive prices to be offered by the domestic industry when the period of relief is complete. The incremental growth in the volume of permissible imports during the last three years of relief complies with the requirements of section 203(h)(2) g/ and will gradually prepare the industry for a return to the rigors of free competition at the conclusion of the relief period.

Public auction of import licenses

In order to limit the costs of import restraints upon the U.S. economy, we find and recommend that import licenses be sold at public auction, as provided for in 19 U.S.C. § 2581. An import license program will create greater certainty, regulate the flow of imports, and preclude the build up of excess inventories (beyond that allowed under the quota) in Customs warehouses because importers will bring in only that quantity of merchandise permitted under the license.

The benefits of a public auction are significant. Although a public auction does not lessen the cost of import relief to consumers, it would create revenues for the U.S. Treasury that could defray the costs of administering the program, thereby minimizing the cost of this import relief to the U.S. economy. A public auction also helps ensure that importers or exporters do not capture the profits that would accrue under a quota program. Further, we note that section 2581 specifically provides that a public auction is to be administered in such a manner as to "insure against inequitable sharing of imports by a relatively small number of the larger importers."

g/ Section 203(h)(2) provides that "to the extent feasible," relief is to be "phased down" during the period of relief, with the phase down to begin no later than the beginning of the fourth year of relief.

ADDITIONAL REMEDY VIEWS OF CHAIRWOMAN PAULA STERN

Unlike the injury phase of an escape-clause investigation where the data dictates either an affirmative or negative finding by the Commission, our recommendation of an appropriate remedy presumes much broader discretion. It is expected that the Commission will recommend to the President the remedy that will provide the most effective relief. ^{1/}

Although my analysis of remedy is necessarily of greater scope than that of injury, my options in this investigation are in fact, quite limited. First, one major option, the provision of Adjustment Assistance, is an empty choice. The Adjustment Assistance Program is scheduled to expire September 30, 1985, and any extension of its funding is in doubt. A second option, that of a tariff, is also of questionable relevance, since its effect could be null, or inappropriate, if the value of the dollar should fluctuate or fall. ^{2/}

^{1/} Under section 202(d)(1) I am to--
 (A) find the amount of the increase in, or imposition of, any duty or import restriction which is necessary to prevent or remedy such injury, or
 (B) recommend the provision of adjustment assistance under chapters 2, 3, and 4 if I determine that adjustment assistance can remedy such an injury.

^{2/} This is germane to the argument that an overvalued dollar is the most important contributory cause for recent protectionist pressure from import-sensitive industries. See "Pressures for Import Protection and U.S. Policy," Statement by William R. Cline before the Committee on Banking, Finance, and Urban Affairs, Subcommittee on Economic Stabilization, U.S. House of Representatives, June 26, 1985, where the author reminds us that there is no provision in the mandate of the ITC to adjust for the
 (Footnote continued on next page)

I have therefore determined with the majority of my colleagues that a quota is the best remedy I can recommend. ^{3/} While I believe this remedy is the most effective, I also believe that an adjustment program for the workers in this industry is appropriate, and conceivably complementary to the Commission's recommendation of auctioned quotas. Furthermore, a "market segment" quota, which concentrates import relief where it benefits the industry most, and protects the current advantages of domestic producers by limiting direct competition with imports, is the most effective way to administer any quota. Paramount in my analysis is the recognition that any relief granted the industry under section 201 is temporary, and no remedy can change the basic conditions of competition this industry must ultimately face on its own.

Adjustment Assistance Has Been Ineffective in the Past

Petitioners have argued that Adjustment Assistance would be an inappropriate remedy because "the existing program has proven to

exchange rate when determining whether injury from imports is present. Not only does such a situation generate more industry requests for protection under the escape clause, but even if relief is granted in the form of a tariff, it can be quickly negated by exchange-rate fluctuations. See also Gary Clyde Hufbauer and Jeffrey J. Schott, "Launching the Growth Round of Trade Negotiations," Institute for International Economics, June 1985, at pp. 10-15 for a discussion of the impact of exchange-rate misalignment and volatility on the costs of trade.

^{3/} I did not find, as the majority of my colleagues, that the Commission should recommend that the overall quota level should be retroactive. A retroactive quota would impose a remedy for a period of time when I did not find that the industry was seriously injured or threatened with serious injury. It is also inconsistent with my finding that quota rights be auctioned.

be a failure for workers in this and other industries and cannot be expected to provide any meaningful relief in the future." ^{4/} It is indeed true that significant aspects of the program, such as relocation and retraining benefits, have been virtually unused by footwear workers. ^{5/} It is also true that even the utilization of income maintenance benefits by footwear workers has been marginal since 1981, when import competition has been most intense. ^{6/} And several parties referred to the fact that funding for the entire program is due to expire September 30, 1985, and that the Administration is currently opposed to its continuation. ^{7/}

However, it is meaningful to question why the Adjustment Assistance program has not met the needs of footwear workers to date. Certain characteristics and demographics of this industry have contributed to the reasons why the program has had little to offer the workers in this industry.

^{4/} See Responses to Questions from the Commission Submitted on Behalf of Footwear Industries of America, Inc., Amalgamated Clothing & Textile Workers Union, AFL-CIO, and United Food & Commercial Workers International Union, AFL-CIO, p. 2.

^{5/} According to Department of Labor data, only 2 percent of all certified footwear workers completed retraining programs, and only 1 percent were ever placed in alternative employment during the last several years.

^{6/} Petitioners indicate that \$18,750,000 currently appropriated for FY 1985 has been rescinded, and that administrative costs of the program have also been curtailed in the amount of \$6,250,000 from the FY 1986 budget.

^{7/} Of course the plain meaning of the statute suggests that if the Commission finds that Adjustment Assistance is the most effective remedy, it can recommend it to the President regardless of the present outlook for the programs' funding. The Commission is

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Studies conducted by the Department of Labor and others have concluded that in the case of the footwear industry, the actual earnings loss of displaced footwear workers has been relatively minimal, despite the fact that these workers had severe adjustment problems. ^{8/} This suggests that there has been a poor fit between the assistance currently provided to footwear workers and their adjustment needs.

Several factors account for this conclusion. Wages are very low compared to average manufacturing wages; unions are not as strong and membership is lower; income for these workers is often supplementary; and there is a preponderance of both older workers who merely retire in lieu of adjustment and younger workers who find similar, low-skill employment. Many footwear plants are located in rural areas, where there are few alternative job opportunities. Also, many of these workers are women, many of whom prefer to remain with their families or withdraw from the labor force. ^{9/} These

ill-equipped to speculate whether Congress and the Administration will in fact discontinue the program. It is clear, however, that the Administration has allocated little funding to the TAA program in the past.

^{8/} Interview with Harry Gilman, Department of Labor, May 20, 1985. See also U.S. Department of Labor, Bureau of International Labor Affairs, "The Effectiveness of Trade-Related Worker Adjustment Policies in the United States," February 1984, and James E. McCarthy, "Trade Adjustment Assistance: A Case Study of the Shoe Industry in Massachusetts," Federal Reserve Bank of Boston Research Report 58, June 1975.

^{9/} The Bureau of Labor Statistics estimates that 66 percent of footwear employees are women. See Memorandum from the Acting Director of Industries to the Commission Re Request for Supplemental Information on Nonrubber Footwear Worker Characteristics, June 6, 1985.

factors all contribute to the fact that the aspects of the current program that deal most directly with "adjustment"--relocation and retraining--have been underutilized in this industry. ^{10/}

An Adjustment Program Will Be Important to Footwear Workers in the Future

That the current Adjustment Assistance program has been ill-suited for this industry in the past does not imply that an adjustment program for footwear workers will be futile in the future. It is clear that the historic employment levels in this industry will not be maintained, regardless of import relief. This presents an important policy dilemma that should be confronted squarely. ^{11/}

First, it appears that some of the characteristics of these workers which have made important objectives of the program

^{10/} Some have argued that if a special case can be made for workers in particular import sensitive industries--that they have less occupational or geographic mobility or face more risk or uncertainty of displacement--then there is justification for a government-sponsored special adjustment program for those workers based on both economic and political efficacy grounds. See C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance," in Robert E. Baldwin and Anne O. Krueger, The Structure and Evolution of Recent U.S. Trade Policy, University of Chicago Press, 1984.

^{11/} Some have suggested that a new safeguards code resulting from a new trade round could provide for a scheme whereby revenue from auctioned quotas, like those suggested by the Commission, could be dedicated to worker adjustment and the downsizing of the industry. See Gary Clyde Hufbauer and Jeffrey J. Schott, "Launching the Growth Round of Trade Negotiations," Institute for International Economics, forthcoming, 1985. Pending U.S. legislation (Title II of S. 234) also calls for a new adjustment program linked to a new trade round. All countries would pay a small tax on trade, and this revenue would be dedicated to worker adjustment.

previously unobtainable are changing. In 1975, the median age of a footwear worker was 55; only 10 percent of these workers were under the age of 40; and many of these workers had not received an education above the ninth grade. ^{12/} In the 1980s, the average age of a footwear worker is 37 years; more than one-half of these workers are below the age of 34 and more than one-half have at least a high school education. ^{13/} While retraining and relocation may not be the preference of some of these workers, there is a strong likelihood that, should they be available, they could be desirable to perhaps as many as one-half of the future unemployed workers in this industry.

There is a more important reason, however, why an adjustment program will be imperative to the future of this industry. Even if the President implements the import-relief program recommended by the Commission, and even if the industry is able to accomplish its plan of increased investment in state-of-the-art technology, ^{14/} it is unlikely that footwear

^{12/} See James E. McCarthy, "Contrasting Experiences with Trade Adjustment Assistance," Monthly Labor Review, June, 1975.

^{13/} A Bureau of Labor Statistics analysis of 1980 Census data showed that the median age for footwear workers is now 36.8 years. A 1981 sample examined by the Employment Training Administration, U.S. Department of Labor, revealed that 50.8 percent of footwear workers were below the age of 34. Data for 1981 also showed that 55 percent of shoe workers have had 12 years or more of education.

^{14/} See Commission staff analysis of the likely consumer costs and employment effects of import relief to the nonrubber footwear industry. It is estimated that domestic employment in the nonrubber footwear industry could rise by about

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workers will be the primary beneficiaries. Unemployment, resulting either from the pressures of global competition or the use of more advanced technology to cope with that competition, is and will continue to be a structural problem of this industry. The salient point is that this industry faces a global comparative disadvantage in some market segments precisely because it is a labor intensive industry. The objective of domestic producers during the relief period is hopefully to reduce labor costs and increase productivity in the segments of the market where this industry can compete internationally.

A Market Segment Quota Provides the Industry with the Most Effective Relief

Adjustment to import competition will continue to be the paramount challenge for this industry--throughout any period of import restraints and once any relief period is concluded. It is therefore critical that the remedy package that is ultimately

23,800 workers in the first quota year under the Commission's recommended remedy. However this memo notes that these employment gains "will largely be lost either to domestic producers' productivity improvements, . . . or in the absence of significant productivity gains to import competition after relief expires." The employment effects of the more restrictive FIA plan, according to petitioners, will increase employment in the industry by only 3,500 workers over the course of the relief period. Petitioners did not estimate the employment effects of the lifting of import restrictions. However, respondents Volume Shoe Corporation suggested that the FIA plan would cause an additional 18,200 people to be hired over the five year quota period, but that 28,000 workers would be laid off when the quotas were lifted. See Brief in Opposition to a Remedy Imposing Import Restrictions, Volume Shoe Corporation, May 28, 1985. See also EC-I-199, Memorandum to the Commission from the Director, Office of Economics, regarding nonrubber footwear, June 7, 1985, p. 28.

implemented give the industry its best opportunity to increase its productivity in the market segments where it is already the most competitive internationally. It is also essential that any remedy adopted by the President encourage the industry to continue the adjustment efforts this industry has already initiated. ^{15/}

My affirmative injury finding recognizes that there is indirect competition between the market segments where foreign producers and U.S. manufacturers are dominant. Indeed, this finding is based partly on the noticeable recent erosion of distinct market segments for domestic and imported footwear. It is for this reason that the "market segment" quota is the most effective remedy possible for the domestic industry. It aims to not only preserve the market segments where the future of the industry lies and to temporarily arrest or reverse the movement of imports into the market sectors vital to domestic producers, but to ensure that the industry, if it is willing, derive the greatest benefit out of the relief period.

Such a program sends several signals. First, it sends the signal to foreign producers and importers that they should continue

^{15/} One respondent referred to the industry's past efforts as a "two-fold strategy." Domestic production is exploited, on the one hand, in medium and high cost traditional footwear--in shoes produced with long production runs, characterized by stable demand, and where high technology is best utilized. On the other hand, producers source from abroad low-cost, athletic and fashion footwear--areas where demand is more volatile and where foreign producers have the greatest advantage--either because of a much lower cost structure, a more labor-intensive product, or the requirement of shorter production runs. See Post Hearing Brief on behalf of the European Confederation of Footwear Industries and the Spanish Federation of Footwear Manufacturers, April 25, 1985.

to produce and import the products they have produced and imported in the past. It limits the extent to which they will upgrade their products, and thereby compete even more directly with U.S. production. Otherwise, to the extent that foreign producers find it advantageous to export to the United States more expensive (or nonathletic) shoes, it will undermine the very strength on which U.S. producers will have to rely when restraints are lifted.

Second, it sends a signal to U.S. producers. My recommendation of import relief does not contemplate that this industry should now expand production in every market segment where it has heretofore chosen to source from abroad. Such a proposal does not "swim upstream" where the import current is strongest. Any proposal which does not seek to maintain, and even solidify, the market segmentation among foreign and domestic producers that the Commission saw in its investigation in 1984 only complicates the adjustment problem this industry will certainly face when its period of relief expires. Increasing production in the areas of the market that are not a viable part of a future, globally competitive industry also gives false hope to workers who will know only too soon the realities of the global marketplace.

The Quota

The Commission is instructed to base its recommendation of remedy upon a period that is representative of imports. ^{16/} Since

^{16/} Section 203(d)(2) (19 U.S.C. & 2253(d)(2)) states:
 Any quantitative restriction proclaimed pursuant to subsection (a) or (c) . . . shall permit the
 (Footnote continued on next page)

the purpose of an import restriction under section 201 is to "prevent or remedy serious injury," it follows that if possible, the representative period should be a period when the industry was not experiencing serious injury. The most recent period in which I have found the domestic industry not to be experiencing serious injury or threat of serious injury was throughout 1983 and the first quarter of 1984. I have therefore based my recommendation of relief on this representative period. 17/ 18/

I concur with Commissioner Rohr that within the overall base amount of 474 million pairs, the quota should be allocated in the following way:

1. That there be a ceiling on nonathletic footwear above \$5.00 (customs value) of 214 million pairs. This is a 25-percent reduction from the 1984 level of shoes imported of this type. Those

importation of a quantity or value of the article which is not less than the quantity or value of such article imported into the United States during the most recent period which the President determines is representative of imports of such article.

17/ I have reached this figure by subtracting the number of shoes valued below \$2.50 that were imported in 1984, 150 million pairs, from 620 million pairs--the annualized total of the last four quarters of 1983 and the first quarter of 1984. A similar figure can also be derived by subtracting the number of pairs of shoes that entered the United States below the customs amount of \$2.50 in 1983 (108 million pairs) from total 1983 imports (581 million pairs).

18/ In arriving at this remedy recommendation, I have taken very seriously Congress' intent that the Commission reach a clear majority finding with respect to remedy in section 201 investigations. These views represent my attempt to fulfill that Congressional mandate.

desiring to import athletic shoes and shoes valued by Customs between \$2.51 and \$5.00 will also be allowed to bid for these quota rights. Because the reduction from the 1984 level is greatest in this market segment and because importers of all products will be allowed to bid on this portion of the market, it is anticipated that import relief will be strongest here. This most stringent restriction protects the segment of the market where three-quarters of domestic production is located.

2. That there be a floor reserved for all athletic footwear (of any value), of 110 million pairs. This is an 8-percent reduction from the 1984 level of shoes imported of this type. This segment of the market will be reserved for athletic importers only. All athletic shoes valued by Customs below \$2.50 are excluded from the overall quota. Reserving a significant portion of the overall quota for athletic footwear importers ensures that a maximum number of the imports will be in a market segment that has a lesser impact on domestic production. It also provides an incentive for foreign athletic producers to continue to produce athletic footwear, of whatever value, rather than diversify into more expensive products that would compete more directly with domestic producers.

3. That the remainder of the quota--150 million pairs of shoes--be made available to all footwear valued by customs between \$2.51 and \$5.00. This is a 13-percent reduction from the 1984 level of shoes imported of this type. This portion of the quota would also be open for bidding by athletic footwear. Less restrictive relief in this market segment ensures that a maximum number of

imports will be low-value imports, below \$5.00.

Auctioning the Quota Rights

As a policy matter, the auctioning of quota rights is highly preferable to traditional quantitative restrictions. First, an auctioned quota substitutes the price mechanism for fiat in allocating scarce import rights. It thus allows a quota to resemble a tariff in its effects. This is particularly advantageous in a global economy, where capital flows can swamp the effects of both trade flows and tariffs.

Second, auctioned quotas are more transparent than quantitative restrictions. The complexity of quantitative restraints can hide their costs to both government officials and consumers--which in turn can encourage their perpetuation, especially in the case of those restraints implemented outside the GATT framework.

Third, they are more effective than bilateral quantitative restraints, or OMAs, because the relief they provide cannot be nullified by third country suppliers that can increase their exports to fill the gap left by the restrained countries. Moreover, past relief to the industry in the form of OMAs has not only encouraged new suppliers to enter the U.S., but has also encouraged foreign shoe suppliers to upgrade into higher-value categories.

Fourth, auctioned quotas minimize the cost of relief to the economy by transferring the quota rents from the foreign producers

to the U.S. Treasury. It also provides a source of revenue for the administration of the quota.

Finally, the revenue generated by auctioned quotas could then conceivably be dedicated to an adjustment program designed to assist genuinely those who will certainly bear the greatest burden of this industry's efforts to survive in the world economy--regardless of whether these efforts meet with ultimate success.

ADDITIONAL VIEWS OF COMMISSIONER ECKES ON REMEDY

In writing section 201 the Senate Finance Committee urged the Commission "to reach a clear, definitive majority view on the nature of remedy that is most suitable to the injury found." 1/ A four-member majority of the Commission has responded to that admonition, and has joined in a majority remedy recommendation. This has, of course, necessitated compromise, but I am convinced that the majority proposal does suitably address the injury which the Commission has found to exist.

Nonetheless, the President has a wider variety of options than the Commission. He can, for instance, decide to negotiate orderly marketing agreements, and proceed with diplomatic discussions. Because a major portion of the increased imports of nonrubber footwear comes from a few major suppliers, particularly Taiwan and Brazil, it may well be that such an approach could also remedy the injury the Commission has found to exist. The Commission, of course, has no authority to recommend a remedy that requires such negotiations. Alternatively, the President may wish to consider subquotas for individual national suppliers, especially the countries previously mentioned, within an overall quota. Some of these changes and refinements can best emerge out of the overall

1/ S. Rept. No. 93-1298, 93rd Cong., 2d Sess., 123.

review process. What the Commission has done, in my judgment, is to identify the injury and to suggest the general nature of an appropriate remedy. Because of time constraints, we could not offer the proposal for public comment and then make appropriate modifications.

I wish now to elaborate on several other remedy-related issues in these additional views. In particular, what is the appropriate recent representative period? Why did I recommend a basket quota without specific breakouts? Why should the remedy be retroactive to June 1, 1985? And, is it likely the domestic footwear industry can adjust to increased import competition during a period of relief such as the Commission has proposed?

Representative Period--

The choice of a recent representative period is one of the most critical decisions in fashioning a quota remedy. The period chosen operates to establish floor figures for import levels. According to the statute (section 203(d)(2)):

Any quantitative restriction proclaimed pursuant to subsection (a) or (c) . . . shall permit the importation of a quantity or value of the article which is not less than the quantity or value of such article imported into the United States during the most recent period which the President determines is representative of imports of such article. 2/

2/ 19 U.S.C. Sec. 2253(d)(2).

In my judgment there are only two periods which can appropriately be considered as "representative" for this investigation--either 1982 and 1983 considered together, or 1983 taken alone. Other possibilities simply do not satisfy the statutory requirements or Commission precedent. For instance it would be inappropriate to include all or part of 1984 in the recent representative period, because the Commission found that the domestic industry was injured in 1984. It would be incongruent with the law to assert that on the one hand the industry was injured in 1984 but on the other hand to recommend that the President should admit a minimum level of imports which contributed to that injury.

There is good reason, too, for excluding earlier years. Import trends for the period 1977 through mid-1981 were curtailed by operation of orderly marketing agreements negotiated with Taiwan and Korea. Consequently, this period is hardly representative. And any period reaching back beyond 1977 would hardly meet the requirement of a "recent" representative period.

In my view, the period 1982-1983 is unquestionably the best representative period to employ. As I noted in the Stainless Steel investigation, the consistent practice of this agency has been to base quota recommendations on the most recent years of

non-injurious imports. ^{3/} A single year is ordinarily not sufficiently representative. The 1982-1983 period has, in short, a number of distinct advantages. It precedes the period of serious injury to the domestic industry and involves more than a short period of time. It does not rely on partial year data which can also reflect distortions. In essence, it provides relief from injury yet assures imports a non-injurious share of the domestic market.

The majority recommendation of a 474 million pair quota corresponds to the actual quantity of shoes valued at over \$2.50 per pair which entered the United States in 1983. However, the specific recommendation is compatible with the choice of either 1982-1983 or 1983 alone as the representative period. During 1982-1983, for instance, 426 million pairs entered the United States, and this is less than the proposed quota of 474 million pairs. Thus the legal requirement that the quantitative restriction permit "not less than the quantity" imported in the recent representative period is clearly satisfied.

^{3/} See my views regarding remedy in the Stainless Steel and Alloy Tool Steel investigation for a more complete discussion of how the representative period should be chosen and how that period relates to the Commission's injury determination. Stainless Steel and Alloy Tool Steel: Report to the President on Investigation No. TA-201-48 . . ., USITC Publication 1377, May 1983, at 57-61.

I am not privy to the specific calculations Chairwoman Stern and Commissioner Rohr made in proposing breakouts of certain categories of footwear. However, it is my understanding that these proposals must also conform to the requirements of section 203(d)(2) as well as other limitations previously described.

Quota Breakouts

I have joined with the majority in recommending an overall basket quota of 474 million pairs. Only shoes with a customs value of \$2.50 per pair, or less, would be exempt from the quota coverage. Such a limited breakout is consistent with the notion that relief should not go beyond what is necessary to prevent or remedy serious injury. For the most part U.S. nonrubber footwear producers have abandoned this cheapest segment of the footwear market, and any attempt to fashion a remedy that would aid significantly a few domestic firms in that niche would be difficult to effect.

Two of my colleagues have gone further than Commissioner Lodwick and I, and have recommended additional breakouts, or subquotas, for athletic footwear and shoes valued at \$5.00 per pair or less. I did not have an opportunity to review or to evaluate these proposed breakouts within the context of an auction bid system. It may be that some such breakout is warranted in order to prevent the auction bids from driving

these shoes out of the market place and concentrating all imports in the higher value end of the proposed quota. The President can better make this assessment than the Commission because all parties will have an opportunity to evaluate the Commission proposal and address its strengths and weaknesses before the President must make a final decision.

At this point, however, I am not persuaded that further breakouts are needed on the basis of value or type of footwear. For one thing, except for the cheapest shoes (\$2.50 or less per pair) there is substantial uncertainty, if not considerable disagreement, regarding the ultimate mark-up for imported shoes. In short, an imported shoe with a customs value of \$5.00 may easily compete with domestic shoes, as well as other imports, within a wide-range of prices depending on several factors--style, design, material, and overall demand for a given type of shoe. A similar argument can be made for athletic type footwear and its variant, athleisure footwear. There is another reason why I am reluctant to urge further breakouts. To base quota breakouts on price or type of shoe is to ignore a fundamental fact of footwear competition--consumer choice for a given style or type of footwear product dictates the purchasing decision. Price very often is a secondary consideration. Consequently, such additional breakouts ignore the continuum nature of the marketplace and the interplay between shoe fashion designs and consumer buying decisions.

In general, it seems to me that a complex breakout based on price and style considerations frustrates unnecessarily the consumer's right to choose and creates artificial segments in the marketplace which do not comport with commercial realities. For instance, as I have suggested, shoes priced at \$5.00 per pair compete at a number of different price points, and so do athletic-athleisure footwear. Also, such segmentation unevenly affects our trading partners. Korea, the principal supplier of athletic style footwear, is given a sheltered position in that segment and not discouraged from competing in other segments as well. Taiwan, which sells both cheap shoes (average unit customs value \$4.42) and athletic shoes, benefits from all three proposed breakouts. However, traditional European suppliers, such as Italy, Spain and others, are thrown into a higher value basket with Brazil (average unit customs value \$7.78).

In brief, complex proposals invite administrative confusion and attempts to circumvent the overall program of restraints. Unless there is strong and compelling testimony to the contrary during this period of presidential review, the barebones 474 million pair quota proposed by the Commission majority is the more practical approach.

Retroactive Application--

One very crucial portion of the majority recommendation, approved by Commissioners Lodwick, Rohr and myself, is

retroactive application to June 1, 1985. There are several reasons for this approach. First, much of the serious injury has occurred quite recently and has brought a substantial loss in domestic market share. First quarter 1985 data indicate that more than 75 percent of U.S. nonrubber footwear consumption is accounted for by imports. Second, I am concerned that importers not seek to thwart a systematic program of relief by accelerating shipments during the period immediately before the controls take hold. That could delay substantially assistance to the domestic industry.

Adapting to Foreign Competition--

Can the domestic nonrubber footwear industry adapt to increased imports during a five-year period of import relief? That is a key question, and one on which individual members of the Commission apparently disagreed when remedy recommendations were announced on June 17. Four members of the Commission evidently thought that the domestic industry can improve its competitive position during a period of relief, for they united behind a compromise remedy for five years of quota relief.

However, one commissioner, Vice Chairman Liebeler, apparently disagreed: "Thus, the ONLY import relief that would prevent serious injury to the domestic industry is a PERMANENT import restriction. However, it is not the purpose of Section 201 to establish permanent barriers against fairly-traded

imports." ^{4/} Instead, she recommended adjustment assistance, even though "It is most unlikely that adjustment assistance will help facilitate adjustment to import competition."

I do not share some of the assumptions and conclusions that apparently lie behind my colleague's position, although I praise her cogent and stimulating remarks at the vote on remedy for encouraging debate on an important set of issues. So that the public record of our investigation reflects the range of Commission opinion on this issue for the purposes of presidential review, I think it necessary to offer some of my own thoughts on the issues she has raised.

First, my colleague seems to perceive that the domestic shoe industry, like the family farm of a century ago, is a "dying industry." Such a comment, in my view, is at worst premature, like the early reports of Mark Twain's death a century ago. While it is true that many shoe producers are experiencing hard times and some are leaving the industry, total demand for shoes has never been higher. The shoe itself is not technologically obsolete as the buggy whip became when automobiles replaced horse-drawn carriages. Nor are shoes, like steel, experiencing a declining intensity of use as consumers turn to alternate materials. In fact, the opposite

^{4/} Quotations are taken from remarks of Vice Chairman Liebler on Remedy in TA-201-55, Nonrubber Footwear, Commission Meeting June 12, 1985.

is true. With higher incomes, per capita shoe consumption has risen, reflecting the individual consumer's increased ability to afford a variety of shoes to suit differing tastes and needs. So long as there are consumers and they find a need to cover their feet with shoes, there will exist a shoe industry. The only question--indeed the relevant question in this investigation--is whether the domestic industry will produce shoes in the United States. Other options available to domestic producers include importing uppers and assembling shoes domestically, or importing finished shoes for retail outlets and abandoning altogether any pretense at domestic production.

Second, I resist the somewhat mechanistic notion that labor-intensive industries in the United States, like 19th century agriculture and, more recently, textiles and footwear, are marked for destruction because they lack a comparative advantage in world competition. Although the "process is painful," my colleague says that the nation's "continued prosperity depends on our willingness to accept such adjustments." I reject this argument. Because an industry currently cannot compete in world markets on the basis of price, one should not infer that it cannot become competitive in the future as, for instance, production technology changes. The textile industry is a good example. I have visited mills in the United States where the only workers maintain the

sophisticated robots and automated weaving machines which are producing cloth. It is conceivable that the American nonrubber footwear producers could experience a similar technological renaissance and emerge some years from now as strong and vigorous competitors in both the U.S. and world markets.

To infer on the basis of recent performance that domestic shoe producers are inherently incapable of competing in the future is to reach a fallacious conclusion which conflicts with the record of this investigation. Both petitioners and respondents estimated in their testimony to the Commission that a wholesale price gap of between 15 and 25 percent currently separates domestic and imported footwear. To close this gap, which it estimated at 15 percent, the domestic industry has proposed a comprehensive adjustment program in several stages. It is worth emphasizing that, according to the so-called Kaplan report prepared for the domestic industry, if only the full array of commercially-available manufacturing and management technology were implemented, the domestic industry could achieve a substantial cost savings. The report estimates that such current technology could lower the cost of women's footwear 14.3 percent and men's footwear 10.7 percent, reductions which if effected would be a substantial step to closing the cost gap with imports, assuming other competitive factors remain equal. Let me stress: these recommendations do not involve computer-assisted design and manufacture, nor do

they require automated production lines. With existing off-the-shelf technology the domestic industry could cut its costs sharply.

Because I have toured shoe production facilities in the United States that already employ computer-assisted design and laser cutting, I am convinced that shoe production stands on the threshold of a technological revolution which could dramatically change existing production methods within five years. In fact, in the third phase of its proposed adjustment program the domestic industry attempts to spell out the cost savings that may result from these new technologies--and the savings are major. Undoubtedly, some foreign producers will obtain this technology in time, but there is reason to believe that the United States industry will be able to modernize sooner. When such factors are weighed carefully, I believe that segments of the domestic footwear industry could achieve a comparative advantage on the basis of cost alone. Certainly, the nonrubber footwear industry is not a dinosaur from the past, dying because it is incapable of modernization, as one might conclude from the musings of some arm chair theorists.

At this point I should observe that, despite cost disadvantages, a few U.S. producers already compete quite successfully in foreign markets on the basis of perceived qualitative advantages. In the finest shoe stores of Spain I have seen hand-sewn moccasins and boots made in the

United States. These apparently sell on the basis of quality and brand identification even though they compete against Spanish shoes selling at half the price.

Finally, I disagree with my colleague's view that "there is no temporary trade restriction that will facilitate adjustment" for the footwear industry. That statement assumes the problem stems entirely from an irreversible long-term competitive disadvantage. In my view, the actual situation is quite different. Not only has the industry not modernized as rapidly as it might have to remain cost competitive but also extraordinary short-term factors--such as foreign trade restrictions and a strong dollar--have boosted imports and exacerbated the industry's overall decline.

For one thing, import restraints in other shoe consuming countries have encouraged world shoe exporters to concentrate their export sales on a single market--the huge and dynamic American market. While American consumers have had opportunity to import unlimited quantities of shoes, a different situation exists in Japan where leather footwear imports are restricted. Canada also has a system of quotas. The United Kingdom, France and Ireland have quantitative restraints on Taiwanese footwear. While other developed nations have been sheltering their own domestic producers, a number of newly industrialized countries have developed enormous export-oriented footwear industries. For example, Taiwan exports over 93 percent of its

production and 60 percent of its exports go to the United States, up from 51 percent in 1980. Korea exports 90 percent of its footwear, and 59 percent of these exports go to the United States, up from 48 percent in 1980. Brazil also exports 44 percent of its domestic leather footwear production and 86 percent of its leather footwear exports come to the United States, an increase from 60 percent in 1980. With its borders open to the world's shoe producers, the United States has become the principal target for the new mercantilists--the nations which consistently run export surpluses. Indeed, it is arguable that the profits from cheap shoe exports to the United States are financing the modernization of nonrubber footwear industries in Taiwan. Soon Taiwan is likely to move out of plastic shoes and low-value items and compete head-to-head with American producers in higher-value leather footwear as well. Meanwhile India and China could replace Taiwan and Korea as principal suppliers of low-priced shoes.

Another temporary handicap for the domestic industry is the strong dollar. At a time when imports undersell domestic footwear by 15 to 25 percent at the wholesale level, it is important to note that much of this competitive disadvantage is a result of the super dollar, not declining conditions in the industry. According to the Commission staff report, since January-March 1980 the Taiwan dollar depreciated in real terms against the U.S. dollar by approximately 15 percent, the Korean

won depreciated by approximately 17 percent, and the Italian lira fell some 37 percent. Between January-March 1981 and October-December 1984, when much of the increase in imports from Brazil occurred, the Brazilian cruzeiro depreciated in real terms against the U.S. dollar by approximately 19 percent. From my vantage point fluctuating currency values have exacerbated and hastened the decline of the domestic non-rubber footwear industry over this period. While the dollar was soaring, as indicated above, the domestic industry lost 23 points of market share from 1980 to 1984.

Evidence such as this compels me to disagree with my colleague's assessment. Temporary factors, such as foreign trade restrictions and currency fluctuations, have handicapped the efforts of our besieged domestic producers to adapt to the new competitive conditions of trade. I would be quick to acknowledge that microeconomic remedies, such as section 201, may not be the optimal tool for correcting distortions brought about by foreign trade restrictions and currency fluctuations. They are, however, one of the few tools available under law to industries hammered by imports.

Despite my points of difference with her overall analysis, I find myself completely in agreement with Vice Chairman Liebeler on one point: "It is most unlikely that adjustment assistance will help facilitate adjustment to import competition." For this reason I believe the only responsible

solution is a five-year program of import restraints, authorized under section 201. Last year the domestic industry could not qualify for such a program, because it could not demonstrate the requisite level of injury. This year the situation is entirely different. With a five-year program the domestic nonrubber footwear industry stands a decent chance of modernizing and recovering substantial portions of the domestic market.

ADDITIONAL VIEWS OF COMMISSIONER SEELEY G. LODWICK ON REMEDY

I have concurred with three of my colleagues on the basic points of a majority opinion on remedy. I present the following additional views not to detract from that majority but to offer a few observations I have regarding that finding and recommendation.

The base quota level of 474 million pairs

Section 203(d)(2) of the Trade Act requires that any quantitative restriction permit entry of that quantity or value of imports that was imported during the most recent period which the President determines is representative of imports. In this case I find and recommend that the most recent period which is representative of imports of nonrubber footwear within the meaning of the statute is the one-year period 1983.

That year was completely free of import restrictions and also was the last full year upon which the Commission made a determination that the current level of imports was not causing serious injury to the domestic industry. With that quantity of imports, the domestic nonrubber footwear industry could sustain adequate levels of profitability, and stable production, capacity and employment levels. In addition, the Commission's analysis indicated that the domestic industry as a whole could compete in spite of an import penetration level of more than 63 percent (the import penetration ratio in 1983) of the domestic

nonrubber footwear market. Therefore, I recommend the use of the quantity of 1983 imports, or 582 million pairs, as the base from which to calculate the quota.

Since the Commission majority, of which I am a part, also has recommended the exclusion of footwear with a Customs value of \$2.50 and under (low-priced shoes), it is appropriate to subtract those imports in the base year 1983, or 108 million pairs, from total 1983 imports to arrive at the recommended first year quota level of 474 million pairs.

It can be expected, however, that importers will continue to bring in at least the amount of low-priced shoes that were imported in 1984, or 150 million pairs. Given a small drop in total domestic consumption as a result of the new restrictions in the marketplace, the minimum level of imports in the first quota year, approximately 624 million pairs, should allow imports to comprise about 65 percent of domestic consumption. 1/ This is approximately the level of penetration achieved by imports in my base year, the last year in which the Commission found no serious injury.

Thus, it is my belief that with a cut-back in total imports to approximately their 1983 penetration ratio, the profitability of the domestic industry could rise to a level that would generate adequate funding to implement substantial

1/ The 65 percent penetration ratio assumes that domestic production will increase and offset some of the decline in imports in the first quota year.

technological improvements. These improvements, according to the domestic industry's own feasibility studies, should permit the industry to achieve long-term viability side by side with imports.

The quota should be retroactive

I agree with the Commission majority, of which I am part, that the first quota year begin retroactively on June 1, 1985. If this were not the case, suppliers would be provided with an incentive to take advantage of the period between this Commission's public vote and the date on which a quota is implemented to import excessive quantities of shoes. That would further exacerbate the serious injury already suffered by the domestic nonrubber footwear industry.

The quota should not be subdivided

Lastly, I recommend that the quota not be subdivided into specific categories of nonrubber footwear. The quota remedy which four Commissioners are recommending to the President is a response to a requirement under the statute to remedy the serious injury which the Commission has found to exist within the entire domestic nonrubber footwear industry. The Commission unanimously defined the industry as all domestic nonrubber footwear production facilities. Having so defined the industry, it is not appropriate to segment it for the purpose of providing a remedy.

To this end, it is important to permit the domestic industry the opportunity to make the ultimate decisions about what types and styles of footwear upon which to concentrate their efforts. Even after conducting successive investigations and issuing numerous reports, this Commission is not as well qualified as the nonrubber footwear producers themselves to decide where their long-run stability and profitability lie. Furthermore, by not further restricting the overall quota with subdivisions, importers will have the same flexibility to source and provide the restricted quantity according to whatever market forces dictate under the new conditions of trade.

ADDITIONAL VIEWS OF COMMISSIONER DAVID B. ROHR
ON REMEDY

Having affirmatively determined that the domestic nonrubber footwear industry meets the statutory criteria for relief under Section 201 of the Trade Act of 1974, I am now required to report to the President my findings and recommendations as to the nature and extent of that relief. In making these findings and recommendations I am bound by the express provisions of Section 201(d)(1):

If the Commission finds with respect to any article, as a result of its investigation, the serious injury or threat thereof described in subsection (b) of this section it shall--

- (A) find the amount of the increase, or imposition of any duty or import restriction in such article which is necessary to prevent or remedy such injury; or
- (B) if it determines that adjustment assistance under parts 2, 3, and 4 of this subchapter can effectively remedy such injury, recommend the provision of such assistance.

Thus, the considerations to be taken into account by the Commission in fashioning its remedy are limited.¹ The

¹ The narrow focus of the Commission in making recommendations to the President under Section 201(d)(a) may be contrasted to the numerous factors which the President must consider under Section 201(c) in deciding what relief to order for the industry. Such considerations are by statute outside the scope of my remedy recommendation and are left to the sole discretion of the President. The President may, of course, choose to
(Footnote continued on next page)

statute directs me only to determine and recommend what relief is necessary to "effectively remedy" the injury which I determine to exist. While this is the only relevant statutory consideration in my remedy considerations, I also believe the Commission has broad discretion in developing a remedy recommendation tailored to that particular injury. Similarly, the Commission has broad discretion in choosing between remedies which it believes would be equally effective in remedying that injury.²

The Commission has one other statutory responsibility in developing its remedy recommendation. In 1976, in amending certain provisions relating to divided votes contained in the Commission's statutory authorization, Congress stated its clear desire that the Commission reach clear majority recommendations with respect to remedy in Section 201 investigations. I have taken the obligation to attempt to develop a majority

(Footnote continued from previous page)
request information relevant to such consideration if he determines to request a supplemental report from the Commission pursuant to Section 202(d).

² For example, it would be appropriate for the Commission, in deciding between two remedies which it believes would effectively remedy the injury being suffered by an industry, to choose to recommend that remedy which is least disruptive of trade or with least consumer cost.

remedy recommendation very seriously and the majority recommendation presented in these views represents our attempt to fulfill that Congressional mandate.

EXPERIENCE OF THE INDUSTRY WITH IMPORT RELIEF

The domestic nonrubber footwear industry has been the recipient of several forms of import relief in the recent past. Over the past 10 years, it has received both trade adjustment assistance and import restraints in the form of orderly marketing agreements (OMAs) with several major footwear supplying countries. This experience provides the Commission with a unique basis for judging the effectiveness of these forms of relief.

The magnitude of the problems of the footwear industry, as compared to the adjustment assistance available to both firms and workers, has severely limited the effectiveness of adjustment assistance for this industry. Since 1975, approximately \$78 million was spent on income maintenance for displaced workers, but only 200 workers have obtained job search or relocation assistance and only 2000 have received retraining. Approximately 65 firms have also received approximately 76 million dollars in assistance.³ Thus, based on the results of trade

³ See EC-I-175.

adjustment assistance provided to this industry, it does not appear that such assistance would effectively remedy the injury being experienced by this industry.

At the same time, I recognize that an effective adjustment assistance program could be of some benefit to this industry. Such a program would be particularly helpful for the workers in this industry who continue, and will continue regardless of any relief granted to this industry, to bear the brunt of the industry's necessary adjustment to the new competitive environment.

Similarly, the OMAs, while providing a temporary respite from increases in imports, had little effect in promoting the long term competitiveness of the industry, as evidenced by the current problems facing the industry. In fact, they may have actually encouraged the entry of new foreign suppliers and the upgrading of foreign shoe supplies into higher value categories. The OMA's may thus have exacerbated the current problems of the industry by artificially increasing competition in the traditionally strongest market niches of the domestic industry.

ESTABLISHMENT OF A TIERED QUOTA SYSTEM

Based upon my analysis of the nature of the injury being suffered by this industry, I have determined, as has Chairwoman Stern, that a system of targeted import

restrictions are necessary for this industry. As stated in the majority remedy opinion, neither adjustment assistance nor tariffs can effectively remedy the injury facing this industry.

A system of targeted restraints will provide the industry a needed breathing space from increasing imports, allow the industry time to implement the investments, consolidations and other actions it will need to be competitive once import restraints are lifted, reduce the artificial incentives for foreign suppliers to upgrade imports and encourage the efficient use of the resources of the domestic industry. Under the proposal I am making, imports will be rolled back and will not be permitted to increase above current levels until 1989. In an industry with low fixed costs this should be sufficient time, if the industry acts expeditiously, to accomplish the renovation it has stated it needs. At the same time, by targeting the restrictions, the artificial incentives inherent in quantitative restraints, i.e., to increase the value and quality of shipments subject to the restraints, will be minimized.

Choice of the Overall Limitation

Having chosen a targeted import restraint program as the effective remedy for this industry, I find and recommend, along with my colleagues on the majority, that

the overall level of this quantitative restraint should be 474 million pairs of shoes for that segment of the market valued above \$2.50.⁴ In determining that limiting imports to this level will effectively remedy the serious injury being experienced by the domestic industry, I note that the industry requested a considerably more restrictive program. I have carefully examined this proposal and find that I cannot agree with many of the assumptions upon which it is based. Nor do I believe that the program proposed by the domestic industry creates the proper incentives and disincentives needed to make this industry competitive once import restrictions are lifted.

In choosing to set the overall limit at 474 million pairs of shoes valued at over \$2.50, I am aware that my colleagues, who also have agreed with this basic limitation, reached it in different ways. It can be obtained using 1983 total imports and 1983 imports valued above \$2.50. It can also be obtained using annualized data from 1984. It is also a reasonable approximation of the average number of imports valued above \$2.50 for the years 1982, 1983 and 1984. The very fact that this volume

⁴ The values used in the segmentation of the overall limitation are customs values, that is, the value determined by the Customs Service as the basis for the assessment of duty.

represents the volume of imports in all these different contexts strengthens its use as the appropriate overall limitation.

This limit can provide a basis for effective relief of this industry. It represents a roll back of covered imports by 18 percent from full year 1984 levels. Imports of shoes in the covered category will be 100 million pairs less than in 1984. At the same time the limit recognizes that a cut in imports will reduce the total consumption of shoes in this country. It does not therefore reduce imports below the level which it is reasonable to believe that the domestic industry could replace.

Administration of the Targeted Quota

I concur with Chairwoman Stern, however, that placing a single limitation in the form of a 474 million pair quota on shoes valued over \$2.50 would not be effective relief for this industry. The historical experience with undifferentiated quotas on footwear is that the industry will be in a worse competitive condition once the quotas are lifted than they were when the quotas were imposed. I believe that the proposal I am making, along with Chairwoman Stern, will avoid this result.

First, all footwear valued at \$2.50 or below should be exempt from import restrictions. There is very little U.S. production of footwear comparable to the footwear

imported at \$2.50 or less. Restrictions on such footwear would therefore have little benefit for the industry as a whole. Further, by excluding this category of footwear, it is possible to concentrate the effect of restrictions on those categories of footwear where it will be most effective. Finally, it also provides an outlet for footwear-supplying countries that will reduce the incentive for them to increase and upgrade the value and quality of their shipments to compete with that segment of the market where U.S. production is concentrated.

Second, I recommend that for the first year,⁵ a specified number of import licenses, 110 million pairs of the total 474 million pairs, be reserved for athletic footwear. The impact of athletic footwear on the domestic industry is distinguishable from the impact of nonathletic footwear imports. Domestic athletic footwear production is, in part, dependent upon imports. Further, the impact of athletic imports on nonathletic domestic production is the result of fashion and consumer taste and is based more on the athletic-looking shoe, the so-called "athleisure" shoe, than the true athletic shoe.

I, therefore, propose that it is necessary to adopt, for purposes of the implementation of restrictions

⁵ The President should retain the flexibility to adjust the reserved categories and to reallocate them in the event they are not filled in a particular year.

on athletic footwear, a definition of such footwear that will allow a distinction to be made between athletic-looking shoes and true athletic shoes. The following would be a workable definition:

"Athletic and athletic-style footwear" means:

- (a) footwear which is designed for sporting activity and has, or has provision for the attachment of, spikes, sprigs, stops, clips, bars or the like;
- (b) skating boots, ski boots and cross-country ski footwear, wrestling shoes, boxing shoes and cycling shoes;
- (c) footwear, whether or not suitable for use as streetwear, which is designed principally for use:
 - (i) in playing court games (for example tennis, basketball, racketball, handball or squash) or
 - (ii) in performing rigorous physical activities such as running, jogging or aerobic dancing,
 the foregoing footwear described in subparagraph (c)(i) and (ii) other than footwear with attached heels, welt footwear, moccasins, soled moccasins, hiking boots and footwear of the slip-on type.

The key element of this definition is the use of the term "designed principally for use." Although similar to other limiting terms contained in the tariff schedules, it has not been used before in the footwear context. Although it will not be simple to apply, it should effectively distinguish between types of "athletic" footwear.

For athletic footwear, as defined above, the 110 million licenses, based on a small rollback in imports classified as nonrubber athletic footwear from 1984

levels, should avoid any major disruption for athletic producers while limiting the adverse impact of such footwear on domestic nonathletic production. In addition to those licenses reserved for athletic footwear, athletic footwear importers should be permitted to use those licenses which may be used to import nonathletic footwear should they wish to participate in the auction for such licenses.

The third category of shoes which must be differentiated comprises nonathletic shoes valued between \$2.51 and \$5.00. This is again a distinct portion of the footwear market. Imports in this category in 1984 totaled 200 million pairs, including athletic footwear. The portion of the overall limit reserved for this category would be 150 million pairs, 75% of 1984 imports. However, importers also would be able to use licenses obtained for the importation of footwear valued above \$5.00 to import footwear falling in this category (thereby permitting more than 150 million pairs to be imported in the first year) and falling in the athletic category (thereby permitting more than 110 million pairs of athletic footwear to be imported). This will increase the impact of the reduction of the remaining category, shoes valued above \$5.00.

Nonathletic footwear with a customs value above \$5.00 should be restricted to a maximum of 214 million

licenses during the first year of import relief. Seventy-five or more percent of domestic production is concentrated in the production of footwear comparable to this footwear. It encompasses those market segments in which we have witnessed several domestic manufacturers carving out successful niches. It is that range of production in which the domestic industry can most easily and efficiently replace the restricted imports.

Thus, the tiered quota system I am proposing would, in the first year, allow the importation of at least 110 million pairs of athletic footwear valued above \$2.50. It would also permit the importation of 150 million pairs of nonathletic footwear valued between \$2.51 and \$5.00. It would strictly limit nonathletic footwear valued above \$5.00 to no more than 214 million pair. Whether the full amount of 214 million pairs of nonathletic footwear valued above \$5.00 is imported will depend on market forces. In any event, importers and foreign producers will not be encouraged to shift production from less expensive and athletic footwear into the more expensive nonathletic category.

This quota system should remain in place for five years, as stated in the majority opinion. I also concur in the position stated in the majority opinion that any import restraint program should be gradually increased

over its last three years to prepare the industry for the return to a freely competitive environment. Increases in the quota quantities of 3 percent, 6 percent, and 9 percent, as set forth in the majority opinion, should accomplish this goal without undue disruption of production or trade.

IMPORT LICENSES

As the majority opinion states, I concur with my colleagues that an import licensing system based on the auctioning of such licenses will be the most efficient and effective way to administer the quotas. Specific authority for such an auction is contained in 19 U.S.C. §2581. This authority has never before been used in connection with an import relief recommendation by the Commission. The benefits of such an import licensing system are set out in the majority opinion.

I make two additional observations with respect to the operation of the licensing system. First, licenses should be auctioned on a quarterly basis and should be for importation for a limited time period. This should preclude or limit the build-up of inventories during particular periods and prevent periodic surges in imports.

Second, licenses should be transferable. It is necessary that any import restrictions be administered

with attention to preventing the system from excessive rigidity. By permitting the transfer of import licenses, a market for such licenses will undoubtedly develop. Such a market will help ensure the efficient allocation of the licenses, while retaining the maximum amount of the benefits of the quota within the United States.

RETROACTIVITY

I also concur with my colleagues Commissioners Eckes and Lodwick that the President should consider the retroactive application of this proposal. A major problem for the domestic industry in 1984 was a build-up of inventories in the first part of the year. Although reduced by the end of 1984, the inventories substantially reduced sales in the second half of the year. It is reasonable to believe that at least some portion of the import inventory was in response to attempts to anticipate the outcome of last year's investigation.

It is conceivable that a similar situation may develop this year, particularly since the time of the Commission's initial public vote in this investigation. If the President believes, on the basis of current import statistics, that a surge in imports has occurred in anticipation of the imposition of import restraints, he should consider applying this program, where practicable,

to those imports to prevent additional injury to the industry.

MONITORING

Congress has stated of section 201 relief:

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.⁶

In this investigation, the domestic industry, represented by the Footwear Industries of America (FIA) presented to the Commission an ambitious program for the renovation of this industry. It appears to me that a reinvestment and modernization program on the scale proposed by the FIA will be necessary if this industry is to regain its international competitiveness.⁷

I believe that it will be useful for the President, the Congress, and the public if the condition of the domestic industry is monitored during the period of import relief. This should include both the basic information

⁶ S. Rep. No. 1298, 93rd Cong., 2d Sess. 122 (1974).

⁷ I must note at this time that there is a very large difference between the amount of investment which the FIA projects must be invested for the industry to become competitive and that which the firms responding to the Commission's questionnaires stated they would invest if relief were to be granted.

which is currently prepared in the Commission's Quarterly Footwear Summaries, prepared for the Senate Finance Committee, as well as information regarding efforts being made by the nonrubber footwear industry to regain its international competitiveness. It is clear that relief for this industry will not be cost-free to the American economy. Those who bear those costs are entitled to be informed of what actions are being taken by this industry.

VIEWS OF VICE CHAIRMAN SUSAN W. LIEBELER

PART TWO - REMEDY

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REMEDY VIEWS OF VICE CHAIRMAN SUSAN W. LIEBELER

Part Two - Remedy

I. Introduction

The Commission has made a unanimous affirmative determination in the injury phase of this investigation, thus I must now consider what remedy recommendation to make to the President. The purpose of the escape clause is to provide "temporary relief for an industry suffering from serious injury, or the threat thereof, so that the industry will have sufficient time to adjust to the freer international competition."¹ Section 201 authorizes a petition for import relief "for the purpose of facilitating orderly adjustment to import competition."² An industry seeking escape clause relief "must include a statement describing the specific purpose for which import relief is being sought, which may include such objectives as facilitating the transfer of resources to alternative uses and other means of adjustment to new conditions of competition."³

The operative language of section 201(d)(1) is as follows:

If the Commission finds with respect to any article, as a result of its investigation, the serious injury or threat thereof described in subsection (b) of this section, it shall-

¹S. Rep. 1298, 93d Cong., 2d Sess. 119 (1974).

²19 U.S.C. 2251(a)(1) (1982).

³Id.

(A) find the amount of the increase in, or imposition of, any duty or import restriction on such article which is necessary to prevent or remedy such injury, or

(B) if it determines that adjustment assistance under parts 2, 3, and 4 of this subchapter can effectively remedy such injury, recommend the provision of such assistance, and shall include such findings or recommendations in its report to the President.⁴

The statute makes it clear that an affirmative determination by the Commission does not open the door to unrestrained relief. Any import relief⁵ recommended can only be the amount "necessary to prevent or remedy such injury."

Section 201 contemplates two bases upon which relief can be granted. First, the domestic industry can seek relief to facilitate the "more orderly" transfer of resources out of the industry than would otherwise take place. In such a case, the domestic industry will still have to shrink, and any relief granted is intended only to make the transition more orderly.

The second basis on which relief can be granted is to prevent or remedy serious injury or threat to the domestic industry. The domestic footwear industry has not argued that it wants a more orderly exit from the industry. Instead it

⁴19 U.S.C. 2251(d)(1) (1982).

⁵The term import relief is more narrow than the term remedy. Import relief includes all direct restraints on imports: tariffs, quotas, tariff-rate quotas, and orderly marketing agreements. Trade adjustment assistance is a remedy but it is not a form of import relief.

argued that relief will enable it to make new investment so that the market share of domestic producers will increase after the relief has expired.

Import relief can always delay the injury during the period of relief. The statute, however, requires that the import relief actually prevent or remedy serious injury. If import relief would not enable the industry to be competitive in the marketplace after relief expires, then there is no import relief that the Commission can recommend to the President.

II. My Relief Recommendation

The domestic footwear industry is experiencing a major contraction. Thus, any relief must prevent or remedy such a contraction by enabling the industry to achieve a long-run equilibrium at a level of output substantially above what it could have achieved without import relief.

-No Import Relief

The problem of the domestic footwear industry, however, is the long-run comparative advantage held by foreign producers. Thus, the only import relief that would prevent serious injury to the domestic industry is a permanent import restriction. The Commission is only empowered, however, to recommend temporary relief.⁶ It is not, however, the purpose of

⁶The erection of permanent barriers to import is in the hands of Congress and the President alone.

Section 201 to establish permanent barriers against fairly-traded imports. Rather, its purpose is to provide a domestic industry with temporary relief to adjust to new conditions of competition from imports. Temporary import relief can prevent or remedy injury caused by short-run problems.

Imported shoes are less costly to produce than domestic shoes and they are likely to remain so.⁷ This is a result of our nation's unmatched productivity and growth. Nations will, and should, specialize in the production of those commodities in which they have a comparative advantage. Fortunately, our country has a large capital stock which tends to provide labor with many productive employments. Our comparative advantage is in the production of goods that use a high ratio of capital to labor. Shoes, however, are produced with a low ratio of capital to labor. Therefore, American footwear cannot be produced as cheaply as foreign footwear.

The availability of inexpensive imports permits consumers to purchase less expensive shoes, and allows the valuable capital and labor used in the footwear industry to shift to

⁷Prehearing Brief of Footwear Industries of America, Inc., Amalgamated Clothing and Textile Workers Union, AFL-CIO and United Food & Commercial Workers International Union, AFL-CIO, at 53-57, U.S. Int'l Trade Comm., Inv. No. TA-201-55 (1985) (hereinafter FIA Prehearing Brief).

more productive pursuits.⁸ The decline of the American footwear industry is part of a dynamic but sometimes painful process. Congress, by only providing for temporary relief, has recognized that our continued prosperity depends on our willingness to accept such adjustments.

The industry has sought so-called temporary import relief before. The Commission has conducted approximately 170 investigations relating to this industry. In addition to 155 adjustment assistance investigations conducted between 1963 and 1974 under Section 301 of the Trade Expansion Act of 1962, the Commission has conducted one escape clause investigation under the predecessor to Section 201, two Section 701 investigations, two section 731 investigations, and five section 751 investigations. In 1982 the industry also initiated investigations with the U.S. Trade Representative under Section 301 of the 1974 Trade Act.

This is the fourth footwear case under section 201 and so far the industry has obtained relief twice. The 1975 petition resulted in adjustment assistance, the 1976 case resulted in Orderly Marketing Agreements (OMA's) with Taiwan and Korea, the

⁸This situation is not unique to the footwear industry. The classic example is agriculture, where the share of the labor force engaged in farming declined from 50 to 3 percent over the last one hundred years. This shift did not produce a 47 percent unemployment rate; it freed labor to produce cars and computers, etc. Such changes have made our country the richest nation in the world.

two major suppliers of imported footwear. Although the industry tried to postpone the expiration of those OMA's,⁹ President Reagan did not seek to extend them and they expired in 1981.

The escape clause is aimed at giving temporary relief to an industry so that it will have enough time to adjust to freer international competition.¹⁰ This industry has had ample time and opportunity to adjust to freer international competition. In its 1976 brief to the Commission in Investigation No. TA-201-7, Nonrubber Footwear, petitioners, represented by the same law firm that represents the domestic industry in the current proceeding, made essentially the same plea for "temporary" relief:

Petitioners recognize that the Trade Act of 1974 only authorizes temporary relief from the influx of imports for the purposes of permitting an industry to adjust to new conditions of competition. The imposition of temporary mandatory quotas for the full period permitted under the terms of the Act would do just that by enabling the domestic industry the respite necessary to regain its economic health and provide more vigorous competition to foreign produced footwear at the termination of such relief.

In the interim, increased orders to domestic producers would not only generate increased profits because of the sheer rise in the volume of sales but additional orders would also enable domestic producers to return to efficient levels of capacity utilization, thereby increasing

⁹After another investigation the Commission advised the President that the termination of the OMA with Taiwan would adversely affect the domestic industry.

¹⁰S. Rep. No. 1298, 93rd Cong., 2d Sess. 119 (1974).

productivity. Such profits could then be utilized for capital expansion and additional research and development, thereby leading to greater technological and marketing strength.

In addition, normal economic forces would work to the benefit of the domestic industry so that it would be more competitive in terms of price by the time the quotas were removed.¹¹

Speaking through the same counsel in the next footwear case, petitioners again argued that "temporary" relief would enable them to become more productive and competitive:

On the assumption that the industry is given the quota relief for the five-year period, what actions can be expected of domestic shoe manufacturers to enable them to become more competitive with imports once the transitional period of restraint is terminated?

In specific terms, we would suggest that domestic footwear manufacturers, restored to greater confidence over their economic future, would make new investments in plant and equipment thereby making the industry even more productive and efficient.

Greater sales can be anticipated under the quota program which will lead to a return to efficient levels of capacity utilization with longer runs resulting in economies of scale and lower unit production costs which would thus strengthen the industry's overall competitive position. This should also result in a strengthened financial position for companies in the industry, permitting them to attract more capital and more reasonable interest rates, thus enabling them to invest in new plant and equipment and to pay for additional research and development - both technical and marketing. Greater technological and marketing strength will, thus, be an inevitable result improving the industry's competitive position even further. At the same time, there will be a

¹¹Brief on behalf of the American Footwear Industries Association, Boot and Shoe Workers' Union and United Shoe Workers of America, at 81, U.S. Int'l Trade Comm., Nonrubber Footwear, Inv. No. TA-201-7 (1976) (hereinafter Footwear I).

narrowing of price gap between domestic and foreign shoes. ¹²

The industry is once again arguing that during the period of import relief they will modernize their plants and equipment and increase productivity. The domestic nonrubber footwear industry has presented an ambitious five-year \$697 million plan to reduce costs and become more competitive with imports by developing and applying new technologies throughout the industry. The industry claims that by implementing technologies already within its grasp it will improve domestic productivity by 25 percent, thereby eliminating the 15 percent price advantage of imported footwear.

If I believed that: 1) import relief would allow the industry to implement this plan; 2) the industry would not be able to implement this plan without import relief; and 3) that the plan would allow the industry to achieve a long-run equilibrium characterized by significantly greater production than it would have without relief, then the statute would compel me to recommend the import relief necessary to realize the plan.

The success of the domestic industry's plans rests on several questionable assumptions. First, the petitioners

¹²Brief on behalf of the American Footwear Industries Association, Boot and Shoe Workers' Union and United Shoe
(Footnote continued to page 179)

assume that the price advantage of imported footwear that the domestic industry must overcome is only 15 percent,¹³ but respondents have suggested that the price advantage runs closer to 25 percent.¹⁴ The price advantage enjoyed by foreign footwear producers appears to be considerably higher than 15 percent.¹⁵ Under such a cost advantage, domestic footwear producers may not regain a competitive advantage even if they make the proposed modernization expenditures and even if these expenditures reduce costs by the amount indicated by the

(Footnote continued from page 178)
Workers of America, at 57-58, U.S. Int'l Trade Comm., Nonrubber Footwear, Inv. No. TA-201-TA-18 (1977) (hereinafter Footwear II).

¹³According to the domestic industry's brief, however, the Korean cost advantage in producing the typical ladies' pump is over 30 percent of the cost in the U.S. FIA's Prehearing Brief at 55-56.

¹⁴Posthearing Brief of Korean Footwear Exporters Association, at 16-17, U.S. Int'l Trade Comm., Nonrubber Footwear, Inv. No. TA-201-55 (1985) (hereinafter, KFEA Posthearing Brief); Posthearing Brief of Volume Shoe Corporation in Opposition To A Finding That Increased Imports Are A Substantial Cause of Serious Injury Or Threat Thereof at 22-23, U.S. Int'l Trade Comm., Nonrubber Footwear, Inv. No. TA-201-55 (1985) (hereinafter, Volume Shoe Posthearing Brief).

¹⁵Based on actual purchase experience verified by invoices, the wholesale price advantage of the imported footwear is probably closer to the 25 percent figure. The respondents estimated an average 25 percent import price advantage based on actual wholesale price comparisons or directly competing domestic and imported footwear, whereas the petitioners estimated the 15 percent figure based on the average unit value comparison of all domestic and imported footwear. Aggregate unit value comparisons involving a highly differentiated product like footwear are potentially misleading.

petitioners. Second, the petitioners claim that the effects of their proposed modernization efforts will reduce domestic producers' costs by 11 percent and, thereby, allow domestic producers to eliminate most of the 15 percent price advantage of imported footwear.¹⁶ This prediction comes from the Kaplan report, however, which was based on the production of five types of leather shoes only,¹⁷ not on nonleather shoes which account for a significant portion of the United States nonrubber footwear market, especially in the low cost segment which is supplied primarily by imports. Because the major nonleather upper materials are much cheaper than leather, neither the material savings nor labor savings suggested by results of the Kaplan report may apply to nonleather footwear like plastic and fiber shoes. Third, the petitioners assume that the foreign producers will not improve their productivity over the next five years, while domestic productivity will jump

¹⁶The specific modernization expenditures and their effects in reducing domestic producers' costs are based entirely on findings of the Kaplan report. The Kaplan study was financed by domestic nonrubber footwear producers to determine what their industry must do to become competitive with imported footwear.

¹⁷The five leather shoes used in the Kaplan study appear to have a simple upper design and do not require the greater labor content of more intricate designs. As a result, the calculated cost savings may not apply to more complex shoe designs requiring intricate handwork. Volume Shoe Posthearing Brief at 24-25.

by 25 percent as a result of import relief.¹⁸ It is more likely, however, that foreign production will continue to increase. Productivity in the Taiwan and Korean footwear industries, the two largest foreign suppliers of footwear to the United States market, has reportedly increased by 4 to 7 percent annually during the last several years while domestic productivity has remained relatively unchanged. It is not clear why one would not expect this trend to continue. Fourth, the petitioners assume that the domestic industry will spend about \$697 million dollars in efforts to reduce their production and distribution costs. Although it is difficult to predict how much the industry will actually spend to modernize, individual firm responses to the Commission's confidential questionnaires indicate that domestic producers plan to spend only about \$100 million on these efforts during the requested relief period.¹⁹

Finally, there is the fundamental question of what connection there is between import relief for the footwear industry and investment in new plant and equipment that will make the industry competitive. If good investment opportunities are available, they will be exploited regardless

¹⁸KFEA Posthearing Brief, at 16-17; Volume Shoe Posthearing Brief, at 27.

¹⁹Report at A-96 , Table 57.

of any relief provided for this industry. It might be argued that the domestic footwear industry could become more competitive if it could modernize; and that it needs the more favorable cash flow generated by quotas to reinvest in the industry and to encourage financial institutions to lend to the footwear industry.

If modernization of plant and equipment presents favorable investment opportunities for the footwear industry, the capital market would provide financing. Although the increased cash flow which could result from import relief would be likely to improve the equity portion of the footwear producers' balance sheets and make it more likely that they could borrow funds or reinvest, there are other means by which these producers could obtain investment funds. They could issue additional equity or merge with an equity-rich firm. Alternatively, if the market believes that good investment opportunities exist in the footwear industry, but that the managers of some footwear firms are not up to their task, then such firms would be ripe for takeover.

If there is investment in plant and equipment that can be expected to generate a competitive rate of return, then someone, whether it is the current producers or others, will find it in their self-interest to make those investments. To believe that the revenues generated by import relief are necessary to finance this new investment reflects a fundamental

misunderstanding of the way in which capital markets operate. If the investment is worthwhile, it does not matter whether the funds used to purchase the investment come from retained earnings, new debentures, bank loans, or new equity ownership. In our highly sophisticated capital market, a project which would ensure the profitable survival of the footwear industry would not go unfunded.

If investment in the domestic industry is not rational because expected costs are likely to exceed expected revenues, then: (1) it is not in the industry's interest to make such investment; and (2) it is not in the nation's interest that the industry do so. If a firm cannot profitably make such an investment, it means that the resources can more productively and profitably be employed elsewhere in the economy.²⁰ In spite of the efforts by the domestic industry to suppress imports, in spite of the "temporary" relief, in the form of OMA's with Korea and Taiwan, and in spite of the present 9 percent tariff on nonrubber footwear, the industry has been shrinking. Between 1981 and 1984, 207 plants closed (gross), 94 of these closing occurred last year. The closing of unprofitable plants is a necessary adjustment. Import relief at this stage will retard this process and encourage entry into a shrinking industry.

²⁰Thus, if the President should provide this industry with import relief, it would be unwise to condition it on reinvestment in the industry.

I do not believe the domestic industry's investment plan is credible or viable. The market has already indicated that additional investment or growth in this industry is unwise. Because there is no temporary relief which would prevent or remedy serious injury, I recommend that no import relief be given to this industry.

III. Adjustment Assistance

I do, however, recommend that the President provide adjustment assistance²¹ to the domestic footwear industry under Parts 2 and 4 of Chapter Twelve of the Trade Act of 1974 (Adjustment Assistance For Workers and Communities).²² "The Commission shall . . . (B) if it determines that adjustment assistance under parts 2, 3 and 4 of this subchapter can effectively remedy such injury, recommend the provision of such assistance . . ." ²³

The Senate Report clarifies a number of points about the adjustment assistance program. First, it states that the

²¹I am aware that the adjustment assistance program has been sharply curtailed and may be eliminated. Nothing in this opinion should be construed as a statement in support of the existence of such a program. Section 201 requires me to make certain "recommendations" to the President. This language supports the popular misconception that Commissioners play advisory roles. Section 201 does not permit me to consider many factors, such as the costs of my recommendation and its effect on consumers, which are relevant to making informed recommendations.

²²19 U.S.C. 2271-2322 (1982).

²³19 U.S.C. 2251(d)(1) (1982).

Commission cannot recommend both import relief and adjustment assistance.²⁴ Second, the Committee states that the addition of the provision concerning adjustment assistance was intended "to permit the Commission to recommend adjustment assistance . . . in circumstances in which the Commission determines that such assistance would be a more effective remedy . . . than import relief."²⁵ Since the provision of certain types of adjustment assistance encourages workers and firms to exit from an industry, it would appear that Congress intended to give adjustment assistance to ease the pain of exit from an industry. This is a far more effective remedy for industries such as footwear which face irreversible decline.

In providing for Trade Adjustment Assistance, Congress has decided it is appropriate to redistribute wealth from the rest of society to participants in import-competing industries.²⁶

²⁴The Commission can "recommend adjustment assistance in lieu of import relief." S. Rep. 1298, 93d Cong., 2d Sess. 123 (1974) (emphasis added).

²⁵Id. (emphasis added).

²⁶Adjustment assistance transfers wealth to displaced workers in import competing industries from the rest of society. In a dynamic economy such as ours, we are all subject to the vagaries of the marketplace. Changes in demand, technology, or imports, can result in a loss of our current employment. Displaced shoe workers are no different than the slide-rule makers or the hatters. Each has a once valuable skill for which there is no longer a market. It would be impossible to identify all the individuals who suffer dislocations because of
(Footnote continued on following page)

The statute does not permit me to consider the costs of such programs. It is, however, appropriate for me to consider the effect of the various programs on the domestic footwear industry, since the President may decide to provide trade adjustment assistance.²⁷

A declining industry presents its participants with new decisions. An unemployed worker must decide whether to (1) retire; (2) wait to be recalled to work; (3) relocate; (4) obtain training in a new skill in a different industry; (5) seek and accept alternate employment; or (6) withdraw from the work force.

Each affected individual is best placed to weigh the costs and benefits of the various alternatives and make the choice that maximizes his or her expected welfare. There is no reason to believe that all workers should obtain retraining or seek relocation, or any of the other alternatives. The life circumstances of each individual differ, and consequently, their optimal choices differ. Government programs distort the underlying costs and benefits of the choice set faced by

(Footnote continued from previous page)
one or more market phenomena. Trade adjustment assistance draws distinctions between those individuals who are injured by imports and those whose injury may be even more severe but are either the victims of something other than increased imports

²⁷Section 201(a)(1)(B) of the Trade Act of 1974, 19 U.S.C. 2252 (1982).

displaced workers by paying them for certain choices rather than others.

The adjustment assistance program offers unemployed workers several types of payments, including Trade Readjustment Allowances (Supplementary Unemployment Benefits);²⁸ employment services;²⁹ training;³⁰ job search allowances;³¹ and relocation allowances.³²

The critics of adjustment assistance³³ note that less than 1 percent of individuals affected received either job search or relocation assistance³⁴ and treat that as evidence of the failure of the program. The program is designed to help people find new work. It has clearly failed to do that, and in fact, with its heavy emphasis on supplementary unemployment

²⁸19 U.S.C. 2292 (1982).

²⁹19 U.S.C. 2295 (1982).

³⁰19 U.S.C. 2296 (1982).

³¹19 U.S.C. 2297 (1982).

³²19 U.S.C. 2298 (1982).

³³See, e.g., Charnovitz, Trade Adjustment Assistance: What Went Wrong?, The Journal/The Institute for Socioeconomic Studies Vol. IX, No. 1, Spring 1984, at 26; Ramseyer, Letting Obsolete Firms Die: Trade Adjustment Assistance in the United States and Japan, 22 Harv. Inter. Law J. 595 (1981); Worker Adjustment Assistance: The Failure & The Future, 5 Northwestern J. of Inter. Law & Bus. 394 (1983).

³⁴Restricting Trade Acts Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions, Report to Congress by the Comptroller General at 22 (Jan. 15, 1980).

benefits, it undoubtedly has encouraged workers to remain unemployed longer than they would otherwise.³⁵

This result is certainly perverse if the program's purpose is the rapid re-employment of the displaced workers.

Since Congress intended for Trade Adjustment Assistance to help displaced workers find new employment, I recommend that it be aimed at that purpose in this case. Employment services, training, job search cost reimbursement allowances and relocation allowances should be provided for footwear workers.³⁶ These forms of adjustment assistance are least costly and encourage workers to find new employment.

I also recommend adjustment assistance to communities under Part 4 of Chapter 12 of the Trade Act of 1974.³⁷ Such assistance would provide loan guarantees to private parties to invest in production facilities in a community in which footwear plants have had to cut back or close operations. Particularly in Maine, where footwear firms are often the major

³⁵One critic wrote:

What no one counted on was the side effects associated with such generous long-lasting income replacement. Given the circumstances, it is hardly surprising that TAA could cause them to defer training and relocation. Barth, Dislocated Workers, The Journal/The Institute for Socio Economic Studies, Vol. VII, No. 1, at 27, (Spring 1982).

³⁶I do not recommend that trade adjustment allowances be provided.

³⁷See 19 U.S.C. 2371-2374 (1982).

employer in small, somewhat isolated communities, such loan guarantees will diminish the likelihood that whole communities would be injured by the closing of a shoe factory.³⁸

I do not recommend adjustment assistance for firms under Part 3 of Chapter 12 of the Trade Act of 1974.³⁹ This provides for technical assistance, loans and loan guarantees to firms. Payments to firms will retard rather than encourage the industry's adjustment to import competition, and would work at cross purposes to adjustment assistance to workers.

IV. Import Relief

A. Available Forms of Relief

Although I have determined that there is no relief that would prevent or remedy the serious injury to the domestic nonrubber footwear industry, the Commission majority has recommended quotas. Since the Commission has made an affirmative determination in the injury phase of these proceedings and since the Commission majority has recommended

³⁸Community adjustment assistance programs may cause sub-optimal investment and result in inefficient use of resources. The fact that firms in other industries have not located in communities on their own suggests that it is not advantageous to do so. Congress, however, has decided to subsidize communities adversely impacted by import competition and I, therefore, recommend adjustment assistance for communities.

³⁹19 U.S.C. 2341-2354 (1982).

quotas, the President now has the option of providing import relief.

If the President decides to provide import relief, he can use any one or more of the following tools:

- (1) Proclaim an increase in, or imposition of, any duty on the article causing or threatening to cause serious injury to such industry;
- (2) Proclaim a tariff rate quota on such article;
- (3) Proclaim a modification of, or imposition of, any quantitative restrictions on the import into the United States of such articles;
- (4) Negotiate, conclude and carry out orderly marketing agreements with foreign countries limiting the export from foreign countries and the import into the United States of such articles.⁴⁰

Because the President may decide to impose some form of import relief, I provide my views on its most appropriate form.⁴¹ In so doing, I note that the relief recommended by the majority is intended to restore the industry to its condition at the end of 1983.⁴² I will assume that this is the desired level of benefit to the domestic industry. In designing a remedy one should try to find the least costly remedy which will provide the desired benefit. There are less costly and more efficient ways to provide the desired benefit

⁴⁰19 U.S.C. 2253(a)(1)-(4) (1982).

⁴¹I do not, however, recommend that any import relief be granted.

⁴²See supra at 130. (Additional Remedy Views of Chairwoman Paula Stern).

to the domestic industry than the quotas recommended by the majority. I will now discuss the various forms of import relief available to the President.

B. Tariffs

If the President decides to provide import relief, I recommend a system of tariffs, instead of quotas. There are several reasons why a system of tariffs is preferable to a system of quotas.⁴³

The first reason for using a tariff instead of a quota is uncertainty about the success of the industry's plan. The domestic industry claims that the foreign cost advantage is only 15 percent, a figure which has been disputed by a number of respondents, and that with five years of import relief it will reduce the foreign cost advantage to 2 percent.⁴⁴ If the President accepts the industry's plan and provides relief, he can impose a system of tariffs based on the industry's assumptions that will provide as much protection as the proposed quota. Thus, if the industry's projections are correct and they are able to reduce the cost gap, they will

⁴³For every unit tariff there is a quota that will produce the same equilibrium under conditions of no uncertainty. Comparisons between tariffs and quotas are made assuming this sort of equivalence. This is shown in my general discussion of tariffs and quotas set forth in Appendix B to my views.

⁴⁴FIA Prehearing Brief, at 16-17 of Appendix 4, U.S. Int'l Trade Comm., Nonrubber Footwear, Inv. No. TA-201-55 (1985).

benefit as much from the tariff as from the equivalent quota. On the other hand, if the industry cannot reduce the gap, in which case their plan will almost certainly fail, then the tariff will provide less protection than the quota and the cost to society will be lower. The tariff also has the benefit of taking petitioner's plan at its word.⁴⁵

A related reason for choosing tariffs over quotas is that tariffs will not insulate the industry as much from the discipline of the marketplace. The goal of the statute is to facilitate the adjustment to import competition. Competition from imports is felt through the presence of equivalent imports at competitive prices. If there are changes in the relative costs of producing domestic and foreign shoes, a tariff will allow those changes to be felt in the market, while a quota will not.

Another reason for preferring a tariff is that an ad valorem tariff, as opposed to a unit tariff, does not cause an upgrading of imports and a downgrading of domestic production.⁴⁶ With a quota or unit tariff, the cost of a

⁴⁵The domestic industry's unwillingness to accept a tariff instead of a quota suggests that they do not think their plan is credible.

⁴⁶There are two kinds of tariffs: unit tariffs and ad valorem tariffs. With a unit tariff, the amount of the tariff is the same for all units regardless of price. For example, a
(Footnote continued to page 193)

quota right used to import a pair of shoes is the same regardless of the price.⁴⁷ Shoes, however, are not fungible. They vary in quality and, therefore, in price. A quota will increase the relative price of inexpensive imported shoes and encourage importers to upgrade their imports. It will thereby encourage domestic production of relatively inexpensive shoes more than it will encourage domestic production of relatively expensive shoes. With an ad valorem tariff, however, the prices of all shoes are increased by the same percentage, although by a different absolute amount; and accordingly, the relative prices of all pairs of shoes remain the same.⁴⁸

Thus, the ad valorem tariff encourages domestic manufacturers to produce all shoes without influencing their choice between inexpensive and expensive shoes. Such an incentive is important in light of the temporary nature of the relief granted under Section 201. It would be a peculiar remedy indeed that for five years encouraged the nonrubber

(Footnote continued from page 192)
tariff of \$2.00 on a pair of shoes is a unit tariff. With an ad valorem tariff, the amount of the tariff is a fixed percentage of the price, so the amount of the tariff varies with the price. For example, a 15 percent tariff on a pair of shoes is an ad valorem tariff.

⁴⁷This is true for both auctioned quotas and allocated quotas.

⁴⁸See Falvey, The Composition of Trade Within Import Restricted Product Categories, 87 J. Pol. Econ. 1105 (1979).

footwear industry to produce precisely those shoes for which it suffers the greatest comparative disadvantage and where improved technology is likely to be least effective in reducing costs.

Therefore, I believe that the President should impose a system of tariffs, preferably ad valorem tariffs if he decides to grant import relief.

C. Tariff-Rate Quotas

If the President decides to impose some form of a quota, I recommend a tariff-rate quota.⁴⁹ With a tariff-rate quota the units specified in the quota can enter the United States without paying the tariff, whereas units above the quota limit have to pay the additional tariff.⁵⁰ The benefit of the tariff-rate quota over the quota is that with the tariff-rate quota there is a limit on the distortion that can be caused by the relief.

For every quota there is an equivalent tariff. I suggest that the President set a tariff two or three percentage points above the tariff which would be equivalent to the quota as the tariff portion of the tariff-rate quota. Such a system will give the industry the benefits of the quota if it is correct, but it will limit the costs of relief to society if it is wrong.

⁴⁹If the President imposes tariff-rate quotas, I recommend that the quota portion be auctioned.

⁵⁰All imports have to pay the current tariff which is 9 percent.

D. Auctioned Quotas

There are significant benefits of an auctioned quota over quotas or Orderly Marketing Agreements allocated to importers or importing nations.⁵¹ When quota rights are simply given away, or are sold at prices substantially below their value, the revenue⁵² the Treasury would receive if the quota rights were sold is given to the parties who receive the quota rights.⁵³

There is an additional benefit from selling as opposed to assigning quota rights.⁵⁴ When quota rights are assigned and

⁵¹See Copper, at 70 n.14 (Views of Vice Chairman Susan W. Liebeler).

⁵²The Commission's Office of Economics estimates that if the majority's recommendation is adopted, the value of the quota rights will be \$519 million in the first year alone.

⁵³There is at least a theoretical possibility because of the large market share of imports that some enterprising entrepreneur could make a profit by bidding for the entire quota allocation, only use part of that allocation, and thereby raise prices. Such an attempt to monopolize would be actionable under the Sherman Act.

⁵⁴One advantage of an ad valorem tariff over a quota is that the tariff does not cause foreign suppliers to change their mix of shoes. An auctioned quota will not cause an upgrading if importers bid for the quota rights not by making a bid in dollars per pair of shoes, but as a percentage of the Custom's value of the shoes. With such a system, there would be a market price for the quota rights as a percentage of price, and the auction winners would pay for their quota rights only when their shoes are imported and valued by Customs. A quota where the bids are a percentage of the value of the imported product is more restrictive than one where the bids are in fixed dollar

(Footnote continued to page 196)

are not transferable,⁵⁵ then there is no way to be sure that the parties with the rights are the providers of the shoes consumers value most.⁵⁶ When the rights are sold, the importers that will be able to pay for the quota rights will be the ones that have the shoes consumers value most.

E. Orderly Marketing Agreements

The fourth option available to the President is to negotiate orderly marketing agreements (OMA's).⁵⁷ This form of relief was granted in 1977 following a previous Section 201 investigation.⁵⁸ The effects of an OMA are equivalent to the effects of assigned quotas.

F. Market Segment Quotas

Assuming the President decides to impose a quota, he must decide whether to impose one quota covering all imported shoes or different quotas covering different market segments. In addition, he must decide whether to exclude specific

(Footnote continued from page 195)
amounts because the former prevents the upgrading of imports. Thus, if such a bidding system is selected, the quota should be expanded for it to be equally restrictive.

⁵⁵I recommend that if quota rights are assigned that they be transferable.

⁵⁶J. Hirshleifer, Price Theory and Applications 216-20 (2d ed., 1980).

⁵⁷With OMA's the United States does not owe compensation under the GATT.

⁵⁸Footwear II. OMA's were negotiated with Taiwan and Korea.

segments of the market from any quota. There are a number of benefits and problems associated with market-segmented relief. It is my purpose here to discuss them in order to bring them to the President's attention. I make no recommendation on whether market-segmented relief is appropriate.

The intended beneficiaries of any quota presumably are the domestic producers of shoes. U.S. production is not significant in every segment of the nonrubber footwear market. For example, foreign producers have such a large comparative advantage in the production of athletic footwear that domestic manufacturers are unlikely to engage in its production unless extremely high barriers to trade are erected. Most domestic production of nonrubber footwear is of high value-added shoes. Thus, if the purpose of import relief is to stimulate domestic production during the relief period, a higher tariff or lower quota should be provided to the segments of the market where domestic production is most highly concentrated and where supply is relatively elastic. Thus, theoretically at least, athletic footwear should either be excepted from any system of quotas or entitled to a generous quota to reflect the high market share of imports and the relatively low cross-elasticity of demand between athletic footwear and domestic nonrubber footwear.

Theoretically, it is possible to design a quota structured to provide the greatest amount of help to the domestic industry

at the least cost to the rest of the nation. Crafting such a remedy is in some respects similar to creating an optimal sales tax. In taxation theory, if the goal is to maximize the revenues that the government receives while distorting economic allocation as little as possible, the optimal taxation scheme entails placing the highest taxes on those commodities with the most inelastic supply and demand curves.⁵⁹

There are a number of problems in applying this technique here. The primary theoretical problem is that unlike the taxation case in which the maximand is the revenues collected by the state, the maximand of our import barrier has a more ineffable character. We seek to provide the greatest prospect for the future viability of the domestic industry. The connections among that viability, the shapes of the relevant supply and demand curves, and the incentives to invest the revenue generated by import relief in the industry are obscure.

Even assuming that one could theoretically specify a least burdensome tariff or quota, there are a number of practical problems that prevent its effective implementation. Although shoes are neither fungible nor identical, neither are they neatly separable into clearly distinct groups. Thus, it is

⁵⁹In the technical economic literature of public finance, distortion minimizing tariffs, or quotas, and taxes, are known as Ramsey prices.

doubtful that we could devise subcategories that Customs could administer at reasonable cost and which clever profit maximizing importers or manufacturers could not circumvent.

The Commission majority has recommended the exclusion of footwear with a customs value \$2.50 or below, and Chairwoman Stern and Commissioner Rohr and have recommended separate quotas for shoes based on their customs value. These attempts reflect the laudable goal of not overburdening the consumer by restricting shoes that American firms do not produce, and attempting to limit the distortions that a quota would otherwise generate. However, the exclusions and categorizations present the problems I just discussed. The definition of athletic footwear and its distinction from non-athletic footwear is not clear. Therefore, excluding or segmenting athletic footwear would place a large burden on Customs and would induce product characteristics and labeling changes by manufacturers in order to fall within the excepted category. Similarly, price segmentation of the quota will burden commerce and lead to creative attempts by manufacturers to get around the quota, such as importing shoes without boxes or laces. The world is a complicated place inhabited by people who seek their own welfare. The straightforward distinctions we contemplate in our offices can lead to unanticipated results.

g. Summary

I recommend that if the President imposes quotas they should be global ones and auctioned to the public. The auction

held for Treasury bills can serve as a model for any quota auctions. The quota rights should be divided into commercially practical units and all purchasers of rights in the same quota should pay the same price.

IV. Cost-Benefit Analysis

In making my remedy recommendation I did not consider the costs of import relief or adjustment assistance. Section 201 does not permit the Commission's recommendation to be based on considerations of consumer welfare or social welfare costs. The U.S. Trade Representative has, however, asked the Commission to analyze these costs in all Section 201 cases because they are relevant to the President in deciding whether to give relief. The parties extensively briefed the costs and benefits of relief to us. I shall briefly address these issues.

The consulting firm retained by the domestic industry, ICF Inc., provided the Commission with an economic analysis of the costs and benefits of the domestic industry's proposed quota⁶⁰ which yields a net benefit to the United States from the quota.

ICF estimates that 48,000 jobs will be saved and 23,200 to 28,700 jobs will be created by the proposed quota. According to ICF, the quota benefits are the employment gains computed by

⁶⁰FIA Prehearing Brief at 85-91.

multiplying the number of jobs saved (and created) by the annual salary.

ICF also used a macro-economic approach to measure the quota benefits. According to ICF, the proposed quota would transfer approximately \$900 million to the U.S. economy each year. Using an income multiplier of 2.0, ICF estimates the direct benefits of the quota to be about \$1.8 billion a year.

The economic costs of the proposed quota include the increase in consumer prices and a consumption distortion effect (that is to say, a welfare loss to consumers who would forego purchasing footwear as a result of quota induced price increases). In the first three quota years these costs exceed \$400 million a year. As a result of anticipated price declines, these costs then drop significantly and are positive in the last year of the quota and thereafter. Comparing the costs and benefits of the quota, ICF claims that the proposed quota will produce large net benefits to the United States economy.

The flaws in this analysis were explained by the Federal Trade Commission (FTC) in their helpful and informative Posthearing Brief.⁶¹ In Appendix A of the FTC brief, the FTC's economic expert, Dr. Morris Morkre, laid bare the

⁶¹Federal Trade Commission, Posthearing Brief (hereinafter, FTC Posthearing Brief).

methodological flaws that underlie the ICF approach. According to Dr. Morkre, the problem is that ICF ignores the opportunity cost of labor, assuming instead that workers will be permanently unemployed and that those who retire from the work force place no value on their lifestyle. In 1984, however, the mean duration of unemployment among unemployed nonrubber footwear workers was 17.4 weeks. Therefore, the direct employment benefits of the quota are short-lived, equal only to the unemployment costs saved by the quota.⁶²

The flaw with the macro-economic approach, according to the FTC, is that it is based on a fundamental misunderstanding of international trade. According to ICF, the quota will transfer funds to the United States that would otherwise go abroad. The response of the FTC is as follows:

This interpretation of the effect of a reduction in spending abroad ignores the fact that individuals in the United States choose to purchase foreign-made footwear and, as a consequence, they also choose to exchange dollars for foreign shoes. That is, consumers are not wasting or throwing away income or wealth in this transaction. They are obtaining goods that they value at least as highly as the money spent (or else they would not purchase the shoes in the first place). Moreover, using the concept of consumer surplus (see the FTC's Prehearing Brief, Appendix C, p. 21), consumers derive a benefit from such purchases over and above the amount spent.

In contrast to Mr. Reilly's [the ICF economist] assertion, the quota does not lead to a transfer of wealth (or income) to the United States; the true situation is just the reverse. As a consequence, the foundation of Mr.

⁶²Id. (Appendix A), at 13-15.

Reilly's macro-economic approach, the injection of wealth into the United States, evaporates. The quota does not transfer wealth to the United States; rather it implies a destruction of real income in the form of reduced consumer surplus. The rest of his analysis, i.e., the multiplier operation, is meaningless.⁶³

I find the cost-benefit analysis of the FTC and of our own Office of Economics to be more rigorous and reliable than that of the domestic industry.

Our Office of Economics has estimated the costs of various forms of import barriers, assuming no retaliation by any of our trading partners.⁶⁴ It evaluated the effects of the majority's quota proposal. One estimate by our economists is that under such a quota, shoe prices would increase on average 15 percent for imported shoes and 5 percent for domestic shoes. Consumers would pay an extra \$832 million each year for shoes. The gain to those in the domestic shoe industry from such a quota would be \$681 million, and 24,000 new jobs would be created. A translation of this sum into the cost per job reveals that consumers would pay approximately \$35,000 each year for each \$14,000 a year job saved. These costs estimates are being provided as part of this report. I believe that these estimates are conservative. Using a slightly lower

⁶³FTC, Posthearing Brief, Appendix A, at 15-16.

⁶⁴A summary of their analysis is set forth in Appendix C to my views.

domestic elasticity of supply figure, the price increases to 8.2 percent for domestic shoes and 17 percent for imported shoes and consumer costs exceed \$1 billion a year. The added domestic employment shrinks to 17,500 jobs, which translates into a cost per job of \$60,000. These estimates do not include any additional costs due to retaliation. This is a net social welfare cost of \$680 million in the first year. Where does the \$680 million go? Nearly all of it, \$600 million, would go to foreign shoe producers.⁶⁵ The remainder is lost as a result of interfering with the market process.⁶⁶

V . Conclusion

In summary, I recommend that the President place no additional restraints on nonrubber footwear imports. Because the statute appears to require adjustment assistance in circumstances such as these, I recommend adjustment assistance designed to re-employ displaced footwear workers as rapidly as possible. If the President decides to raise import barriers, I

⁶⁵Import relief which benefits foreign producers more than domestic firms would be a peculiar remedy indeed. If either a tariff is used or quota rights are sold, the U.S. Treasury gets the \$600 million.

⁶⁶There is one other important effect of import barriers. They generally raise the value of the dollar, an unwelcome event to participants in export industries and other import-competing industries. As conditions in import-competing industries worsen because of any additional import restraints on footwear, they will seek their own relief and impose still greater costs on consumers.

recommend a tariff. If the President chooses a quota, I recommend that it be a global one and that it be auctioned.

Appendix A¹

Increased imports must be a substantial cause of the serious injury or threat thereof to the industry. Subsection 201(b)(4) defines "substantial cause" as a cause "which is important and not less than any other cause." In defining a separate "cause," one must not compare a genus with a species or subspecies.

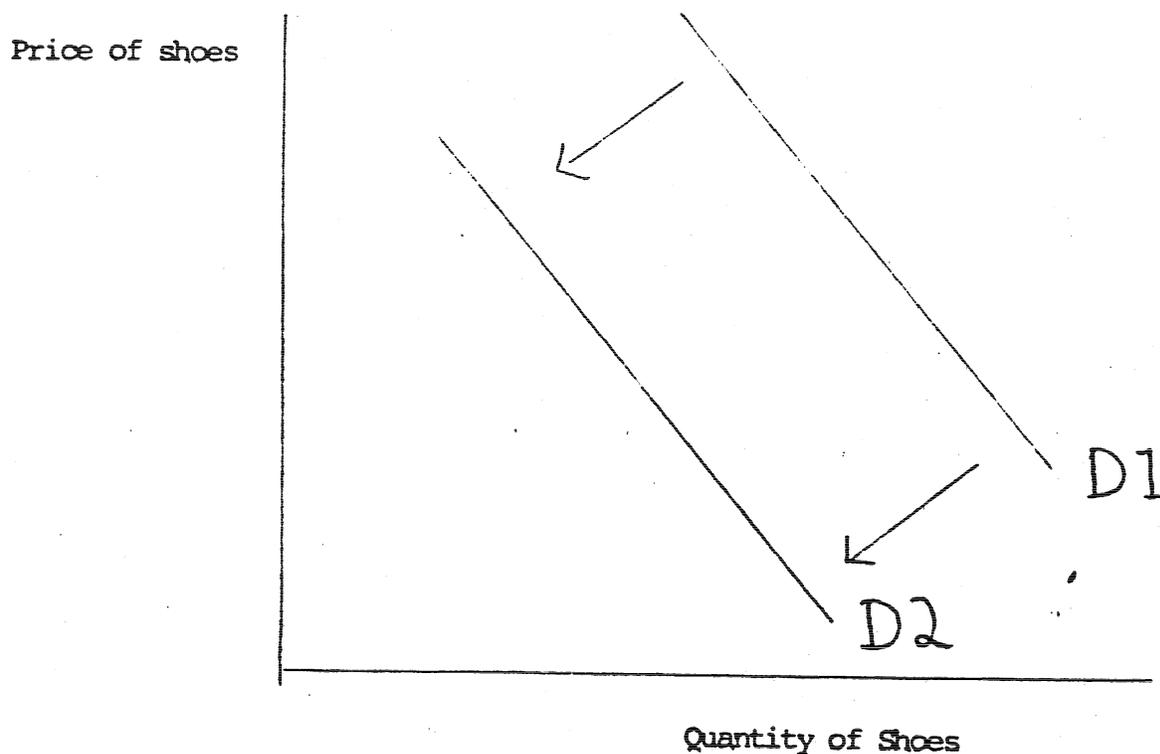
There are only three types of causes at this level of generality that can inflict serious injury or threat thereof to the domestic industry. They are (1) a decline in demand, represented by an inward and leftward shift of the demand curve (fig. A); (2) a decline in domestic supply, represented by an inward and leftward shift of the domestic supply curve (fig. B); and an increase in foreign supply, represented by an outward and rightward shift of the supply curve (fig. C).

The consequence of these adverse shifts will result in either a fall in the price or quantity of footwear produced by domestic producers, or both.

¹This analysis was originally developed in Copper at 60-65 (Views of Vice Chairman Susan W. Liebeler) As in the copper report, I am indebted to the Federal Trade Commission for presenting this analysis. See 19 U.S.C. 1334 (1982) instructing the Commission to cooperate with other federal government agencies including the Federal Trade Commission.

FIGURE A

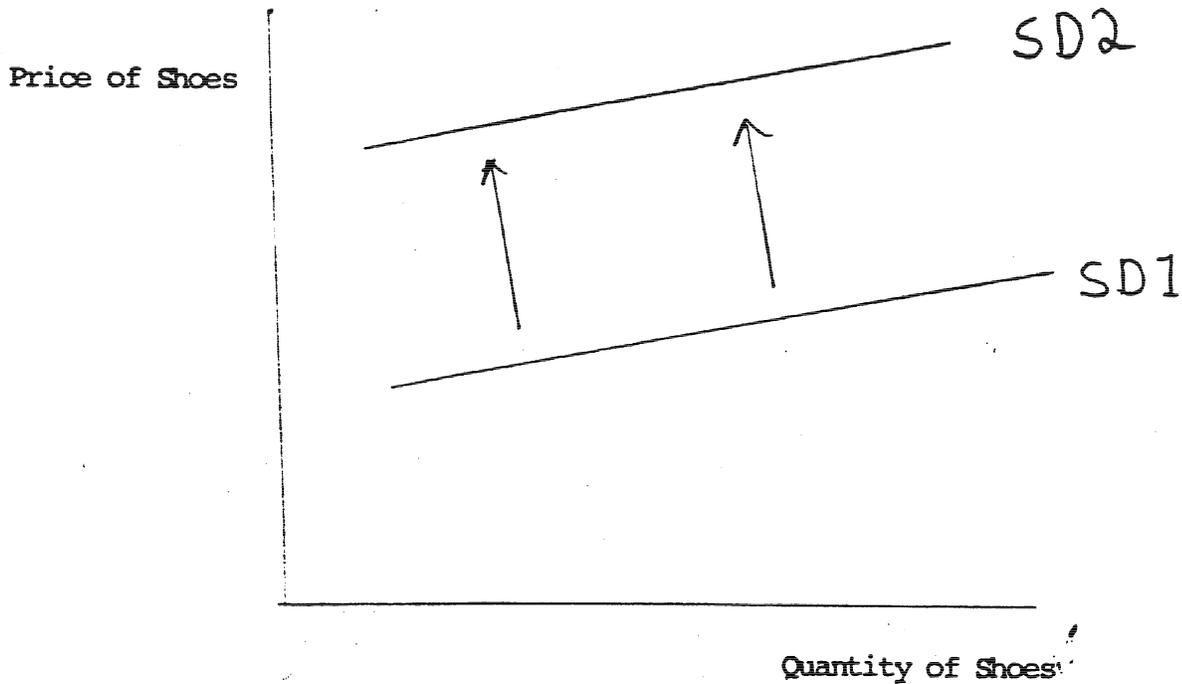
DECREASE IN DEMAND



In figure A, D1 is a demand curve. As one moves along the demand curve from upper left to lower right, price is falling and the quantity the market is willing to purchase increases. The movement of the demand curve inward and to the left from D1 to D2 represents a fall in demand indicating that at each price the market is willing to purchase less footwear.

FIGURE B

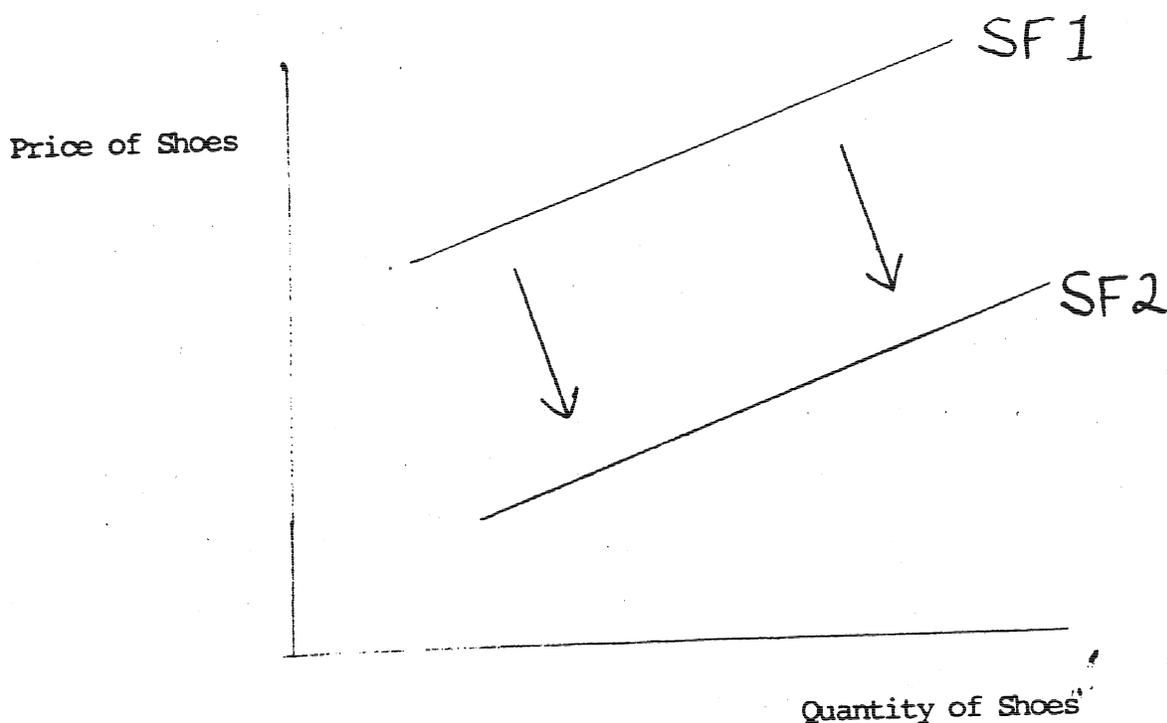
DECREASE IN DOMESTIC SUPPLY



In Figure B, SD1 is a domestic supply curve. As one moves along the supply curve from lower left to upper right, price is rising and the domestic suppliers are willing to sell more footwear. The movement of the supply curve inward and to the left from SD1 to SD2 represents a fall in domestic supply, indicating that at each price the domestic suppliers are willing to sell less footwear. This downward shift in domestic supply results from an increase in the domestic producers' costs of producing their product.

FIGURE C

DECREASE IN FOREIGN SUPPLY TO THE DOMESTIC MARKET



In Figure C, SF1 is an import supply curve. As one moves along the supply curve from lower left to upper right, price is rising and the foreign suppliers are willing to sell more footwear. The movement of the supply curve outward and to the right from SF1 to SF2 represents a rise in foreign supply, indicating that at each price the foreign suppliers are willing to sell more footwear.

A decline in demand means that at any given price less footwear will be purchased. This decreased demand can result from changes in tastes, technology, income, or the price of substitutes. A decline in domestic supply means that at any given price domestic producers will be willing to supply less footwear to the market. It may be caused by several factors, including increased labor costs, increased capital costs, or rising raw materials costs.

An adverse shift, or increase, in foreign supply is the cause on which the statute focuses. It can occur for various reasons, including changes in foreign technology; changes in the amount of capital available; or simply from increased foreign capacity.²

If footwear producers are selling footwear at lower prices or quantities than previously, this can be caused only by: (1) a shift in the demand for the goods; (2) a shift in the domestic supply curve; or (3) a shift in the foreign supply curve. The Commission's responsibility under Section 201 is to determine whether the shift in the foreign supply curve is at least as responsible for the injury to the domestic industry as the shift in the domestic demand curve or in the domestic supply curve.

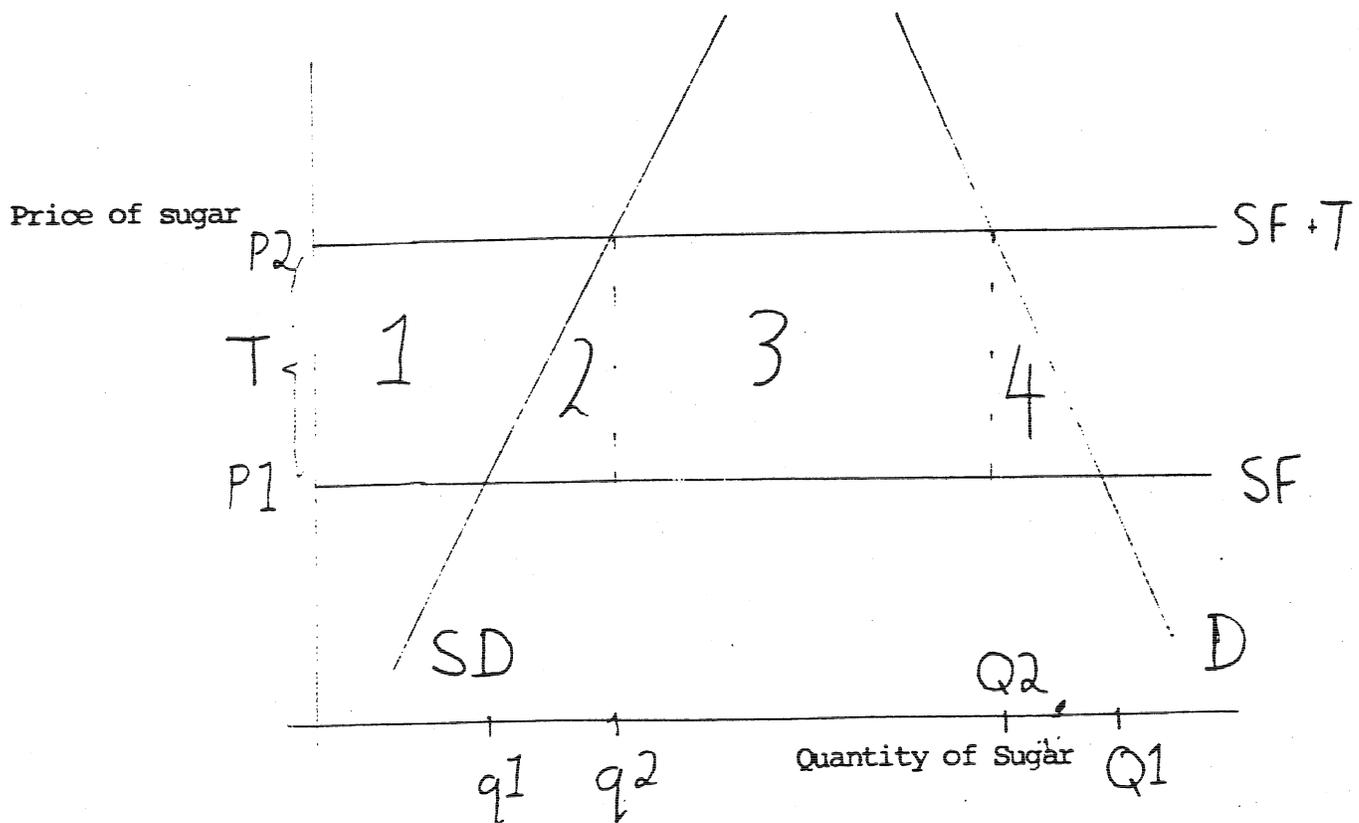
²Shifts in foreign supply are complicated by exchange rates and their effect on imports. If exchange rates change only because inflation is higher in another country than in the United States, the supply curve of footwear from the foreign country will be unaffected. The foreign currency will have fallen in value just enough to compensate for the increase in the cost of that country's footwear in terms of its own currency. However, a change in exchange rates can be caused by other factors such as changes in the demand by foreigners for United States products. These types of changes will cause changes in exchange rates and shifts in the import supply curve.

APPENDIX B

The economic effects of tariffs and quotas on international trade have been well documented by economists. A tariff or a quota will reduce imports, increase domestic production, raise prices, and reduce consumption. Figure D illustrates the effects of a tariff or a quota on a fungible product, such as sugar.

FIGURE D

ECONOMIC EFFECTS OF TARIFFS AND QUOTAS



The curve SF is the foreign supply curve of sugar to the United States. The curve is horizontal at the world price of sugar because the United States is a price taker in that market. The curve D is the United States demand curve for sugar and the curve SD is the United States supply curve for sugar. In the absence of any import restriction, the United States consumes Q_1 pounds of sugar at the world price of sugar P_1 . United States suppliers produce q_1 pounds and $Q_1 - q_1$ pounds are imported. Now, let us assume that the United States puts a tariff on sugar of T cents a pound. This will raise the price of sugar in the United States to $P_2 = P_1 + T$ cents a pound. At price P_2 , demand is reduced to Q_2 , and domestic production is increased to q_2 . The difference is made up by imports, which decline to $Q_2 - q_2$. The tariff benefits domestic producers who now get a higher price for their sugar. Their gain is represented by area 1. The federal government collects the revenue from the tariff, which is the product of $Q_2 - q_2$ and $P_2 - P_1$. The tariff revenue is given by area 3 in the diagram. The loss to consumers through higher prices is the sum of areas 1, 2, and 3. Area 4 is the loss to consumers from purchasing less sugar because of the higher price. Thus, with a tariff the loss to consumers exceeds the gain to domestic producers and the federal government by areas 2 and 4. Areas 2 and 4 are called the dead weight loss from the tariff. Area 2 is the production distortion and area 4 is the consumption distortion.

A quota can produce essentially the same effects as a tariff. If the government sets a quota of $Q_2 - q_2$, then in order for demand and supply to be in equilibrium, domestic production must equal q_2 and the market clearing price must be P_2 . The only difference between the tariff and the quota is that with a quota area 3 is not captured by the Treasury, but by those who have the quota rights. If the Treasury auctions off the quota rights, then it captures area 3 and the effects of the quota and the tariff are identical. Economists have a name for area 3; they call it the quota rent.

APPENDIX C

Attached as Appendix L of the Report

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

The U.S. International Trade Commission instituted the present investigation effective December 31, 1984, following receipt of a resolution by the Senate Committee on Finance. 1/ The Committee's resolution requested an investigation under section 201(b)(1) of the Trade Act of 1974 to determine "whether increasing imports of nonrubber footwear are a substantial cause of serious injury or the threat thereof to the domestic industry producing a like or directly competitive product." The Committee stated that good cause existed to undertake a new investigation under section 201(e) of the Act, citing the amendments to section 201 which were adopted in 1984 and the continuing imports of nonrubber footwear "to unprecedented levels, causing distress in the domestic industry." 2/ The Committee's resolution, and this investigation, cover all footwear provided for in items 700.05 through 700.45, inclusive, 700.56, 700.72 through 700.83, inclusive, and 700.95 of the Tariff Schedules of the United States (TSUS).

The Commission gave notice of this investigation and of a public hearing to be held in connection with the investigation by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of January 30, 1985 (50 F.R. 4278). 3/ A public hearing was held in Washington, DC, on April 16-18, 1985. 4/ The Commission voted on the question of injury on May 22, 1985, and on the question of remedy on June 12, 1985. The Commission transmitted its advice to the President on July 1, 1985.

The Nonrubber Footwear Industry Under the U.S. Trade Laws

Previous Commission investigations

This investigation follows by less than one year the report transmitted by the Commission to the President in investigation No. TA-201-50, Nonrubber Footwear. In that case, which was instituted in response to a petition by Footwear Industries of America, Inc. (FIA), the Amalgamated Clothing & Textile Workers Union, AFL-CIO, and the United Food & Commercial Workers Union,

1/ The Committee first resolved to request this investigation on Sept. 19, 1984. The Committee amended its resolution to request that the investigation commence "on or about January 1, 1985" because "the Committee wishes the . . . Commission to base its investigation on full 1984 statistics, plant closings, and other facts which will become available after January 1, 1985."

2/ A copy of the Committee's resolution is presented in app. A.

3/ A copy of the Commission's notice is presented in app. B.

4/ A list of witnesses appearing at the hearing is presented in app. C.

AFL-CIO, the Commission unanimously determined that nonrubber footwear was 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. 1/

In two prior escape-clause investigations, the Commission unanimously determined that the domestic industry was seriously injured by increased imports. The first such determination, in February 1976, 2/ resulted in a decision by President Ford that adjustment assistance was the most effective remedy for injury to the industry; the Secretaries of Commerce and Labor were directed to expedite consideration of petitions for such assistance. The second determination, in February 1977, 3/ resulted in a decision by President Carter to negotiate orderly marketing agreements (OMA's) with the major supplier countries and to review the trade adjustment assistance programs. 4/ The Special Representative for Trade Negotiations (now the United States Trade Representative) negotiated OMA's with Taiwan and the Republic of Korea (Korea) effective June 28, 1977. 5/

In April 1981, the Commission unanimously advised the President that termination of the agreement with Taiwan would have a significant adverse effect on the domestic nonrubber footwear industry, but that ending the agreement with Korea would not have such an effect. 6/ Although the Commission recommended that the agreement with Taiwan be extended for two years, both agreements were allowed to expire on June 30, 1981.

In addition to the investigations described above, the Commission has conducted approximately 165 other investigations related to the nonrubber footwear industry. 7/

Action by the United States Trade Representative

On December 8, 1982, the United States Trade Representative (USTR) initiated investigations under section 301 of the Trade Act of 1974 (19 U.S.C. 2411) in response to portions of a petition by FIA, the Amalgamated Clothing and Textile Workers Union, AFL-CIO, and the United Food and Commercial Workers Union, AFL-CIO. 8/ The investigations addressed quota and import licensing

1/ Nonrubber Footwear: Report to the President on Investigation No. TA-201-50 . . ., USITC Publication 1545, July 1984.

2/ Footwear: Report to the President on Investigation No. TA-201-7 . . ., USITC Publication 758, February 1976.

3/ Footwear: Report to the President on Investigation No. TA-201-18 . . ., USITC Publication 799, February 1977.

4/ The President's memorandum for the Special Representative for Trade Negotiations, Apr. 1, 1977.

5/ Presidential Proclamation 4510, June 22, 1977. 42 FR 32440, June 24, 1977.

6/ Nonrubber Footwear: Report to the President on Investigation No. TA-203-7 . . ., USITC Publication 1139, April 1981.

7/ A brief description of earlier Commission investigations involving nonrubber footwear is presented in app. D.

8/ 47 FR 56428, Dec. 16, 1982.

schemes in Brazil, Japan, Korea, and Taiwan, and certain tariffs in Brazil and Taiwan. 1/ The case respecting Taiwan was terminated in 1983, no basis having been found for the complaint. In response to the USTR's efforts, Korea has removed all import licensing schemes covering leather footwear and has implemented tariff reductions. Brazil has offered to make tariff reductions with respect to "licensed" imports, and to reduce a current 100-percent "tax" on imported footwear. Japan has a global quota that the USTR considers inconsistent with Article 11 of the General Agreement on Tariffs and Trade (GATT); the case respecting Japan is being pursued under the dispute settlement provision of Article 23 of the GATT.

Statistical Information Used in This Report

This report makes use of both official statistics and data submitted in response to Commission questionnaires. In addition to normal nonsampling errors (e.g., incomplete responses, incorrect responses, and clerical errors), other problems are peculiar to data on the nonrubber footwear industry.

Official statistics

Data on U.S. production, imports, and exports are not precisely comparable because of differences in classification systems. Data differentiating some imports and exports into gender categories are estimated by the Commission staff. Official statistics describing the U.S. nonrubber footwear industry during 1984 are preliminary data subject to revision. 2/

Commission questionnaires

Unlike official statistics, which gather industry-wide historical data through periodic surveys, Commission questionnaires are one-time surveys of the historical performance only of reporting firms. The key bias of questionnaire data, then, is that they do not reflect the performance in earlier years of firms that can no longer respond, causing such data to understate contraction in an industry.

The Commission received usable questionnaire responses in this investigation from 185 U.S. producers of nonrubber footwear accounting for 102 percent of 1984 production as reported by preliminary official statistics. Response rates varied for trade, income-and-loss, and other data, and are discussed in the appropriate sections of this report.

1/ The petitioners' allegations of trade diversion were dismissed as insufficient to warrant an investigation. The petitioners attempted to augment these charges, but the USTR again dismissed them on Aug. 1, 1983.

2/ The Department of Commerce published final 1983 data and preliminary 1984 data in 1985; 1984 data will be revised and published in final form in 1986. Data for 1983 may also be revised at that time, if necessary. As noted by FIA (prehearing brief, pp. 16-17; transcript of the hearing, pp. 136-7), official statistics describing performance of the U.S. industry in 1982 and 1983, as used in investigation No. TA-201-50, were revised by the Department in 1985. Revised data are incorporated in this report.

Classification

Athletic footwear, ^{1/} particularly footwear known as joggers, can combine leather, fabric, plastic, and rubber materials, and such footwear is sometimes difficult to classify as being either rubber or nonrubber. When this type of footwear is imported, it is examined carefully to determine if the exterior surface area of the upper is over 50 percent leather. If so, it is classified under one of several leather footwear provisions (mainly TSUS items 700.35, 700.43, and 700.45) or in the nonrubber footwear basket provision, TSUS item 700.95, with duty rates of from 8.5 to 15.0 percent ad valorem. If the surface area is less than 50 percent leather, it can be classified as rubber footwear with duty rates ranging from 20 percent ad valorem to 90 cents per pair plus 37.5 percent ad valorem. Thus, there is a financial incentive for foreign producers to have such footwear constructed so that it is classified as nonrubber footwear when entered into the United States. In contrast, domestic firms have no financial incentive to categorize their production of such footwear as either rubber or nonrubber, and in some instances they may be inconsistent in their reporting.

Questionnaire responses received in this investigation from importers, accounting for 71 percent of total imports of nonrubber footwear in 1984, reported imports of nonrubber athletic footwear equal to 137 percent of the total for that category as reported by the U.S. Department of Commerce. Thus, a significant portion of nonrubber athletic footwear imports are being classified under other TSUS items. This inconsistency in classification affects the reliability of statistics on both athletic and nonathletic footwear categories.

The definition of "slipper" in import statistics is narrower than that in official data for U.S. production. Thus, imports of slippers are believed to be considerably understated compared with U.S. production; whatever changes may be actually occurring in imports of slippers are not revealed by official statistics and are being attributed to other types of footwear.

The Product

Description and uses

This investigation covers nonrubber footwear, including dress, casual, athletic, and work shoes, boots, sandals, and slippers. These articles may be

^{1/} For the purpose of this investigation athletic footwear is defined as nonrubber footwear of special construction for specific sports, such as baseball, football, soccer, track, skating (without blades or skates) or skiing, which is reported under SIC No. 3149 or which, if imported, is classifiable in Tariff Schedules of the United States Annotated (TSUSA) items 700.2800, 700.2920, 700.3505, 700.3515, 700.4306, 700.4307, 700.4306, 700.4507, 700.5605 through 700.5625, inclusive, or in TSUS items 700.72 through 700.83, inclusive, and 700.95, or nonrubber footwear not dedicated to specific sports, which is (1) suitable for use in playing "court" games (e.g., tennis, basketball, racketball, handball, or squash) or suitable for running or jogging, and (2) suitable for use as streetwear.

made of leather, vinyl, or a combination of different materials, including leather, vinyl, rubber, fabric, cork, and wood. In 1984, 56 percent of U.S. production and 50 percent of U.S. imports of nonrubber footwear were classified as leather footwear.

The footwear not covered in this investigation is classified in the TSUS as rubber footwear--namely, certain protective footwear and footwear with uppers of fabric and soles of rubber or plastics, including sneakers, some joggers, and certain casual shoes. Also excluded from this investigation are zoris (thonged sandals) and disposable footwear designed for one-time use.

Problems with definitions are common in analyzing the footwear industry, since most of the descriptive terms, such as "dress" or "casual," which are used extensively in the trade are not found in either the headnotes or nomenclature of the TSUS. In addition, there is inconsistency in the reporting of domestic production of certain footwear as to whether it is rubber or nonrubber; see the section entitled "Statistical Information Used in This Report."

In 1984, total imports of nonrubber footwear amounted to nearly 726 million pairs, of which 19 percent were men's, youths', and boys' nonathletic (hereinafter men's) footwear, 56 percent were women's and misses' nonathletic (hereinafter women's) footwear, 8 percent were children's and infants' nonathletic (hereinafter children's) footwear, and 17 percent were athletic footwear.

U.S. production of nonrubber footwear in 1984 amounted to an estimated 298 million pairs. Women's footwear accounted for the largest portion of domestic production, representing 37 percent of the total; men's footwear accounted for 27 percent; children's footwear, 11 percent; athletic footwear, 5 percent; and all other shoes and slippers accounted for 20 percent.

The production process

Footwear production is labor intensive, and production processes are similar throughout the world. In some of the developed countries, however, which have higher wage rates than the footwear-producing developing countries, the production processes are less labor intensive. The U.S. industry tends to rely on labor-saving equipment such as molding machines and computer-controlled stitching equipment to reduce labor costs, and is generally more capital intensive than industries in developing countries.

The basic production process for most nonrubber footwear comprises cutting, fitting, lasting, bottoming, finishing, packing, and warehousing. Cutting shoe uppers and linings is the first major machine operation. It is usually done with an electric knife or die-cutting machine. Cutting is a skilled operation that accounts for about 11 percent of total labor costs ^{1/} and it requires precision to avoid waste, particularly in the production of leather footwear.

^{1/} Estimated on the basis of Footwear Industries of America, Survey on the State of the Art in Footwear Manufacturing . . ., vol. 1 of 2, April 1983, p. 37.

In the fitting operation, the various parts of the upper are prepared, matched, and stitched together. Fitting accounts for as much as 55 percent of the shoe's labor requirements, 1/ and the number of operations involved in fitting ranges from a few to as many as 60 or more. 2/ Lasting is the process by which the assembled upper is secured to a specifically sized last and the insole is attached, giving the shoe its final shape. 3/

In the bottoming process, the outer sole is attached to the upper. The three basic methods used are cementing, sewing, and molding. In the cementing process, either the sole alone or the sole and heel as a unit are attached by an adhesive using heat and pressure. This method is characterized by the absence of stitching or tacking on the finished shoe. Cementing accounted for approximately 58 percent of all production of nonrubber footwear in 1983. 4/

Sewing involves the attachment of a sole to the upper by means of a stitched seam using thread of cotton or of manmade fibers. This method accounted for approximately 24 percent of total nonrubber footwear production in 1983. The Goodyear welt construction is the most popular type of sewn construction and accounts for roughly 60 percent of all sewn construction. 5/ Welt construction is used mainly for better quality men's shoes.

Molded construction accounted for approximately 6 percent of total nonrubber footwear production in 1983. This method of construction is a process in which the sole and heel are formed and simultaneously fused to an upper within a mold. Molding is a labor-saving process, eliminating the conventional lasting step that is used in cementing and sewing. Different combinations of liquids, solids, heat, and pressure are used to accomplish the joining. Other methods of construction, including those for making soft-soled slippers and infants' shoes, accounted for approximately 12 percent of total nonrubber footwear production in 1983.

Technological changes

During the last decade the footwear industry has developed new technologies, but their application has been limited chiefly by the high cost of the initial investment in such technologies. 6/ In 1983, the FIA, under a technical assistance grant from the U.S. Department of Commerce, completed a survey of footwear manufacturing that (1) identified the state of the art of shoemaking technology, (2) determined the extent to which manufacturers were using advanced technology, (3) established industry priorities for new technological developments, and (4) described a management mechanism for stimulating the development and application of new technology to meet these priority needs. The study found that although investment was increasing,

1/ Footwear Industries of America, Survey on the State of the Art in Footwear Manufacturing . . ., vol. 1 of 2, April 1983, p. 37.

2/ Footwear Industries of America, The Art and Science of Footwear Manufacturing, 1983.

3/ A last is a wooden or plastic form over which a shoe is fashioned.

4/ Estimated on the basis of official statistics of the U.S. Department of Commerce.

5/ United Shoe Machinery Corp., Total Footwear Consumption Calendar, 1983.

6/ Transcript of the hearing, pp. 304-9.

current technology was not being fully used throughout the industry. Furthermore, it found that even if the most advanced technology currently available were used, footwear production would still require considerable direct labor input. ^{1/}

The most significant technological developments of the last decade are (1) the use of synthetic materials, (2) injection molding, (3) premolded unit bottoms, (4) computer-controlled cutting and stitching, (5) flow molding, (6) thermolasting, (7) computer-aided design, and (8) work aids in the stitching process, i.e., automated needle positioning and thread trimming.

The use of injection molding in the manufacture of nonrubber footwear has been growing gradually. In this process, the machine automatically molds a shoe bottom from thermoplastic or polyurethane material and fuses it to the footwear upper. Little labor is required in this operation, which replaces several cutting, trimming, and finishing jobs that are labor intensive. One operator may replace as many as six workers needed for producing a comparable quantity of conventional cement soles.

The development of premolded unit bottoms has provided an attractive alternative to molding, and the use of premolded unit bottoms by shoe factories has been increasing during recent years. Unit bottoms are purchased from specialty producers and cemented to uppers, thus eliminating most of the operations previously required to apply the outer sole.

New methods that are commercially available for cutting are a computer-programmed, water-jet process for cutting manmade material for insoles and outsoles and computer-controlled laser cutting for patterns. Because of high costs and the high volume of production needed for a reasonable payback on this type of investment, this equipment is only used by a few large shoe producers and suppliers.

Computer-controlled stitching has been a major technological development. Initially, this technology was used for decorative stitching, primarily by manufacturers of western-style boots. More recently, computerized control of functional stitching of shoe parts has begun to be used by a broad base of manufacturers.

Flow molding is another important development in shoe manufacturing. In this process, a high-frequency radio wave system is used to emboss a pattern of stitches, designs, or other detail onto a thermoplastic upper from a mold. This process is estimated to save as much as 20 percent of the labor conventionally used in preparing the uppers, but it requires skilled technicians to prepare the mold and to make the original pattern. Consequently, this process is most economical for long production runs. Also, the vinyls currently in use have not been fully satisfactory for the flow-molding process. Available commercially for over 10 years, flow molding is used in less than 10 percent of vinyl footwear production.

The lasting operation accounts for approximately 25 percent of the labor requirements of shoe production. This step in the manufacturing process

^{1/} U.S. Department of Commerce, 1985 U.S. Industrial Outlook, p. 46-7.

involves five basic operations as well as several preparatory steps. Thermolasting, a new method, combines several operations and thereby saves time, reduces labor, and lowers the required skill level of the operators.

Computer-aided design (CAD) can save time and money as significant costs are often incurred in the development of the many styles of footwear found in most manufacturers' lines. A sophisticated use of CAD provides a display of a shoe on a computer monitor in two or three dimensions and enables a designer to modify the shoe's design directly on the computer screen until the desired attributes are achieved. As a byproduct of the design process, data on the shoe's specifications are stored in the computer, which can be used for costing, production of patterns, and certain aspects of production planning.

More recent developments include a diagnostic system, developed by the Shoe & Allied Trades Research Association (SATRA) of England, which uses a computer to compare the performance of one operator with that of another and allows the relative efficiency of the operator's machine use to be evaluated. The SATRA has also developed "SATRASUMM," a material management system for footwear uppers. 1/ This system can assess material utilization to predict costs of making uppers. Still other technological advances now available are leather-measuring machines to reduce waste in cutting leather, programmable sewing machines, a heel-nailing machine that performs the operation 20 times faster than other nailers, and automated material-handling devices. 2/

U.S. tariff treatment

The imported footwear covered by this investigation is provided for under items 700.05 through 700.45, inclusive; 700.56; 700.72 through 700.83, inclusive; and 700.95 in schedule 7, part 1, subpart A, of the TSUS. 3/ The current column 1 rates of duty for the subject products range from free to 20 percent ad valorem, and the column 2 rates range from 10 to 35 percent ad valorem. 4/ The imported footwear covered in this investigation is neither eligible for duty-free treatment under the Generalized System of Preferences (GSP) 5/ nor afforded preferential duty rates if imported from the least developed developing countries. U.S. rates of duty on nonrubber footwear were

1/ Shoe & Allied Trades Research Association Bulletins, May 1982 and June 1982.

2/ Shoe Tech 1983 Review, American Shoemaking, Nov. 7, 1983.

3/ For the statutory descriptions and rates of duty, see the excerpt from the TSUS (Schedule 7, pt. 1) in app. E.

4/ The col. 1 rates of duty are most-favored-nation (MFN) rates and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUS, which are assessed the col. 2 rates of duty. Currently, the only Communist countries receiving MFN duty rates are the People's Republic of China, Hungary, Romania, and Yugoslavia.

5/ Sec. 503(c)(1) of the Trade Act of 1974 excludes certain import-sensitive articles from the GSP, including nonrubber footwear currently provided for in TSUS items 700.05-700.27, 700.29-700.45, 700.56, and 700.72-700.80. TSUS items 700.83 and 700.95, which do not have statutory exclusion from the GSP, have never been designated as GSP-eligible articles.

not reduced during the most recent round of Multilateral Trade Negotiations (Tokyo round), which was concluded in 1979. Footwear was excluded from the duty-free status given imports from those nations designated as beneficiary countries under the Caribbean Basin Economic Recovery Act of 1983. No articles of nonrubber footwear covered by this investigation are included in the agreement on the establishment of a free-trade area between the Governments of the United States and Israel.

The U.S. Market

Channels of distribution

The major channels of distribution for domestically produced nonrubber footwear consist of producers selling directly through their own sales force to retailers and, to a lesser extent, selling through their own retail outlets or distributing through jobbers. Imported footwear is sold by foreign manufacturers to U.S. importers, which sell directly or through wholesalers (also known as "jobbers") to U.S. retailers, or which retail the footwear themselves. To an increasing degree, retailers and U.S. producers are importing directly.

Nonrubber footwear is retailed primarily through independent shoe stores, department stores, chain stores, self-service stores, and to a lesser extent through mail-order houses and supermarkets. Independent shoe stores and department stores sell predominantly, but not exclusively, nationally branded footwear 1/ in the middle and higher price ranges, and provide full customer service.

Chain stores include Kinney and Thom McAn, which sell footwear exclusively, as well as mass-merchandise chains such as Sears, Roebuck & Co. and J.C. Penney. Chains usually sell their own retailer-brand shoes 2/ in the lower and middle price ranges, and provide full customer service. Self-service stores generally carry retailer-branded or unbranded merchandise and feature the lowest priced footwear in the market. These stores, sometimes called discount, bin, or rack stores, include shoe chains such as Pic 'n Pay and Fayva as well as discount mass-merchandisers like K-Mart and Zayre.

Recently, "off-price" stores, although still a relatively small part of the market, have been one of the fastest growing types of outlets in footwear retailing. This type of outlet sells predominantly nationally branded merchandise at discount prices, but typically offers a limited range of footwear styles and sizes. "Off-price" outlets, which operate on a smaller markup than stores traditionally selling nationally branded footwear, have

1/ Nationally branded footwear is labeled with brand names of domestic producers, foreign producers, or U.S. importers. Individual national brands are retailed by many different companies. Examples of nationally branded footwear are Naturalizer shoes (a label of Brown Shoe Co., a domestic producer) and Nine West shoes (a label of Fisher Camuto Corp., a U.S. importer).

2/ Retailer-branded footwear carries the label of the individual retailing company. An example of a retailer brand is Sears shoes.

carved out a market niche by locating in lower rent areas, accepting fewer returns, and using brand-name recognition.

Market segments

Individual market participants may define market segments for nonrubber footwear differently, but generally base their definitions on some combination of age and gender of the consumer, on the intended use of the footwear, on the many different physical characteristics of footwear, ^{1/} on the types of retail outlets, and on prices. The price section analyzes competition between domestic and imported footwear in selected major market segments. The selected major market segments separate footwear by men's, women's, and children's footwear; by dress and casual wear versus athletic wear; by leather versus vinyl as the upper material; by types of footwear--shoes, sandals, or boots; by sales to types of retail outlets--independent shoe stores or department stores, chain stores, and self-service stores; and by price brackets.

Factors affecting demand

In the long run, demand for footwear is dependent primarily on the size and composition of the population. In the short run, however, demand for footwear may vary with changes in prices, incomes, and fashions. Frequent changes in women's footwear fashions contribute to a greater demand for women's footwear than men's footwear, where style changes are less important. Concern with physical fitness has stimulated demand for athletic footwear in the past several years.

Apparent U.S. consumption

The quantity of apparent U.S. consumption of nonrubber footwear, calculated using U.S. production, imports, and exports, decreased by less than 1 percent from 1980 to 1981, and then increased from 1981 to 1984. Consumption in 1982 was 13 percent above that in 1981, and in 1983 it rose another 11 percent, reaching a record level of 919 million pairs. That record was broken in 1984, when consumption reached 1,015 million pairs (table 1).

Consumption of men's and women's shoes, following the trend for all nonrubber footwear, showed a slight decline from 1980 to 1981, and then increased in 1982 and 1983. Consumption of women's shoes continued to increase in 1984, but consumption of men's shoes decreased. Consumption of children's and athletic footwear increased each year from 1980 to 1984. Consumption of "all other" footwear, including mostly slippers, decreased from 1980 to 1982, and remained within 3 percent of the 1982 level through 1984.

Apparent U.S. consumption in January-February 1985 was down from that of the corresponding period in 1984. Consumption in the January-February 1985

^{1/} The physical characteristics of nonrubber footwear include different materials (leather, vinyl, or fabric), different methods of construction (cemented, molded, or sewn), and different types and styles of footwear.

Table 1.--Nonrubber footwear: U.S. production, imports for consumption, exports, and apparent consumption, by categories, 1980-84, January-February 1984, and January-February 1985

(In thousands of pairs)

Type and year	Production	Imports	Exports	Apparent consumption
Men's: 1/				
1980	101,981	68,627	3,921	166,687
1981	98,458	70,224	3,845	164,837
1982	89,115	105,029	3,236	190,908
1983	89,724	133,408	2,248	220,884
1984	<u>2/</u> 79,571	137,727	2,550	214,748
January-February--				
1984	<u>2/</u> 13,742	23,560	300	37,002
1985	<u>2/</u> 11,926	21,598	327	33,197
Women's: 3/				
1980	154,222	221,334	3,830	371,726
1981	144,971	223,007	3,344	364,634
1982	151,052	252,857	2,872	401,037
1983	138,764	307,913	2,584	444,093
1984	<u>2/</u> 110,707	404,759	2,378	513,088
January-February--				
1984	<u>2/</u> 21,552	69,869	257	91,164
1985	<u>2/</u> 16,411	75,836	339	91,908
Children's: 4/				
1980	38,357	22,165	470	60,052
1981	36,538	25,010	418	61,130
1982	38,637	34,577	388	72,826
1983	34,807	52,276	371	86,712
1984	<u>2/</u> 33,558	61,434	289	94,703
January-February--				
1984	<u>2/</u> 6,811	11,733	34	18,510
1985	<u>2/</u> 5,297	12,208	42	17,463
Athletic:				
1980	15,038	53,571	3,979	64,630
1981	17,831	57,295	2,192	72,934
1982	19,866	86,997	1,629	105,234
1983	19,059	88,042	1,735	105,366
1984	<u>2/</u> 14,211	121,588	2,903	132,896
January-February--				
1984	<u>2/</u> 2,854	19,006	301	21,559
1985	<u>2/</u> 1,650	22,216	532	23,334
All other:				
1980	76,713	46	798	75,961
1981	74,199	65	1,380	72,884
1982	60,437	204	765	59,876
1983	61,911	218	558	61,571
1984	<u>2/</u> 60,953	385	766	60,572
January-February--				
1984	<u>2/</u> 10,643	62	59	10,646
1985	<u>2/</u> 8,438	29	168	8,299

Table 1.--Nonrubber footwear: U.S. production, imports for consumption, exports, and apparent consumption, by categories, 1980-84, January-February 1984, and January-February 1985--Continued

(In thousands of pairs)

Type and year	Production	Imports	Exports	Apparent consumption
Total:				
1980-----	386,311	365,743	12,999	739,055
1981-----	371,997	375,600	11,179	736,418
1982-----	359,107	479,663	8,890	829,880
1983-----	344,265	581,857	7,496	918,626
1984-----	2/ 298,463	725,893	8,886	1,015,470
January-February--				
1984-----	2/ 55,755	124,230	952	179,033
1985-----	2/ 43,722	131,887	1,408	174,201

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ 1984 and 1985 data are preliminary. Revisions made to 1984 totals subsequent to the publication of data on the categories cause the data not to add to the totals shown.

3/ Women's footwear also includes misses' but excludes athletic.

4/ Children's footwear also includes infants' but excludes athletic.

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

period was 174 million pairs, 3 percent below January-February 1984 consumption of 179 million pairs.

Percentage distribution of apparent U.S. consumption by category of footwear is presented in table 2. The most significant change was the increase in market share from 8.7 percent to 13.1 percent for athletic footwear during 1980-84.

Table 2.--Nonrubber footwear: Percentage distribution of apparent U.S. consumption, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Men's 1/-----	22.6	22.4	23.0	24.0	21.1
Women's 2/-----	50.3	49.5	48.3	48.3	50.5
Children's 3/-----	8.1	8.3	8.8	9.4	9.3
Athletic-----	8.7	9.9	12.7	11.5	13.1
All other-----	10.3	9.9	7.2	6.7	6.0
Total-----	100.0	100.0	100.0	100.0	100.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

Percentage distribution of apparent U.S. consumption by types of upper materials and by categories is presented in table 3. Overall, the share of consumption accounted for by leather footwear increased from 47 percent in 1980 to 52 percent in 1984. The share accounted for by footwear of plastic and all other materials declined, from 53 percent in 1980 to 48 percent in 1984. The proportion of men's footwear with leather uppers decreased by 11 percentage points from 1980 to 1983, while the proportion with uppers of

Table 3.--Nonrubber footwear: Percentage distribution of apparent U.S. consumption, by types of upper materials and by categories, 1980-84

Item	1980	1981	1982	1983	1984 ^{1/}
Men's: ^{2/}					
Leather-----	68.2	67.3	59.8	57.6	3/
Plastic-----	26.1	24.9	17.7	17.0	3/
All other-----	5.7	7.8	22.5	25.4	3/
Total-----	100.0	100.0	100.0	100.0	3/
Women's: ^{4/}					
Leather-----	41.3	45.8	43.9	47.7	3/
Plastic-----	48.1	42.6	42.9	38.5	3/
All other-----	10.6	11.6	13.2	13.8	3/
Total-----	100.0	100.0	100.0	100.0	3/
Children's: ^{5/}					
Leather-----	36.6	37.8	35.1	30.0	3/
Plastic-----	42.9	35.8	37.9	31.4	3/
All other-----	20.5	26.4	27.0	38.6	3/
Total-----	100.0	100.0	100.0	100.0	3/
Athletic:					
Leather-----	85.4	79.2	80.8	82.7	3/
Plastic-----	14.6	19.8	16.6	14.9	3/
All other-----	6/	1.0	2.5	2.4	3/
Total-----	100.0	100.0	100.0	100.0	3/
All other:					
Leather-----	8.0	8.4	10.6	10.1	3/
Plastic-----	20.2	14.4	16.7	15.1	3/
All other-----	71.8	77.2	72.7	74.8	3/
Total-----	100.0	100.0	100.0	100.0	3/
Total:					
Leather-----	47.4	49.6	49.1	49.9	51.9
Plastic-----	36.9	33.0	31.4	28.4	6/
All other-----	15.7	17.4	19.5	21.7	48.1
Total-----	100.0	100.0	100.0	100.0	100.0

1/ 1984 figures are preliminary and, in some cases, include estimates.

2/ Men's footwear also includes youths' and boys' but excludes athletic.

3/ Not available.

4/ Women's footwear also includes misses' but excludes athletic.

5/ Children's footwear also includes infants' but excludes athletic.

6/ Not reported separately.

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

material other than leather or plastic increased by 20 percentage points. Imported shoes accounted for 100 percent of the increase in consumption of men's shoes with uppers of material other than leather or plastic between 1982 and 1983.

Calculation of the value of apparent U.S. consumption is based upon the value of producers' shipments, imports, and exports, and is presented in table 4. Consumption by value grew from \$6.8 billion in 1980 to \$8.6 billion in 1984, or by 27 percent over the period. In 1980 dollars, 1/ consumption in 1984 was \$8.3 billion, or 22 percent over that in 1980. The average unit value of consumption fell from \$9.23 in 1980 to \$8.39 in 1984. The value of consumption declined in the first 2 months of 1985 compared with that in January-February 1984. The value of consumption in January-February 1985 was \$1.3 billion, down by 6 percent from \$1.4 billion in January-February 1984.

Official statistics describe apparent U.S. consumption in 1984 as high compared with that in earlier years, but actual consumption in 1984 may not have been as high as such statistics indicate. 2/ Since footwear consumption is largely dependent upon population size, trends in per capita consumption suggest a means of interpreting 1984 statistics. From 1960 to 1983, per capita consumption of nonrubber footwear never exceeded the 1968 level of 4.06 pairs (table 5). In 1984, official statistics put per capita consumption at 4.30 pairs. Although per capita consumption in 1984 may have risen this high, one might assume that actual per capita consumption in 1984 was closer to the high level recorded in 1968. If one estimates, then, that actual per capita consumption in 1984 was about 4.1 pairs, this estimate accounts for only 968 million pairs out of total apparent consumption of 1,015 million in 1984. The difference, approximately 47 million pairs, would be in inventory. This analysis is intended to be not a precise gauge of consumption and inventories, but an example of how data on consumption must be interpreted in the context of other available data. 3/ Some industry analysts believe that inventories were as high as 200 million pairs in 1984. 4/ Footwear Retailers of America states that there was a "temporary excess in inventories" in 1984 that "has been largely worked off." 5/ For further discussion, see the section entitled "U.S. wholesalers' and retailers' inventories."

1/ Values in 1980 dollars are calculated for U.S. production and exports using the Producer Price Index (PPI) for nonrubber footwear, and for imports using the Import Price Index (IPI) for footwear, with a base year of 1980. Indexes are compiled by the U.S. Department of Labor. Application of the IPI causes values of imports to appear higher in 1980 dollars than in constant dollars. The IPI may be affected by changes in the product mix of imported footwear. This method of calculation is used to take advantage of available indexes for comparison of domestically produced and imported footwear. Other methods of calculation, however, may be equally valid--for example, the gross national product price deflator may be used to convert both domestically produced and imported footwear values to 1972 dollars for year-to-year comparisons.

2/ Apparent U.S. consumption in 1984 is calculated using preliminary official statistics; the figure may change when final statistics are published.

3/ This analysis was suggested by Mr. James E. Byron, Office of Consumer Goods, U.S. Department of Commerce, in discussions on Feb. 28, 1985.

4/ Brown Group, Inc., 1984 Annual Report, p. 4.

5/ Posthearing brief of Footwear Retailers of America, pp. 12, 16.

Table 4.--Nonrubber footwear: U.S. producers' shipments, imports for consumption, exports, and apparent consumption, 1980-84, January-February 1984, and January-February 1985

Period	Shipments	Imports	Exports	Apparent consumption
Quantity (1,000 pairs)				
1980-----	384,926	365,743	12,999	737,670
1981-----	374,785	375,600	11,179	739,206
1982-----	357,499	479,663	8,890	828,272
1983-----	341,404	581,857	7,496	915,765
1984-----	<u>1/</u> 309,337	725,893	8,886	1,026,344
January-February--	:	:	:	:
1984-----	<u>1/</u> 53,041	124,230	952	176,319
1985-----	<u>1/</u> 42,152	131,887	1,408	172,631
Value (1,000 dollars)				
1980-----	4,619,915	2,298,308	112,003	6,806,220
1981-----	4,816,838	2,480,975	120,236	7,177,577
1982-----	4,802,338	3,083,859	101,579	7,784,618
1983-----	4,758,591	3,661,959	90,004	8,330,546
1984-----	<u>1/</u> 4,061,517	4,651,397	98,512	8,614,402
January-February--	:	:	:	:
1984-----	<u>1/</u> 686,907	738,820	12,127	1,413,600
1985-----	<u>1/</u> 548,772	801,965	15,494	1,335,243
Value in 1980 dollars (1,000 dollars) <u>2/</u>				
1980-----	4,619,915	2,298,308	112,003	6,806,220
1981-----	4,658,451	2,427,569	116,282	6,969,737
1982-----	4,569,304	3,111,866	96,650	7,584,520
1983-----	4,434,847	3,763,576	83,881	8,114,542
1984-----	<u>1/</u> 3,760,664	4,651,397	91,215	8,320,846
January-February--	:	:	:	:
1984-----	<u>1/</u> 623,894	<u>3/</u>	11,015	<u>3/</u>
1985-----	<u>1/</u> 493,057	<u>3/</u>	13,921	<u>3/</u>
Unit value (per pair)				
1980-----	\$12.00	\$6.28	\$8.62	\$9.23
1981-----	12.85	6.61	10.76	9.71
1982-----	13.43	6.43	11.43	9.40
1983-----	13.94	6.29	12.01	9.10
1984-----	<u>1/</u> 13.13	6.41	11.09	8.39
January-February--	:	:	:	:
1984-----	<u>1/</u> 12.95	5.95	12.74	8.02
1985-----	<u>1/</u> 13.02	6.08	11.00	7.73

1/ Data for 1984 and 1985 are preliminary.

2/ Values in 1980 dollars are calculated for U.S. production and exports using the producer price index for nonrubber footwear, and for imports using the import price index for footwear, with a base year of 1980. Indexes are compiled by the U.S. Department of Labor.

3/ Not available.

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

Table 5.--Nonrubber footwear: Apparent U.S. consumption ^{1/}
and per capita U.S. consumption, 1960-84

Year	Apparent U.S. consumption	U.S. resident population	Per capita consumption
	Million pairs	Million persons	Pairs
1960	623.4	180.7	3.45
1961	626.6	183.7	3.41
1962	693.3	186.6	3.72
1963	664.3	189.2	3.51
1964	685.4	191.9	3.57
1965	711.3	194.3	3.66
1966	735.1	196.6	3.74
1967	726.9	198.7	3.66
1968	815.3	200.7	4.06
1969	776.7	202.7	3.83
1970	801.8	205.1	3.91
1971	802.3	207.7	3.86
1972	821.1	209.9	3.91
1973	793.9	211.9	3.75
1974	715.4	213.9	3.34
1975	694.9	216.0	3.22
1976	786.5	218.0	3.61
1977	780.0	220.2	3.54
1978	785.5	222.6	3.53
1979	794.2	225.1	3.53
1980	739.1	227.7	3.25
1981	736.4	229.8	3.20
1982	829.9	232.1	3.58
1983	918.6	234.2	3.92
1984	1,015.5	236.1	4.30
:	:	:	:

^{1/} Apparent U.S. consumption equals production plus imports minus exports.

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

The Domestic Industry

U.S. producers ^{1/}

It is estimated that over 400 companies ^{2/} produced nonrubber footwear in the United States in 1984. ^{3/} Official statistics on the number of such

^{1/} Nonrubber footwear is classified in the Standard Industrial Classification (SIC) system under SIC 3142 (house slippers); SIC 3143 (men's footwear, except athletic); SIC 3144 (women's footwear, except athletic); and SIC 3149 (athletic footwear and misses', infants', and children's footwear).

^{2/} In this report, the terms "company" or "firm" refer to a business organization that may have one or more "factories," "plants," or "establishments" producing goods under common ownership or control.

^{3/} This estimate is based on official statistics for 1982 plus or minus company openings or closings in 1983 and 1984. Openings and closings are based on FIA data that is discussed in the section entitled "Plant closings." The estimate is inexact because FIA data may not include smaller firms.

companies are available for Census years, as follows:

<u>Type of production</u>	<u>1972</u>	<u>1977</u>	<u>1982</u>
Men's footwear-----	115	115	128
Women's footwear-----	296	243	203
Slippers-----	82	65	48
Other footwear, e.g., youths', boys', chil- dren's, and athletic--	<u>152</u>	<u>159</u>	<u>166</u>
Total-----	645	582	545

There were 222 companies with 10 or more employees in 1984. 1/ Although 50 of these firms are publicly owned corporations, 2 of which ranked among the nation's 500 largest companies in sales for 1984, the industry consists mostly of privately owned firms. Approximately two-thirds of the producers make less than 1 million pairs annually and together they account for less than 14 percent of total domestic production. In recent years, about 23 producers, each with multifactory operations and annual production levels of 4 million pairs or more, together accounted for about one-half of the industry's production. These large producers as a group did not increase their market share between 1980 and 1984, and have responded to declining sales by closing plants, expanding their nonrubber footwear retail operations, and increasing their imports of nonrubber footwear. 2/ ***.

The number of nonrubber footwear factories has steadily declined from approximately 1,000 in the late 1960's. Both official statistics and industry data can be used to estimate the number of nonrubber footwear factories in the United States; these data are discussed in the section entitled "Plant closings." In 1984, industry estimates place the number of factories manufacturing nonrubber footwear at 459 (these data do not count very small manufacturers that are included in the tabulation of manufacturers from official statistics, above). According to FIA, 94 nonrubber footwear factories closed in 1984, and 8 factories producing component parts or performing stitching operations for the nonrubber footwear industry also closed in 1984. 3/ Of the 102 closings, 30 were in New England, 10 in New York, 9 in Pennsylvania, 7 in Tennessee, and 5 in Missouri. The reported closings ranged from single-plant operations to facilities of major publicly held firms that had produced a broad range of items, including slippers, boots, athletic shoes, dress and casual shoes and children's footwear. FIA also reported that there were approximately 12 new entrants into the nonrubber footwear industry in 1984, 4 of which are small factories operating in previously owned footwear facilities.

Employment in the industry has also declined. The peak employment year for the industry was 1967, when employment reached 231,000. By 1984, employment had dropped from that level by almost 50 percent. 4/

1/ Based on unpublished data of the U.S. Department of Commerce.

2/ U.S. Department of Commerce, 1985 U.S. Industrial Outlook, January 1985, p. 46-5.

3/ FIA, Nonrubber Footwear Factory Closings for 1984.

4/ U.S. Department of Commerce, 1985 U.S. Industrial Outlook, January 1985, p. 46-5.

Unpublished data of the U.S. Department of Commerce show that 222 U.S. firms with 10 or more employees produced nonrubber footwear in 1984 compared with 597 in 1969, 279 in 1980, and 276 in 1983 (table 6). ^{1/} The number of medium and large firms producing 1 million pairs or more increased from 1980 to 1981, and then declined by 21 percent, from 92 in 1981 to 73 in 1984. The number of firms producing less than 1 million pairs increased from 165 in 1981 to 193 in 1983, and then declined by 23 percent to 149 in 1984.

Manufacturing facilities for nonrubber footwear are located in 41 States, with about 70 percent of nonrubber footwear production concentrated in 10 States—Maine, Missouri, Pennsylvania, Tennessee, Massachusetts, New York, New

Table 6.—Nonrubber footwear: Number of U.S. producing companies with 10 or more employees, by sizes of output, 1969, 1975, and 1980-84

Size of output	1969	1975	1980	1981	1982	1983	1984
Number of companies ^{1/}							
Less than 200,000 pairs-----	192	129	80	73	87	89	50
200,000 to 499,999 pairs-----	146	92	71	52	58	59	56
500,000 to 999,999 pairs-----	113	71	45	40	44	45	43
1,000,000 to 1,999,999 pairs--	93	42	41	45	43	37	32
2,000,000 to 3,999,999 pairs--	32	23	22	24	23	21	18
4,000,000 pairs or more-----	21	21	20	23	23	25	23
Total-----	597	378	279	257	278	276	222
Percent of total output ^{1/}							
Less than 200,000 pairs-----	2	2	2	2	2	2	2
200,000 to 499,999 pairs-----	8	7	6	5	5	6	6
500,000 to 999,999 pairs-----	14	12	9	7	9	10	11
1,000,000 to 1,999,999 pairs--	24	14	16	15	15	14	14
2,000,000 to 3,999,999 pairs--	15	15	16	17	17	15	15
4,000,000 pairs or more-----	37	50	51	54	52	54	51
Total-----	100	100	100	100	100	100	100

^{1/} The percentage change in the number of companies, and the change in percentage points of total output, from 1980 to 1984, was as follows:

Size of output	Percentage change in number of companies	Change in percentage points of total output
Less than 200,000 pairs-----	-38	-
200,000 to 499,999 pairs-----	-21	-
500,000 to 999,999 pairs-----	-4	2
1,000,000 to 1,999,999 pairs--	-22	-2
2,000,000 to 3,999,999 pairs--	-18	-1
4,000,000 pairs or more-----	15	-
Average-----	-20	-

Source: Compiled from unpublished data of the U.S. Department of Commerce.

^{1/} The number of companies and production by sizes of output and categories of production for 1980-84 are presented in app. F.

Hampshire, Arkansas, Ohio, and Texas. Maine continued to lead all States in footwear production, accounting for 12 percent of the total in 1983. Although about 23 percent of production is still concentrated in New England, about 46 percent of nonrubber footwear is produced in the North Central and Middle Atlantic States, and about 31 percent in the South and the West. Production of footwear has declined rapidly in Massachusetts, Pennsylvania, and New York. California, Texas, and Florida, however, have increased their output and are emerging as significant footwear producing States.

FIA reportedly represents 76 manufacturers, which together account for about two-thirds of U.S. nonrubber footwear production. ^{1/} Major producers of nonrubber footwear that are not FIA members include Amfesco Industries, Inc.; Endicott-Johnson Corp.; Genesco, Inc.; Injection Footwear; Interco, Inc.; Melville Corp.; Morse Shoe Corp.; and R.G. Barry Corp. FIA also represents 81 suppliers to the industry, including chemical, rubber, and machinery firms.

U.S. importers

Imports accounted for about 71 percent of apparent U.S. consumption in 1984. According to Customs records, 400 firms, including wholesalers, retailers, and domestic footwear producers, imported footwear in 1983. ^{2/} Approximately 100 of these importers, including about 20 U.S. manufacturers, together accounted for a little over 50 percent of total U.S. imports in 1983.

U.S. producers.--Based on data submitted in response to Commission questionnaires, U.S. producers imported 215 million pairs of nonrubber footwear in 1984, accounting for 30 percent of total imports as reported by official statistics. In 1980, these producers reported importing 76 million pairs, or 21 percent of total imports. Athletic footwear accounted for 46 percent of all imports by U.S. producers in 1984.

Retailers.--Shoes are sold in nearly 100,000 retail outlets all across the United States. Over three-fourths of the total retail shoe sales are accounted for by nearly 25,000 shoe stores and over 8,500 department stores.

The top five footwear retailers in the United States in 1983 were Melville Corp. (including Thom McAn shoe stores); Woolworth Co. (including Kinney shoe stores); Brown Group, Inc.; Edison Brothers Stores, Inc.; and Morse Shoe Co. These stores together accounted for \$4.7 billion ^{3/} of the \$20.4 billion ^{4/} spent on shoes in all retail outlets in 1983.

^{1/} FIA was formed in 1982 by the consolidation of American Footwear Industries Association, Inc., and the American Shoe Center (ASC). The U.S. Department of Commerce provided about \$2 million in startup funds for the ASC, which began operations in late 1980. The ASC offered technical, managerial, and information services to its member companies in an effort to improve the manufacturing efficiency and productivity of the U.S. footwear industry.

^{2/} Data on imports include imports of finished footwear and of lasted leather footwear uppers having an insole or midsole.

^{3/} Market Research Department, Fairchild Publications, Footwear News, July 9, 1984.

^{4/} Personal consumption expenditures on footwear, compiled by the Bureau of Economic Analysis, U.S. Department of Commerce. In 1984, retail purchases of footwear were \$22.1 billion.

Firms related to foreign producers.--Several U.S. firms have established production facilities abroad, either wholly owned or as partners in joint venture arrangements with the host countries. On the basis of questionnaire responses, 12 U.S. producers of nonrubber footwear have foreign affiliates.

* * * * *

The Question of Increased Imports

U.S. imports

U.S. imports of all nonrubber footwear increased every year from 1980 to 1984 (table 7). The quantity of imports grew from 366 million pairs in 1980 to 376 million pairs in 1981, and then increased sharply, by 28 percent, to 480 million pairs in 1982. Imports continued to increase, rising by 21 percent in 1983 and 25 percent in 1984, to reach 726 million pairs in 1984. Most of this growth was generated by imports from Taiwan, Korea, and Brazil.

Table 7.--Nonrubber footwear: U.S. imports for consumption, by categories, 1980-84

Category	1980	1981	1982	1983	1984
	Quantity				
Men's: <u>1/</u>					
Quantity-----1,000 pairs--:	68,627	70,224	105,029	133,408	137,727
Percentage change-----:	<u>2/</u>	2.3	49.6	27.0	3.2
Women's: <u>3/</u>					
Quantity-----1,000 pairs--:	221,334	223,007	252,857	307,913	404,759
Percentage change-----:	<u>2/</u>	0.8	13.4	21.8	31.5
Children's: <u>4/</u>					
Quantity-----1,000 pairs--:	22,165	25,010	34,577	52,276	61,434
Percentage change-----:	<u>2/</u>	12.8	38.3	51.2	17.5
Athletic:					
Quantity-----1,000 pairs--:	53,571	57,295	86,997	88,042	121,588
Percentage change-----:	<u>2/</u>	7.0	51.8	1.2	38.1
All other:					
Quantity-----1,000 pairs--:	46	65	204	218	385
Percentage change-----:	<u>2/</u>	41.3	213.8	6.9	76.6
Total:					
Quantity-----1,000 pairs--:	365,743	375,600	479,663	581,857	725,893
Percentage change-----:	<u>2/</u>	2.7	27.7	21.3	24.8

Table continued on following page.

Table 7.--Nonrubber footwear: U.S. imports for consumption, by categories, 1980-84--Continued

Category	1980	1981	1982	1983	1984
	Value				
Men's: <u>1/</u>					
Value-----million dollars--:	538.8	570.2	789.9	945.5	1,045.2
Percentage change-----:	<u>2/</u>	5.8	38.5	19.7	10.5
Women's: <u>3/</u>					
Value-----million dollars--:	1,253.0	1,383.1	1,536.8	1,902.0	2,494.2
Percentage change-----:	<u>2/</u>	10.4	11.1	23.8	31.1
Children's: <u>4/</u>					
Value-----million dollars--:	59.7	67.9	96.8	154.7	184.6
Percentage change-----:	<u>2/</u>	13.9	42.5	59.8	19.3
Athletic:					
Value-----million dollars--:	446.7	459.4	659.9	659.1	926.2
Percentage change-----:	<u>2/</u>	2.9	43.6	-0.1	40.5
All other:					
Value-----million dollars--:	0.1	0.3	0.5	0.7	1.3
Percentage change-----:	<u>2/</u>	124.1	45.8	41.3	90.8
Total:					
Value-----million dollars--:	2,298.3	2,481.0	3,083.9	3,662.0	4,651.4
Percentage change-----:	<u>2/</u>	7.9	24.3	18.7	27.0
	Value in 1980 dollars <u>5/</u>				
Men's: <u>1/</u>					
Value-----million dollars--:	538.8	557.9	796.2	971.7	1,045.2
Percentage change-----:	<u>2/</u>	3.5	42.7	22.0	7.6
Women's: <u>3/</u>					
Value-----million dollars--:	1,253.0	1,353.3	1,550.8	1,954.8	2,494.2
Percentage change-----:	<u>2/</u>	8.0	14.6	26.1	27.6
Children's: <u>4/</u>					
Value-----million dollars--:	59.7	66.4	97.7	159.0	184.6
Percentage change-----:	<u>2/</u>	11.2	47.1	62.7	16.1
Athletic:					
Value-----million dollars--:	446.7	449.5	665.9	677.4	926.2
Percentage change-----:	<u>2/</u>	0.6	48.1	1.7	36.7
All other:					
Value-----million dollars--:	0.1	0.3	0.5	0.7	1.3
Percentage change-----:	<u>2/</u>	124.1	45.8	41.3	90.8
Total:					
Value-----million dollars--:	2,298.3	2,427.6	3,111.9	3,763.6	4,651.4
Percentage change-----:	<u>2/</u>	5.6	28.2	20.9	23.6

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Not available.

3/ Women's footwear also includes misses' but excludes athletic.

4/ Children's footwear also includes infants' but excludes athletic.

5/ Adjusted using the import price index with a base year of 1980, an index of the U.S. Department of Labor.

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

Like the quantity of imports, their value increased steadily from 1980 to 1984. The value of imports grew by 102 percent during 1980-84, rising from \$2.3 billion in 1980 to \$4.7 billion in 1984. Such value increased in each category of shoes in each year during the period, with the exception of athletic shoes, which decreased slightly from 1982 to 1983, and then increased markedly, by 41 percent, in 1984. Value expressed in 1980 dollars also grew by 102 percent over the period 1980-84. In terms of 1980 dollars, growth from 1983 to 1984 was 24 percent compared with 27 percent in nominal terms.

Women's shoes accounted for 67 percent of the growth in the quantity of imports from 1983 to 1984, athletic shoes accounted for 23 percent, children's shoes for 6 percent, and men's shoes for 3 percent. Of the growth in value of imports from 1983 to 1984, women's shoes accounted for 60 percent, athletic shoes for 27 percent, men's shoes for 10 percent, and children's shoes for 3 percent.

The trend of increasing imports continued during January-February 1985 (table 8). The quantity and value of imports in January-February 1985 were 6 percent and 8 percent above their respective levels in January-February 1984.

Table 8.--Nonrubber footwear: U.S. imports for consumption, by categories, January-February 1984 and January-February 1985

(Quantity in thousands of pairs; value in thousands of dollars)			
Category	January-February		Percentage change, 1985 from 1984
	1984	1985	
Quantity			
Men's 1/-----	23,561	21,598	-8.3
Women's 2/-----	69,869	75,836	8.5
Children's 3/-----	11,733	12,208	4.0
Athletic-----	19,006	22,216	16.9
All other-----	62	29	-53.2
Total-----	124,231	131,887	6.2
Value			
Men's 1/-----	165,249	164,131	-0.7
Women's 2/-----	407,770	449,929	10.3
Children's 3/-----	34,200	33,727	-1.4
Athletic-----	131,420	154,048	17.2
All other-----	180	131	-27.2
Total-----	738,820	801,964	8.5

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

Some shifting of imports of athletic footwear between the rubber and nonrubber categories of the TSUS may have occurred. Such shifting may suggest that increases in imports of nonrubber athletic footwear and, thus, total imports of nonrubber footwear are overstated by official statistics. The available data on apparent consumption of rubber athletic shoes are presented in table 9. These data are stated in terms of the category within which such shoes fall--footwear with fabric uppers and soles of rubber or plastic. These data show a remarkable drop in imports of such footwear in 1982, roughly coincident with the ending of the OMA's with Taiwan and Korea in 1981 and with changes in the valuation of and duties on imported rubber footwear in 1980. If imports of such footwear did not actually decline but were merely shifted to another statistical classification, one would expect to see a concurrent increase in imports under the nonrubber athletic category and under the nonrubber basket category of the TSUS. In fact, such an increase did occur. Imports of nonrubber athletic shoes increased by 52 percent from 1981 to 1982. Imports classified under the nonrubber basket category increased by 142 percent from 1981 to 1982 and by 39 percent from 1982 to 1983. This increase, however, was greater than the relative decrease in footwear with fabric uppers and soles of rubber or plastic, suggesting that a portion of the increase in nonrubber imports was independent of any shifting from rubber categories. At any rate, imports of footwear with soles of rubber or plastic increased in 1983 and 1984, and imports of nonrubber footwear under the basket category declined by 30 percent in 1984, suggesting an end to any shifting of athletic footwear from rubber to nonrubber categories.

U.S. imports relative to apparent consumption and production

The ratios of U.S. imports to apparent consumption show increases for all categories in each year since 1981, with the exception of the ratio for athletic shoes, which declined from 1980 to 1981 and then increased thereafter (table 10). The ratio of the quantity of imports to consumption of all nonrubber footwear increased from 50 percent in 1980 to 71 percent in 1984,

Table 9.—Footwear with fabric uppers and soles of rubber or plastic: U.S. production, imports for consumption, exports, and apparent consumption, 1980-84

(In thousands of pairs)								
Year	:	Production	:	Imports	:	Exports	:	Apparent consumption
1980	:	97,516	:	120,801	:	1,693	:	216,624
1981	:	95,399	:	137,633	:	1,564	:	231,468
1982	:	92,896	:	98,039	:	1,367	:	189,568
1983	:	79,975	:	102,498	:	1,203	:	181,270
1984	:	<u>1/</u> 65,873	:	107,685	:	1,120	:	172,438

1/ Data are preliminary.

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

Table 10.--Nonrubber footwear: U.S. imports relative to apparent consumption and production, by categories, 1980-84, January-February 1984, and January-February 1985

(In percent)

Period	Men's <u>1/</u>	Women's <u>2/</u>	Child- dren's <u>3/</u>	Athletic	All other	Total
Ratio of imports to apparent consumption, by quantity <u>4/</u>						
1980-----	41.2	59.5	36.9	82.9	0.1	49.5
1981-----	42.6	61.2	40.9	78.6	.1	51.0
1982-----	55.0	63.1	47.5	82.7	.3	57.8
1983-----	60.4	69.3	60.3	83.6	.4	63.3
1984-----	64.1	78.9	64.9	91.5	.6	71.5
Jan.-Feb.--	:	:	:	:	:	:
1984-----	63.7	76.6	63.4	88.2	.6	69.4
1985-----	65.1	82.5	69.9	95.2	.3	75.7
Ratio of imports to apparent consumption, by value <u>5/</u>						
1980-----	20.7	41.2	19.5	73.2	0.1	33.8
1981-----	21.3	42.2	21.0	71.2	.1	34.6
1982-----	28.4	43.5	27.4	77.4	.2	39.6
1983-----	31.8	49.7	37.4	77.2	.3	44.0
1984-----	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	54.0
Jan.-Feb.--	:	:	:	:	:	:
1984-----	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	52.3
1985-----	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	60.1
Ratio of imports to apparent consumption, by value in 1980 dollars <u>7/</u>						
1980-----	20.7	41.2	19.5	73.2	0.1	33.8
1981-----	21.5	42.5	21.2	71.5	.1	34.8
1982-----	29.6	45.0	28.5	78.4	.2	41.0
1983-----	34.0	52.1	39.7	78.9	.3	46.4
1984-----	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	<u>6/</u>	55.9
Ratio of imports to production, by quantity						
1980-----	67.3	143.5	57.8	356.2	0.1	94.7
1981-----	71.3	153.8	68.4	321.3	.1	101.0
1982-----	117.9	167.4	89.5	437.9	.3	133.6
1983-----	148.7	221.9	150.2	461.9	.4	169.0
1984-----	173.1	365.6	183.1	855.6	.6	243.0
Jan.-Feb.--	:	:	:	:	:	:
1984-----	171.4	324.2	172.3	665.9	.6	222.8
1985-----	181.1	462.1	230.5	1,346.4	.3	301.6

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

4/ Apparent U.S. consumption by quantity equals U.S. production plus imports minus exports.

5/ Apparent U.S. consumption by value equals U.S. producers' shipments plus imports minus exports.

6/ Not available.

7/ Adjusted using the producer price index and import price index, indexes of the U.S. Department of Labor, with a base year of 1980. Data for January-February 1985 are not available.

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

and then to 76 percent in January-February 1985. ^{1/} The largest yearly increase of imports as a share of consumption occurred in 1984, when imports rose from 63 percent of consumption to 71 percent. Imports of men's, women's, and children's shoes, as well as footwear in the "all other" category, showed steady increases as a share of consumption from 1980 to 1984; the share of imported children's shoes rose especially sharply. The share of imports in all categories except "all other" continued to increase in January-February 1985. The share of consumption of imported athletic shoes fell by 4 percentage points between 1980 and 1981, and then increased steadily from 1982 onward. Imported athletic shoes maintained the highest overall share of consumption, averaging 85 percent of domestic consumption of athletic shoes over the period 1980-84.

The ratio of the value of imports to consumption of all nonrubber footwear ^{2/} increased from 34 percent in 1980 to 54 percent in 1984, and to 60 percent in January-February 1985. The largest yearly increase occurred from 1983 to 1984, when the value of imports as a share of consumption rose by 10 percent. In 1980 dollars, the value of imports as a share of consumption increased as well. The following tabulation compares the yearly increase in percentage points of imports as a share of consumption from 1980 to 1984, by quantity and value:

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Quantity-----	+1.5	+6.8	+5.5	+8.2
Value-----	+0.8	+5.0	+4.4	+10.0
Value in 1980 dollars-----	+1.0	+6.2	+5.4	+9.5

The magnitude of the growth of imports has been greater as a share of production than as a share of consumption. Imports closely matched production in 1980 and 1981, with ratios of 95 percent and 101 percent, respectively. They overtook production in 1982 and 1983, with ratios of 134 percent and 169 percent, respectively. By 1984, the ratio of imports to production reached 243 percent, and by January-February 1985, 302 percent. This overall performance was matched by strong gains in each category of imports.

U.S. imports of nonrubber footwear have continued to increase almost without interruption over a much more extended period of time than during 1980-84. As shown in table 11, imports of nonrubber footwear increased from 27 million pairs, representing 4 percent of apparent consumption, in 1960 to 726 million pairs, representing 71 percent of apparent consumption, in 1984.

The Question of Serious Injury

U.S. production

U.S. production of nonrubber footwear as described by official statistics declined continuously from 386 million pairs in 1980 to 298 million pairs in

^{1/} Apparent U.S. consumption by quantity equals the quantity of U.S. production plus imports minus exports.

^{2/} Apparent U.S. consumption by value equals the value of U.S. producers' shipments plus imports minus exports.

Table 11.--Nonrubber footwear: U.S. production, imports for consumption, exports, and apparent consumption, 1960-84

Period	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption
	Million pairs				Percent
1960	600.0	26.6	3.2	623.4	4
1961	592.9	36.7	3.0	626.6	6
1962	633.2	63.0	2.9	693.3	9
1963	604.3	62.8	2.8	664.3	9
1964	612.8	75.4	2.8	685.4	11
1965	626.2	87.6	2.5	711.3	12
1966	641.7	96.1	2.7	735.1	13
1967	600.0	129.1	2.2	726.9	18
1968	642.4	175.3	2.4	815.3	22
1969	577.0	202.0	2.3	776.7	26
1970	562.3	241.6	2.1	801.8	30
1971	535.8	268.6	2.1	802.3	33
1972	526.7	296.7	2.3	821.1	36
1973	490.0	307.5	3.6	793.9	39
1974	453.0	266.4	4.0	715.4	37
1975	413.1	286.4	4.6	694.9	41
1976	422.5	370.0	6.0	786.5	47
1977	418.1	368.1	5.4	780.8	47
1978	418.9	373.5	6.9	785.5	48
1979	398.9	404.6	9.3	794.2	51
1980	386.3	365.7	13.0	739.1	49
1981	372.0	375.6	11.2	736.4	51
1982	359.1	479.7	8.9	829.9	58
1983	344.3	581.9	7.5	918.6	63
1984	298.5	725.9	8.9	1015.5	71

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

1984, or by 23 percent (table 12). ^{1/} Declines were evident in all categories of production. U.S. production of men's shoes declined from 102 million pairs in 1980 to 80 million in 1984, or by 22 percent. Production of women's shoes declined from 154 million pairs in 1980 to 111 million in 1984, or by 28 percent. Children's shoes declined irregularly from 38 million pairs in 1980 to 34 million in 1984, or by 13 percent. Production of athletic shoes also declined, from 15 million pairs in 1980 to 14 million in 1984, or by 5 percent. Finally, in the "all other" category, production declined from 77 million pairs in 1980 to 61 million in 1984, or by 21 percent. The distribution of U.S. production among the various categories of nonrubber footwear fluctuated slightly between 1980 and 1984. The largest fluctuation was in women's shoes, which went from 42 percent of production in 1982 to 37 percent in 1984 (table 13).

^{1/} Data for 1984 are preliminary.

Table 12.--Nonrubber footwear: U.S. production and yearly percentage change, by categories, 1980-84

Item	1980	1981	1982	1983	1984 ^{1/}
Men's: ^{2/}					
Quantity-----1,000 pairs--:	101,981	98,458	89,115	89,724	79,571
Percentage change-----:	^{3/}	-3.5	-9.5	0.7	-11.3
Women's: ^{4/}					
Quantity-----1,000 pairs--:	154,222	144,971	151,052	138,764	110,707
Percentage change-----:	^{3/}	-6.0	4.2	-8.1	-20.2
Children's: ^{5/}					
Quantity-----1,000 pairs--:	38,357	36,538	38,637	34,807	33,558
Percentage change-----:	^{3/}	-4.7	5.7	-9.9	-3.6
Athletic:					
Quantity-----1,000 pairs--:	15,038	17,831	19,866	19,059	14,211
Percentage change-----:	^{3/}	18.6	11.4	-4.1	-25.4
All other:					
Quantity-----1,000 pairs--:	76,713	74,199	60,437	61,911	60,953
Percentage change-----:	^{3/}	-3.3	-18.5	2.4	-1.5
Total:					
Quantity-----1,000 pairs--:	386,311	371,997	359,107	344,265	298,463
Percentage change-----:	^{3/}	-3.7	-3.5	-4.1	-13.3

^{1/} Data for 1984 are preliminary. Revisions to the total subsequent to the publication of data on the subgroups cause the data not to add to the total shown.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Not available.

^{4/} Women's footwear also includes misses' but excludes athletic.

^{5/} Children's footwear also includes infants' but excludes athletic.

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

Table 13.--Nonrubber footwear: Percentage distribution of U.S. production, by categories, 1980-84

Category	1980	1981	1982	1983	1984 ^{1/}
Men's ^{2/} -----	26.4	26.5	24.8	26.1	26.6
Women's ^{3/} -----	39.9	39.0	42.1	40.3	37.0
Children's ^{4/} -----	9.9	9.8	10.8	10.1	11.2
Athletic-----	3.9	4.8	5.5	5.5	4.8
All other-----	19.9	19.9	16.8	18.0	20.4
Total-----	100.0	100.0	100.0	100.0	100.0

^{1/} Data for 1984 are preliminary.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Women's footwear also includes misses' but excludes athletic.

^{4/} Children's footwear also includes infants' but excludes athletic.

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

A breakdown of U.S. production, by types of upper materials and by categories, shows little change in the product mix (table 14). The share of children's shoes made with leather uppers increased from 1980 to 1983, whereas the share of athletic shoes made with leather uppers declined. Overall, preliminary 1984 figures show that nonrubber footwear with uppers of leather accounted for about 56 percent of domestic production--a slight increase since the 1980 level of 53 percent.

Table 14.--Nonrubber footwear: Percentage distribution of U.S. production, by types of upper materials and by categories, 1980-84

Item	1980	1981	1982	1983	1984 ^{1/}
Men's: ^{2/}					
Leather-----	82.5	84.5	87.4	87.7	<u>3/</u>
Plastic-----	16.0	13.3	8.6	8.7	<u>3/</u>
All other-----	1.5	2.2	4.0	3.6	<u>3/</u>
Total-----	100.0	100.0	100.0	100.0	<u>3/</u>
Women's: ^{4/}					
Leather-----	54.9	54.6	54.6	58.6	<u>3/</u>
Plastic-----	37.7	34.4	32.2	29.6	<u>3/</u>
All other-----	7.4	11.0	13.2	11.8	<u>3/</u>
Total-----	100.0	100.0	100.0	100.0	<u>3/</u>
Children's: ^{5/}					
Leather-----	47.7	52.7	54.0	57.1	<u>3/</u>
Plastic-----	36.8	29.6	32.2	26.1	<u>3/</u>
All other-----	15.5	17.7	13.8	16.8	<u>3/</u>
Total-----	100.0	100.0	100.0	100.0	<u>3/</u>
Athletic:					
Leather-----	68.6	51.6	43.4	43.8	<u>3/</u>
Plastic-----	31.4	44.3	43.2	43.3	<u>3/</u>
All other-----	6/	4.1	13.4	12.9	<u>3/</u>
Total-----	100.0	100.0	100.0	100.0	<u>3/</u>
All other:					
Leather-----	8.1	8.7	10.8	10.0	<u>3/</u>
Plastic-----	20.0	14.1	16.5	15.0	<u>3/</u>
All other-----	71.9	77.2	72.7	75.0	<u>3/</u>
Total-----	100.0	100.0	100.0	100.0	<u>3/</u>
Total:					
Leather-----	52.7	53.0	54.7	56.5	55.9
Plastic-----	28.1	24.8	24.3	21.9	<u>6/</u>
All other-----	19.2	22.2	21.0	21.6	<u>44.1</u>
Total-----	100.0	100.0	100.0	100.0	100.0

^{1/} Data are preliminary and include estimates.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Not available.

^{4/} Women's footwear also includes misses' but excludes athletic.

^{5/} Children's footwear also includes infants' but excludes athletic.

^{6/} Not reported separately.

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

Data on production are available from questionnaire responses by U.S. producers. One hundred sixty-four firms, with 1984 production accounting for 91 percent of that reported by official statistics, provided usable data on nonrubber footwear production. 1/ Questionnaire data may be less reliable than official statistics for analyzing the nonrubber footwear industry's production trends because they generally do not present data for firms that ceased production prior to the time of the survey. The ratio of production as compiled from questionnaire responses to that reported by official statistics is 83 percent in 1980, 91 percent in 1981, 87 percent in 1982, 87 percent in 1983, and 91 percent in 1984.

Production data from questionnaire responses are presented in table 15. Production increased from 321 million pairs in 1980 to 338 million in 1981, and then declined each year thereafter. The steepest decline occurred from 1983 to 1984, when production fell from 300 million to 272 million pairs, or by 9 percent 2/—representing a smaller decline than the 13 percent registered by official statistics.

Questionnaire data on production by groups of similarly sized firms show that production declined in 1984 for all sizes of firms (table 16). The share of total production held by firms producing less than 1 million pairs per year remained relatively steady at 12 percent in 1983 and 13 percent in 1984. Firms producing over 4 million pairs per year accounted for 62 percent of total production in 1980, about 60 percent in 1981-83, and 59 percent in 1984. 3/

1/ Out of all firms that provided questionnaire responses, 21 did not provide complete production data. The largest of these firms was ***, which could not separate its production by categories. *** The following tabulation compares coverage of production data in this investigation with that in investigation No. TA-201-50:

	<u>Investigation No.</u> <u>TA-201-50</u>		<u>Investigation No.</u> <u>TA-201-55</u>	
	<u>Reporting</u> <u>firms</u> <u>(number)</u>	<u>Share of</u> <u>production 1/</u> <u>(percent)</u>	<u>Reporting</u> <u>firms</u> <u>(number)</u>	<u>Share of</u> <u>production 2/</u> <u>(percent)</u>
Less than 200,000 pairs-----	28	1	49	1
200,000 to 499,999 pairs-----	29	4	28	3
500,000 to 999,999 pairs-----	29	6	30	7
1,000,000 to 1,999,999 pairs--	30	12	24	12
2,000,000 to 3,999,999 pairs--	18	14	15	14
4,000,000 pairs or more-----	18	53	18	54
Total-----	152	90	164	91

1/ Production in 1983 as reported by official statistics.

2/ Production in 1984 as reported by preliminary official statistics.

2/ ***.

3/ ***.

Table 15.--Nonrubber footwear: U.S. production, by categories, 1980-84

Item	1980	1981	1982	1983	1984
Men's: <u>1/</u>					
Quantity-----1,000 pairs--:	91,614	96,552	83,651	82,888	77,553
Ratio to total production					
percent--:	28.5	28.6	26.7	27.7	28.5
Women's: <u>2/</u>					
Quantity-----1,000 pairs--:	129,265	133,630	136,488	131,179	117,634
Ratio to total production					
percent--:	40.3	39.6	43.6	43.8	43.3
Children's: <u>3/</u>					
Quantity-----1,000 pairs--:	26,356	28,423	25,236	22,224	23,788
Ratio to total production					
percent--:	8.2	8.4	8.1	7.4	8.7
Athletic:					
Quantity-----1,000 pairs--:	30,383	39,965	34,029	34,119	27,968
Ratio to total production					
percent--:	9.4	11.8	10.9	11.4	10.3
All other:					
Quantity-----1,000 pairs--:	43,493	39,074	33,381	29,218	24,973
Ratio to total production					
percent--:	13.5	11.6	10.7	9.8	9.2
Total:					
Quantity-----1,000 pairs--:	321,111	337,644	312,785	299,628	271,916
Ratio to total production					
percent--:	100.0	100.0	100.0	100.0	100.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

U.S. producers responding to Commission questionnaires were asked to estimate the percentage of their production of nonrubber footwear which was below \$5 wholesale value, between \$5 and \$10 wholesale value, and over \$10 wholesale value. 1/ This information is presented in table 17. These data are estimates, and should be used with caution.

The share of total production accounted for by each wholesale value category remained relatively unchanged from 1980 to 1984. Approximately 27 percent of production was valued below \$5 per pair in 1980, 17 percent was valued between \$5 and \$10 per pair, and 56 percent was valued over \$10 per pair. The share of production valued below \$5 declined slightly each year, reaching 26 percent in 1984. The portion of production held by shoes valued between \$5 and \$10 declined to 15 percent in 1982, and then climbed to 16 percent in 1984. The share of production valued above \$10 declined slightly

1/ ***.

Table 16.—Nonrubber footwear: U.S. production,
by sizes of output, 1/ 1980-84

Size of output	1980	1981	1982	1983	1984
Less than 200,000 pairs:					
Quantity-----1,000 pairs--	6,324	6,966	5,078	4,544	3,617
Ratio to total production					
percent--	2.0	2.1	1.6	1.5	1.3
200,000 to 499,999 pairs:					
Quantity-----1,000 pairs--	12,244	12,383	11,384	10,274	9,872
Ratio to total production					
percent--	3.8	3.7	3.6	3.4	3.6
500,000 to 999,999 pairs:					
Quantity-----1,000 pairs--	21,703	24,594	22,367	22,349	21,569
Ratio to total production					
percent--	6.8	7.3	7.2	7.5	7.9
1,000,000 to 1,999,999 pairs:					
Quantity-----1,000 pairs--	33,023	36,648	36,837	36,394	34,263
Ratio to total production					
percent--	10.3	10.9	11.8	12.1	12.6
2,000,000 to 3,999,999 pairs:					
Quantity-----1,000 pairs--	50,482	54,393	48,231	45,453	42,133
Ratio to total production					
percent--	15.7	16.1	15.4	15.2	15.5
4,000,000 pairs or more:					
Quantity-----1,000 pairs--	197,335	202,660	188,888	180,614	160,462
Ratio to total production					
percent--	61.5	60.0	60.4	60.3	59.0
Total:					
Quantity---1,000 pairs--	321,111	337,644	312,785	299,628	271,916
Ratio to total					
production---percent--	100.0	100.0	100.0	100.0	100.0

1/ The grouping of firms by size of output is based on 1984 production.

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

in 1981, and then increased steadily, by 3 percent, reaching 58 percent in 1984. The majority of shoes produced in all size groups were valued above \$10 in 1984. For all but the very largest firms, shoes valued between \$5 and \$10 made up the next largest share of production. Shoes valued below \$5 made up the second largest share of production, 36 percent in 1984, in firms that produced over 4 million pairs.

Some U.S. producers use imported uppers to maintain U.S. production with lower production costs. Out of 164 firms that submitted data on production, 16 reported using imported uppers in 1980 and 41 reported such use in 1984. Nonrubber footwear manufactured with imported uppers increased from 8 million pairs in 1980, or 3 percent of total production, to 26 million pairs in 1984,

Table 17.--Nonrubber footwear: U.S. production, by sizes of output and by categories of wholesale value, per pair, 1980-84

(In percent)						
Item	1980	1981	1982	1983	1984	
Less than 200,000 pairs:						
Below \$5-----	7.3	6.8	10.6	10.3	9.8	
Between \$5 and \$10-----	25.6	23.8	29.8	33.2	26.9	
Over \$10-----	67.1	69.4	59.6	56.5	63.3	
Total-----	100.0	100.0	100.0	100.0	100.0	
200,000 to 499,999 pairs:						
Below \$5-----	5.7	5.1	4.2	3.9	2.6	
Between \$5 and \$10-----	31.3	34.7	28.7	25.2	25.5	
Over \$10-----	63.0	60.1	67.1	70.9	71.9	
Total-----	100.0	100.0	100.0	100.0	100.0	
500,000 to 999,999 pairs:						
Below \$5-----	17.1	19.4	17.1	18.8	19.2	
Between \$5 and \$10-----	22.9	17.7	19.9	19.9	20.2	
Over \$10-----	60.0	63.0	63.0	61.3	60.5	
Total-----	100.0	100.0	100.0	100.0	100.0	
1,000,000 to 1,999,999 pairs:						
Below \$5-----	15.3	15.5	19.1	11.0	10.0	
Between \$5 and \$10-----	31.5	31.6	27.1	27.3	24.5	
Over \$10-----	53.2	52.9	53.8	61.7	65.4	
Total-----	100.0	100.0	100.0	100.0	100.0	
2,000,000 to 3,999,999 pairs:						
Below \$5-----	4.5	5.0	5.4	5.7	6.0	
Between \$5 and \$10-----	30.0	26.7	28.1	25.0	30.2	
Over \$10-----	65.5	68.3	66.4	69.3	63.7	
Total-----	100.0	100.0	100.0	100.0	100.0	
4,000,000 pairs or more:						
Below \$5-----	38.7	39.6	39.2	36.9	35.9	
Between \$5 and \$10-----	8.1	7.5	8.4	9.6	9.9	
Over \$10-----	53.2	52.9	52.3	53.6	54.2	
Total-----	100.0	100.0	100.0	100.0	100.0	
Total:						
Below \$5-----	27.1	28.1	28.6	26.4	25.6	
Between \$5 and \$10-----	16.6	15.2	15.4	15.6	16.2	
Over \$10-----	56.3	56.7	55.9	58.0	58.2	
Total-----	100.0	100.0	100.0	100.0	100.0	

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

or 10 percent of total production (table 18). Imported uppers may be either lasted, with a midsole or insole, or unlasted. Unlasted uppers were used in the production of 22 million pairs in 1984, or 85 percent of all nonrubber footwear made with imported uppers.

Table 18.--Nonrubber footwear: U.S. production with imported uppers, 1980-84

Item	1980	1981	1982	1983	1984
Nonrubber footwear produced--	:	:	:	:	:
With imported uppers:	:	:	:	:	:
Lasted-----1,000 pairs--	2,599	3,370	4,135	3,272	3,908
Unlashed-----do-----	5,414	7,615	9,434	15,376	22,022
Total-----do-----	8,013	10,985	13,569	18,648	25,930
Without imported uppers	:	:	:	:	:
1,000 pairs--	313,098	326,659	299,216	280,980	245,986
Total-----do-----	321,111	337,644	312,785	299,628	271,916
Share of total production	:	:	:	:	:
made with imported uppers	:	:	:	:	:
percent--	2.5	3.3	4.3	6.2	9.5

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

U.S. production capacity and capacity utilization

Data on production capacity and capacity utilization of U.S. producers are available for the period 1980-84 from responses to Commission questionnaires. ^{1/} These data are presented in table 19. Data from Commission questionnaires describing capacity and capacity utilization do not take into account capacity that is lost when a company closes its nonrubber footwear manufacturing operations and does not submit a questionnaire response.

Total capacity to produce nonrubber footwear increased each year from 412 million pairs in 1980 to 428 million pairs in 1982. ^{2/} Capacity then declined through 1983 and 1984 to reach 388 million pairs, a level 9 percent below that in 1982. Capacity to produce men's shoes declined each year from 1981 to 1984. From 1980 to 1983, capacity to produce women's and athletic shoes increased before it, too, fell in 1984. From 1982 to 1984, capacity to produce children's shoes fell, and that to produce "all other" shoes increased.

Capacity utilization increased from 78 percent in 1980 to 79 percent in 1981, and then decreased by 9 percentage points over the 1981-84 period, reaching 70 percent in 1984. Capacity utilization rates varied among the categories of footwear. The lowest rates in 1984 were for the athletic and "all other" categories, at 57 and 63 percent, respectively.

^{1/} The same firms submitted data on both capacity and production--164 firms accounting for 91 percent of 1984 production as reported by preliminary official statistics. ***.

* * * * *

^{2/} Apparent increases from 1980 to 1981 may be attributable to the method used to collect data rather than to actual trends; see the section entitled "Statistical Information Used in This Report."

Table 19.—Nonrubber footwear: U.S. production capacity ^{1/} and capacity utilization, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Capacity (1,000 pairs)					
Men's ^{2/}	120,147	123,970	121,735	117,459	109,611
Women's ^{3/}	160,469	172,942	178,166	180,231	155,898
Children's ^{4/}	36,036	35,663	36,202	35,229	33,519
Athletic	47,924	50,622	52,318	53,962	49,126
All other	47,003	43,606	39,443	39,465	39,749
Total	411,579	426,802	427,864	426,346	387,903
Capacity utilization (percent)					
Men's ^{2/}	76.3	77.9	68.7	70.6	70.8
Women's ^{3/}	80.6	77.3	76.6	72.8	75.5
Children's ^{4/}	73.1	79.7	69.7	63.1	71.0
Athletic	63.4	78.9	65.0	63.2	56.9
All other	92.5	89.6	84.6	74.0	62.8
Average	78.0	79.1	73.1	70.3	70.1

^{1/} Production capacity is defined as the greatest level of output a plant can achieve within the framework of a realistic work pattern.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Women's footwear also includes misses' but excludes athletic.

^{4/} Children's footwear also includes infants' but excludes athletic.

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

Note.—Because of rounding, figures may not add to the totals shown.

Data on production capacity and capacity utilization for groups of similarly sized firms show that the capacity of most groups remained relatively stable from 1982 to 1983, and then declined by an average of 8 percentage points in 1984 (table 20). The exception was the group of firms that produce from 1 million to 1.9 million pairs annually; this group saw an increase in capacity from 1982 to 1983 before a particularly sharp decline of 13 percent in 1984.

Capacity utilization rates differed between groups of different sized firms. Although the smallest firms had lower rates than the largest firms, the second smallest group, with production of 200,000 to 499,999 pairs per year, had higher utilization rates from 1980 to 1983 than all but the very largest firms. Capacity utilization decreased in 1984 for the groups of firms producing below 500,000 pairs and above 4 million pairs per year; for other firms, capacity utilization increased in 1984 as capacity decreased.

Table 20.--Nonrubber footwear: U.S. production capacity ^{1/} and capacity utilization, by sizes of output, ^{2/} 1980-84

Size of output	1980	1981	1982	1983	1984
Capacity (1,000 pairs)					
Less than 200,000 pairs-----	10,385	11,204	9,872	9,952	9,903
200,000 to 499,999 pairs-----	15,196	15,110	14,592	14,494	14,438
500,000 to 999,999 pairs-----	30,396	33,454	34,634	35,105	30,891
1,000,000 to 1,999,999 pairs--	58,787	65,335	69,589	71,093	61,746
2,000,000 to 3,999,999 pairs--	64,497	67,904	69,607	66,687	55,011
4,000,000 pairs or more-----	232,318	233,795	229,570	229,015	215,914
Total-----	411,579	426,802	427,864	426,346	387,903
Capacity utilization (percent)					
Less than 200,000 pairs-----	60.9	62.2	51.4	45.7	36.5
200,000 to 499,999 pairs-----	80.6	82.0	78.0	70.9	68.4
500,000 to 999,999 pairs-----	71.4	73.5	64.6	63.7	69.8
1,000,000 to 1,999,999 pairs--	56.2	56.1	52.9	51.2	55.5
2,000,000 to 3,999,999 pairs--	78.3	80.1	69.3	68.2	76.6
4,000,000 pairs or more-----	84.9	86.7	82.3	78.9	74.3
Average-----	78.0	79.1	73.1	70.3	70.1

^{1/} Production capacity is defined as the greatest level of output a plant can achieve within the framework of a realistic work pattern.

^{2/} Size groupings are based on 1984 footwear production.

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

Plant closings

Official statistics do not provide data on the number of closings and openings of nonrubber footwear producing plants, but such statistics do provide a count of the total number of establishments producing nonrubber footwear throughout the United States. From these statistics, the yearly net gain or loss of establishments can be derived. U.S. Department of Commerce data show that the number of nonrubber footwear producing establishments ^{1/} declined from 1,072 in 1970 to 701 in 1982; most of the net losses of establishments were sustained during 1971-75, as shown in the following tabulation:

^{1/} In official statistics each single-establishment organization is counted if it had a fourth quarter payroll. Each establishment of a multiestablishment firm is counted if it is active on Dec. 15. U.S. Bureau of the Census, County Business Patterns, 1970-82.

<u>Total estab-</u> <u>lishments</u>		<u>Net gain</u> <u>or loss</u>	:	<u>Total estab-</u> <u>lishments</u>		<u>Net gain</u> <u>or loss</u>
1970-----	1,072	<u>1/</u>	:	1977-----	777	14
1971-----	1,014	-58	:	1978-----	751	-26
1972-----	936	-78	:	1979-----	717	-34
1973-----	952	16	:	1980-----	710	-7
1974-----	853	-99	:	1981-----	700	-10
1975-----	781	-72	:	1982-----	701	1
1976-----	763	-18	:			

1/ Not available.

The nonrubber footwear industry also collected data on plant openings and closings. These data show the number of plants diminishing from 838 in 1970 to 459 in 1984, with approximately the same amount of net losses in the period 1980-84 as in 1971-75. Aggregate industry data are not subject to complete verification owing to the unavailability of information on some closed firms. The following tabulation provides recent industry statistics: 1/

	<u>Number of</u> <u>plants</u>	<u>Number</u> <u>opening</u>	<u>Number</u> <u>closing</u>	<u>Net gain</u> <u>or loss</u>
1970-----	838	<u>1/</u>	<u>1/</u>	<u>1/</u>
1971-----	811	<u>1/</u>	<u>1/</u>	-27
1972-----	774	<u>1/</u>	<u>1/</u>	-37
1973-----	756	<u>1/</u>	<u>1/</u>	-18
1974-----	712	<u>1/</u>	<u>1/</u>	-44
1975-----	671	<u>1/</u>	<u>1/</u>	-41
1976-----	669	<u>1/</u>	<u>1/</u>	-2
1977-----	648	18	39	-21
1978-----	658	45	35	+10
1979-----	629	23	52	-29
1980-----	613	10	26	-16
1981-----	594	19	38	-19
1982-----	571	10	33	-23
1983-----	541	12	42	-30
1984-----	459	12	94	-82

1/ Not available.

For the 1970-82 period, the total number of establishments counted by official statistics averages 20 percent higher than industry data. This

1/ Industry statistics generally count single establishment firms and each establishment of multiestablishment firms, making changes to totals based upon information on gains or losses received from industry sources. Industry statistics have been compiled by FIA ***.

FIA bases its data on *** its own research. ***. FIA *** data are relied upon as definitive by the U.S. Department of Commerce for use in its U.S Industrial Outlook series. In the report for this investigation, data supplied by FIA are used as the basis for U.S. industry figures on plant openings and closings.

discrepancy probably results from the failure of industry data to count small producers. Despite this discrepancy, both official statistics and industry data show a generally higher rate of decline from 1970 to 1975 than from 1976 to 1982, and both sets of data show a similar overall rate of decline from 1970 to 1982--official statistics showing 35 percent, industry data, 32 percent. For the years 1980-82, official statistics report net closings of 16 establishments. Industry data report net closings of 58 plants during the same period. Industry data show a sharp decline in the total number of establishments in 1983 and 1984. Official statistics for 1983 and 1984 are not available.

The Commission requested that FIA provide details on plant closings and openings to support its statistics. ^{1/} This information was provided in FIA's posthearing submission. In the posthearing submission of Footwear Retailers of America, allegations were made that some of the closed plants identified by FIA had not closed as a result of competition from imports.

U.S. producers' shipments

Shipments of U.S. producers as reported by official statistics are presented in table 21. ^{2/} The quantity of shipments declined steadily from 385 million pairs in 1980 to 309 million pairs in 1984. The value of shipments, however, increased from \$4.6 billion in 1980 to \$4.8 billion in 1981, and held at approximately that level, falling by only 1 percent, through 1983. The value of shipments then declined to \$4.1 billion in 1984, or by 15 percent compared with that in 1983.

The quantity of men's and children's footwear shipped followed the same trend as did total shipments. The value of shipments of men's footwear fluctuated, with an overall decrease from 1980 to 1983, while the value of shipments of children's footwear increased steadily through 1983. The quantity of women's and "all other" footwear declined irregularly, but their value increased irregularly. The quantity of athletic footwear shipped increased from 1980 to 1983, though between 1981 and 1983 the increases were small; the value of such shipments increased irregularly by 11 percent over the period 1980-83.

Both the quantity and value of shipments in January-February 1985 declined from those of shipments in January-February 1984, as the following tabulation of official statistics indicates:

	<u>January-February</u> <u>1984</u>	<u>January-February</u> <u>1985</u>
Quantity-----1,000 pairs--	53,041	42,152
Value-----1,000 dollars--	686,907	548,772

^{1/} Transcript of the hearing, p. 349.

^{2/} Official statistics on shipments include exports.

Table 21.--Nonrubber footwear: U.S. producers' shipments, by categories, 1980-84

Category	1980	1981	1982	1983	1984 ^{1/}
Quantity (1,000 pairs)					
Men's ^{2/}	103,951	98,096	88,871	86,237	^{3/}
Women's ^{4/}	151,699	146,068	148,419	138,732	^{3/}
Children's ^{5/}	39,817	37,807	33,967	33,764	^{3/}
Athletic	14,723	17,221	17,917	18,003	^{3/}
All other	74,736	75,593	68,325	64,668	^{3/}
Total	384,926	374,785	357,499	341,404	309,337
Value (million dollars)					
Men's ^{2/}	2,109	2,164	2,037	2,061	^{3/}
Women's ^{4/}	1,813	1,921	2,021	1,955	^{3/}
Children's ^{5/}	248	258	260	261	^{3/}
Athletic	197	214	213	218	^{3/}
All other	253	260	272	263	^{3/}
Total	4,620	4,817	4,802	4,759	4,062
Unit value (per pair)					
Men's ^{2/}	\$20.29	\$22.06	\$22.92	\$23.89	^{3/}
Women's ^{4/}	11.95	13.15	13.61	14.09	^{3/}
Children's ^{5/}	6.23	6.83	7.65	7.74	^{3/}
Athletic	13.37	12.45	11.91	12.12	^{3/}
All other	3.39	3.44	3.98	4.07	^{3/}
Average	12.00	12.85	13.43	13.94	13.13

^{1/} Data for 1984 are preliminary.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Not available.

^{4/} Women's footwear also includes misses' but excludes athletic.

^{5/} Children's footwear also includes infants' but excludes athletic.

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

Data on domestic shipments of U.S. producers are available from responses to Commission questionnaires. ^{1/} These data are presented, by category, in table 22, and, by size of producer, in table 23. Questionnaire data show

^{1/} Data on quantity and value of domestic shipments were provided by 161 firms accounting for 87 percent of production, 86 percent of the quantity of domestic shipments, and 95 percent of the value of domestic shipments as reported by preliminary 1984 official statistics. The following tabulation presents the ratio of questionnaire data to official statistics on quantity of domestic shipments, for firms grouped by size of output, in this investigation (based on 1984 data) and in investigation No. TA-201-50 (based on 1983 data):

Footnote continued on following page.

Table 22.--Nonrubber footwear: U.S. producers' domestic shipments, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Quantity (1,000 pairs)					
Men's 1/-----	82,347	83,983	74,690	73,032	70,956
Women's 2/-----	118,850	122,313	125,203	121,815	111,206
Children's 3/-----	25,272	27,106	25,079	22,269	23,303
Athletic-----	29,887	38,089	33,854	33,556	28,171
All other-----	43,421	37,702	33,270	29,143	25,322
Total-----	299,777	309,193	292,096	279,815	258,958
Value (million dollars)					
Men's 1/-----	1,649	1,876	1,707	1,703	1,734
Women's 2/-----	1,447	1,602	1,651	1,730	1,504
Children's 3/-----	191	223	205	180	176
Athletic-----	160	225	234	261	253
All other-----	138	144	129	119	116
Total-----	3,585	4,069	3,926	3,994	3,784
Unit value (per pair)					
Men's 1/-----	\$20.03	\$22.33	\$22.85	\$23.32	\$24.44
Women's 2/-----	12.17	13.09	13.18	14.20	13.52
Children's 3/-----	7.55	8.22	8.18	8.09	7.55
Athletic-----	5.36	5.91	6.90	7.79	8.98
All other-----	3.19	3.81	3.88	4.09	4.58
Average-----	11.96	13.16	13.43	14.27	14.61

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

Note.--Because of rounding, figures may not add to the totals shown.

Footnote continued from previous page.

	Investigation No. TA-201-50 (Percent)	Investigation No. TA-201-55 (Percent)
Less than 200,000 pairs-----	0.8	1.2
200,000 to 499,999 pairs-----	4.2	3.3
500,000 to 999,999 pairs-----	6.6	7.1
1,000,000 to 1,999,999 pairs--	12.0	11.3
2,000,000 to 3,999,999 pairs--	13.9	14.0
4,000,000 pairs or more-----	48.7	49.3
Total-----	86.1	86.2

Table 23.--Nonrubber footwear: U.S. producers' domestic shipments, by sizes of output, 1980-84

Size of output	1980	1981	1982	1983	1984
Quantity (1,000 pairs)					
Less than 200,000 pairs-----	6,262	6,781	5,086	4,168	3,670
200,000 to 499,999 pairs-----	12,031	12,241	11,308	10,009	9,824
500,000 to 999,999 pairs-----	21,739	24,363	22,581	22,309	21,267
1,000,000 to 1,999,999 pairs--	32,386	35,447	35,271	35,553	33,935
2,000,000 to 3,999,999 pairs--	50,627	53,154	48,965	45,696	42,091
4,000,000 pairs or more-----	176,732	177,207	168,885	162,080	148,171
Total-----	299,777	309,193	292,096	279,815	258,958
Value (million dollars)					
Less than 200,000 pairs-----	98	112	87	80	75
200,000 to 499,999 pairs-----	199	205	206	193	195
500,000 to 999,999 pairs-----	321	398	382	383	368
1,000,000 to 1,999,999 pairs--	504	606	620	683	671
2,000,000 to 3,999,999 pairs--	691	821	689	674	656
4,000,000 pairs or more-----	1,774	1,928	1,942	1,981	1,818
Total-----	3,585	4,069	3,926	3,994	3,784
Unit value (per pair)					
Less than 200,000 pairs-----	\$15.64	\$16.46	\$17.05	\$19.10	\$20.55
200,000 to 499,999 pairs-----	16.51	16.76	18.25	19.25	19.83
500,000 to 999,999 pairs-----	14.77	16.32	16.94	17.17	17.30
1,000,000 to 1,999,999 pairs--	15.55	17.08	17.57	19.22	19.79
2,000,000 to 3,999,999 pairs--	13.64	15.45	14.07	14.75	15.58
4,000,000 pairs or more-----	10.04	10.88	11.50	12.22	12.27
Average-----	11.96	13.16	13.43	14.27	14.61

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

Note.--Because of rounding, figures may not add to the totals shown.

shipments increasing from 300 million pairs in 1980 to 309 million pairs in 1981, and then decreasing through the next 3 years to reach 259 million pairs in 1984. Official statistics present a slightly different trend--a steady decline from 1980 to 1984. Questionnaire data show the value of shipments increasing by 13 percent between 1980 and 1981, declining by 4 percent in 1982, increasing by 2 percent in 1983, and declining by 5 percent in 1984. Official statistics, in contrast, present the value of shipments as increasing by 4 percent between 1980 and 1981, and then decreasing by less than 1 percent in both 1982 and 1983, before dropping by 15 percent in 1984.

The quantity of shipments of men's and athletic shoes as reported in questionnaire data followed the same trend as total shipments. Shipments of women's shoes continued to increase in 1982 before falling off in 1983 and

1984; shipments of children's shoes declined from 1981 to 1983 and then rose in 1984; and shipments of "all other" shoes decreased steadily from 1980 to 1984. The value of shipments of the various categories of nonrubber footwear fluctuated from year to year. The value of shipments of all categories except men's shoes declined from 1983 to 1984; the drop in the value of shipments of women's shoes was especially sharp, falling by 13 percent from 1983 to 1984.

The unit value of shipments reported in U.S. producers' questionnaires consistently increased from \$11.96 per pair in 1980 to \$14.61 in 1984. In contrast, official statistics portray unit value of shipments as increasing from 1980 to 1983 before declining from \$13.94 in 1983 to \$13.13 in 1984. The unit values of shipments by responding U.S. producers show some variation when the shipments are grouped by the firm's range of production (table 23). Firms producing less than 2,000,000 pairs per year consistently had the highest unit values. Firms producing from 2,000,000 to 3,999,999 pairs per year had unit values lower than smaller firms but higher than the largest producers. All groups of firms producing below 4,000,000 pairs per year had unit values higher than the aggregate, whereas the largest firms, those producing more than 4,000,000 pairs per year, had unit values lower than the aggregate.

U.S. producers' exports

U.S. producers' exports, compiled from official statistics, are shown in the following tabulation:

Year	Quantity : 1,000 pairs	Ratio of : quantity to : shipments : Percent	Value : 1,000 dollars	Ratio of : value to : shipments : Percent
1980-----	12,999	3.4	112,003	2.4
1981-----	11,179	3.0	120,236	2.5
1982-----	8,890	2.5	101,579	2.1
1983-----	7,496	2.2	90,004	1.9
1984-----	8,886	2.9	98,512	2.4

Exports as a share of the quantity of U.S. production declined from 3.4 percent in 1980 to 2.2 percent in 1983, and then increased to 3.0 percent in 1984. The primary markets for these exports in 1984 were Japan, Mexico, and Canada. Athletic shoes accounted for 33 percent of the quantity of exports in 1984, men's shoes for 29 percent, and women's shoes for 27 percent.

U.S. producers' inventories

Data on inventories of U.S. producers are available from responses to Commission questionnaires. ^{1/} These data are presented in table 24. The

^{1/} The same firms submitted data on inventories and shipments--161 firms accounting for 87 percent of production, 86 percent of the quantity of domestic shipments, and 95 percent of the value of domestic shipments, as reported by preliminary 1984 official statistics.

Table 24.--Nonrubber footwear: U.S. producers' end-of-period inventories, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Quantity (1,000 pairs)					
Men's 1/	12,242	12,658	11,745	12,899	11,968
Women's 2/	14,189	14,806	14,671	15,094	14,239
Children's 3/	3,737	3,843	3,397	2,903	3,358
Athletic	4,108	5,271	4,958	5,010	4,673
All other	3,367	4,742	4,864	5,019	4,652
Total	37,643	41,320	39,635	40,925	38,890
Ratio of inventories to shipments (percent)					
Men's 1/	14.9	15.1	15.7	17.7	16.9
Women's 2/	11.9	12.1	11.7	12.4	12.8
Children's 3/	14.8	14.2	13.5	13.0	14.4
Athletic	13.7	13.8	14.6	14.9	16.6
All other	7.8	12.6	14.6	17.2	18.4
Average	12.6	13.4	13.6	14.6	15.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

quantity of inventories followed no trend between 1980 and 1984 but, in general, increased erratically so that inventories at the end of 1984 were higher than those at the end of 1980. 1/ As a share of shipments, however, inventories increased steadily from 1980 to 1984, growing from 12.6 percent of shipments at the end of 1980 to 15.0 percent at the end of 1984.

As a share of shipments, inventories of athletic and "all other" shoes followed the pattern set by total inventories. Inventories of men's footwear as a share of shipments increased from 1980 to 1983, and then declined, from 17.7 percent in 1983 to 16.9 percent in 1984. Inventories of women's shoes as a share of shipments held steady during 1980-83, within 0.4 percentage points of 12.0 percent, and then increased in 1984 to 12.8 percent. Inventories of children's footwear as a share of shipments declined steadily from 1980 to 1983, and then increased from 13.0 percent in 1983 to 14.4 percent in 1984.

1/ Data on inventories at other levels of the footwear trade are presented in the sections entitled "U.S. importers' inventories" and "U.S. wholesalers' and retailers' inventories."

U.S. employment

Official statistics on employment in the U.S. industry producing nonrubber footwear show employment increasing from 1980 to 1981, and decreasing each year thereafter (table 25). Both total employment and the employment of production workers declined by 18 percent from 1981 to 1984. The average hourly earnings of production workers increased from \$4.42 in 1980 to \$5.43 in 1984. During 1980 the U.S. minimum wage was \$3.10, and from 1981 to 1984 it was \$3.31. FIA data on productivity show that the number of pairs produced per hour by workers in the nonrubber footwear industry declined from 1.71 in 1982 to 1.55 in 1984. FIA data on unit labor costs show that such costs increased from \$2.99 per pair in 1982 to \$3.50 per pair in 1984. FIA data on share of the average price accounted for by labor show the share increasing from 22.3 percent in 1982 to 26.7 percent in 1984.

Table 25.--Various data on employment in the nonrubber footwear industry, 1980-84

Item	1980	1981	1982	1983	1984
All employees-----	146,300	146,400	135,100	127,400	120,700
Women employees-----	94,200	96,600	89,300	83,600	78,900
Production workers:					
Number-----	122,900	125,900	115,100	108,500	102,700
Gross average hourly earnings-----	\$4.42	\$4.82	\$5.12	\$5.27	\$5.43
Productivity					
pairs produced per hour--	1/	1/	1.71	1.69	1.55
Unit labor cost--per pair--	1/	1/	\$2.99	\$3.12	\$3.50
Share of average price accounted for by labor-----percent--	1/	1/	22.3	23.6	26.7

1/ Not available.

Source: Official statistics of the U.S. Department of Labor, and Footwear Industries of America, Inc.

The U.S. Department of Labor prepares productivity indexes for the nonrubber footwear industry. These data show yearly performance in selected indicators of industry productivity, comparing each year to the index year of 1977, and are presented in the following tabulation (1977=100):

Indicator	1977	1978	1979	1980	1981	1982	1983
Output per employee hour--	100.0	102.5	100.2	99.1	95.6	97.3	102.0
Output per employee-----	100.0	101.3	99.4	98.6	96.4	95.0	102.4
Output per production worker hour-----	100.0	101.9	101.0	100.2	96.1	98.2	102.7
Output per nonproduction worker hour-----	100.0	106.8	94.8	92.0	92.1	91.1	97.8

Data on employment and wages of U.S. producers are available from responses to Commission questionnaires. Both questionnaire data and official statistics describe total employment in the nonrubber footwear industry as increasing from 1980 to 1981 and then declining from 1981 to 1984; official statistics put the 1981-84 decline at 18 percent over the period and questionnaire data show a decline of 15 percent. Questionnaire data generally do not include employment information for firms that went out of business prior to the time of the survey. ^{1/}

Average employment of all persons in U.S. establishments producing nonrubber footwear increased from 1980 to 1981 but declined thereafter (table 26). Employment increased from 124,599 in 1980 to 127,703 in 1981, or by 2 percent. Employment then declined by 5 percent from 1981 to 1982, and by 4 percent from 1982 to 1983. In 1984, employment declined by 8 percent compared with employment in 1983, to 108,175.

Table 26.--Average number of production and related workers employed in U.S. establishments producing nonrubber footwear and hours worked by such employees, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Average number of employees					
All persons-----	124,599	127,703	121,797	117,286	108,175
All production and related workers producing--	:	:	:	:	:
Men's ^{1/} -----	41,511	41,691	38,655	36,074	33,799
Women's ^{2/} -----	41,400	43,136	41,977	40,893	36,238
Children's ^{3/} -----	7,701	7,732	7,120	6,293	5,701
Athletic-----	7,247	8,395	8,355	7,908	6,327
All other-----	5,860	5,892	5,292	5,270	4,921
Total-----	103,719	106,846	101,399	96,438	86,986
Hours worked by production and related workers (1,000 hours)					
Men's ^{1/} -----	76.671	78,817	65,860	66,121	61,277
Women's ^{2/} -----	75,932	78,305	76,090	75,401	65,449
Children's ^{3/} -----	13,729	13,981	11,626	10,877	10,948
Athletic-----	13,124	15,165	14,269	13,999	12,145
All other-----	10,830	10,807	9,663	9,654	9,194
Total-----	190,286	197,075	177,508	176,052	159,013

^{1/} Men's footwear also includes youths' and boys' but excludes athletic.

^{2/} Women's footwear also includes misses' but excludes athletic.

^{3/} Children's footwear also includes infants' but excludes athletic.

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

^{1/} Data on employment, hours worked, wages paid, and total compensation paid were provided by 161 firms that accounted for 92 percent of 1984 production as reported by preliminary official statistics. Certain firms could not provide data by category of footwear; estimates for these firms made by the Commission staff are included in total data by category.

Employment of production and related workers producing nonrubber footwear followed the same trend as did employment of all persons. The number of production and related workers increased from 103,719 in 1980 to 106,846 in 1981, representing an increase of 3 percent. From 1981 to 1984, the number of production employees diminished by 19 percent over the period, reaching 86,986 in 1984. Employment of production and related workers in each category of nonrubber footwear followed the same trend as did employment for total nonrubber footwear. Employment of such workers in the production of athletic footwear saw an especially precipitous decline in 1984, falling by 20 percent from 7,908 in 1983 to 6,327 in 1984.

Wages and total compensation paid to production and related workers are presented in table 27. Data on productivity, average hourly compensation, and labor costs are presented in table 28. Productivity data are presented in terms of the number of pairs produced per hour of work by production and related workers. These data are of limited use, since productivity fluctuates depending upon the type of shoe produced and the equipment used. Generally, the productivity of production and related workers remained relatively stable; the highest production level during 1980-84 occurred in 1982, with 1.76 pairs produced per hour. In 1983, the level dropped to 1.70 pairs, and in 1984 increased slightly to 1.71 pairs.

Table 27.--Wages and total compensation ^{1/} paid to production and related workers in U.S. establishments producing nonrubber footwear, by categories, 1980-84

(In thousands of dollars)						
Item	1980	1981	1982	1983	1984	
Wages paid to production and related workers						
Men's ^{2/} -----	362,073	400,905	363,387	377,846	367,165	
Women's ^{3/} -----	340,994	379,917	394,772	407,355	368,776	
Children's ^{4/} -----	62,194	68,988	59,746	57,473	57,308	
Athletic-----	58,709	72,427	75,309	75,397	70,202	
All other-----	46,746	49,663	47,752	49,973	48,434	
Total-----	870,716	971,900	940,966	968,044	911,885	
Total compensation paid to production and related workers						
Men's ^{2/} -----	423,406	471,820	433,159	451,199	443,337	
Women's ^{3/} -----	390,948	437,849	454,496	466,278	424,993	
Children's ^{4/} -----	72,498	79,775	69,477	65,489	67,697	
Athletic-----	64,294	79,385	84,597	87,539	80,614	
All other-----	50,953	54,225	52,387	55,223	54,365	
Total-----	1,002,099	1,123,054	1,094,116	1,125,729	1,071,006	

^{1/} Includes wages, contributions to social security, and other employee benefits.

^{2/} Men's footwear also includes youths' and boys' but excludes athletic.

^{3/} Women's footwear also includes misses' but excludes athletic.

^{4/} Children's footwear also includes infants' but excludes athletic.

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

Table 28.--Nonrubber footwear: Labor productivity, average hourly compensation, unit labor costs, and labor's share of the average selling prices, by categories, 1980-84

Category	1980	1981	1982	1983	1984
Labor productivity (pairs per hour)					
Men's 1/	1.19	1.23	1.27	1.25	1.27
Women's 2/	1.70	1.71	1.79	1.74	1.80
Children's 3/	1.92	2.03	2.17	2.04	2.17
Athletic	2.32	2.64	2.38	2.44	2.30
All other	4.02	3.62	3.45	3.03	2.72
Total	1.69	1.71	1.76	1.70	1.71
Average hourly compensation 4/					
Men's 1/	\$5.52	\$5.99	\$6.58	\$6.82	\$7.23
Women's 2/	5.15	5.59	5.97	6.18	6.49
Children's 3/	5.28	5.71	5.98	6.02	6.18
Athletic	4.90	5.23	5.93	6.25	6.64
All other	4.70	5.02	5.42	5.72	5.91
Total	5.27	5.70	6.16	6.39	6.74
Unit labor costs (per pair) 5/					
Men's 1/	\$4.62	\$4.89	\$5.18	\$5.44	\$5.72
Women's 2/	3.02	3.28	3.33	3.55	3.61
Children's 3/	2.75	2.81	2.75	2.95	2.85
Athletic	2.12	1.99	2.49	2.57	2.88
All other	1.17	1.39	1.57	1.89	2.18
Total	3.12	3.33	3.50	3.76	3.94
Labor's share of the average selling price (percent) 6/					
Men's 1/	25.3	24.7	24.9	26.3	25.2
Women's 2/	26.9	27.1	27.4	26.8	28.0
Children's 3/	37.6	35.5	33.6	36.0	38.2
Athletic	39.0	34.3	35.6	32.9	31.4
All other	36.8	37.7	40.5	46.4	46.9
Total	27.6	27.2	27.5	27.9	28.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

5/ Total compensation of production and related workers divided by production.

6/ Total compensation of production and related workers divided by total value of shipments (including both domestic shipments and exports).

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

The productivity of workers producing men's footwear increased from 1980 to 1982, then dropped from 1.27 pairs per hour in 1982 to 1.25 pairs in 1983, and returned to the 1982 level in 1984. The productivity of workers producing women's footwear followed the same trend as that for men's footwear, but productivity in 1984 was slightly higher than in 1982, at 1.80 pairs per hour. The productivity of workers producing children's footwear followed the same trend as that for men's shoes. The productivity of workers producing athletic footwear varied over the period, declining from 2.44 pairs per hour in 1983 to 2.30 pairs in 1984. The productivity of workers producing "all other" shoes declined steadily from 1980 to 1984.

The average hourly compensation of workers producing nonrubber footwear increased from \$5.27 per hour in 1980 to \$6.74 per hour in 1984, or by 28 percent. Similarly, unit labor costs increased from \$3.12 per pair in 1980 to \$3.94 per pair in 1984, or by 26 percent. The share of the average selling price of domestically produced nonrubber footwear accounted for by labor costs generally increased irregularly over the period, from 27.6 percent of the average selling price in 1980 to 28.0 percent in 1984. Labor's share of the average selling price of men's and athletic shoes declined from 1983 to 1984, while that of women's, children's, and "all other" shoes increased. The shares of the average selling prices of children's and "all other" footwear accounted for by labor were from 10 to 19 percent higher than those for men's and women's shoes in 1984. Labor's share of the average selling price of athletic shoes in 1984 was higher than the shares for men's and women's footwear but lower than those for children's and "all other" shoes.

In questionnaire responses, 52 manufacturers of nonrubber footwear accounting for 49 percent of 1984 production as reported by preliminary official statistics stated that at least some of their plants were unionized between 1980 and 1984. One hundred twenty firms, accounting for 52 percent of production, indicated that none of their plants were unionized during the period.

A small number of U.S. nonrubber footwear producers have plants in foreign countries. Ten such producers reported data on foreign employment in Commission questionnaires; the 1984 production of these firms accounted for 18 percent of that reported by preliminary official statistics. The foreign plants operated by these firms are usually wholly owned subsidiaries, and can be found in Austria, Brazil, Canada, Chile, the Dominican Republic, France, Haiti, Ireland, Japan, Mexico, the United Kingdom, South Africa, and other countries. In 1984, U.S. firms employed 5,224 production and related workers in foreign establishments receiving total compensation of \$39 million. Yearly trends in foreign employment are presented in the following tabulation:

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of production and related workers--	2,055	5,006	5,514	6,344	5,224
Total compensation 1,000 dollars—	16,678	20,973	21,679	23,004	39,025

U.S. unemployment

The average annual number of unemployed workers and the average annual unemployment rate in the nonrubber footwear industry declined from 1982 to 1984. Unemployment rate figures for 1982-84, however, were the highest in the last ten years, as the following tabulation of official U.S. Department of Labor statistics demonstrates:

	<u>Number of unemployed workers</u>	<u>Unemployment rate</u>
1974-----	19,000	8.8
1975-----	27,000	13.2
1976-----	24,000	11.0
1977-----	24,000	10.7
1978-----	17,000	8.2
1979-----	17,000	8.0
1980-----	16,000	7.7
1981-----	27,000	12.5
1982-----	41,000	19.4
1983-----	37,000	18.6
1984-----	27,000	16.6

In order to learn more about unemployment and employee turnover in the industry, the Commission requested that questionnaire respondents provide information on the number of employees newly hired, the number laid off or separated for other reasons (not including seasonal layoffs of workers who are regularly rehired), and the number placed in new jobs or retraining programs. This information was received from 123 firms that had 1984 production accounting for 65 percent of that reported by preliminary official statistics. Not all responding firms were able to supply data for each item of information or for each year, therefore aggregate data are better used as overall information for the period 1980-84 rather than analyzed for year-to-year trends. The data are presented in table 29.

The reporting firms employed 54,201 production and related workers producing nonrubber footwear at the end of 1984. During the course of 1984, these firms gained 19,897 workers, 18,519 of which were new hires, indicating employment turnover of 34 percent. The number of employees separated from the industry in 1984 was 32,465, of which 16,542 were the result of quits, 14,178 were the result of layoffs caused by production decreases, and 1,724 were the result of layoffs caused by labor-saving productivity improvements in the industry. During 1980-84, an average of 57 percent of total separations were quits, 36 percent were layoffs caused by production decreases, and 1 percent were layoffs caused by productivity improvements. In 1984, 1,512 employees were placed in other jobs as a result of production decreases, however, *** percent of these placements were at 1 firm. If this firm is subtracted from aggregate data, there was an average of *** employees placed in another job each year over the period 1980-84. Reporting firms also indicated the number of workers undergoing retraining for another job as a result of production decreases; 297 such workers were reported in 1984, with *** percent of these at 1 firm. If this firm is subtracted from aggregate data, there was an average of *** workers undergoing retraining each year over the period 1980-84.

Table 29.--New hires, layoffs, quits, and placements of production and related workers producing nonrubber footwear, 1980-84

Item	1980	1981	1982	1983	1984
New hires-----	27,825	27,741	18,625	18,392	18,519
Total accessions <u>1</u> /-----	28,493	28,308	19,387	18,729	19,897
Layoffs resulting from pro-					
ductivity improvements <u>2</u> /---	282	219	505	383	335
Layoffs resulting from					
production declines-----	6,852	9,838	13,526	10,211	14,178
Quits-----	21,199	19,374	14,593	14,013	16,542
Total separations <u>3</u> /-----	31,238	32,093	30,171	25,791	33,249
Total placed in another					
job <u>4</u> /-----	53	87	1,926	926	1,512
Total undergoing					
retraining <u>5</u> /-----	40	54	19	17	297

1/ Includes new hires and other accessions.

2/ ***.

3/ Includes layoffs, quits, and other separations.

4/ ***.

5/ ***.

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

Financial experience of U.S. producers

In response to Commission questionnaires, 135 U.S. producers of nonrubber footwear provided income-and-loss data concerning their overall establishment operations and their operations producing nonrubber footwear. These firms accounted for production of 244 million pairs of nonrubber footwear in 1984, or 82 percent of total U.S. production as reported by preliminary official statistics. 1/ Total establishment net sales were up 2 percent in 1984

1/ For purposes of comparison, income-and-loss data presented by FIA in this investigation are derived from two surveys, one by Ernst & Whinney covering 52 firms with an estimated 52 percent of 1984 production, and one by ICF Inc. covering 67 firms with an estimated 61 percent of 1984 production; prehearing brief, p. 37. The following tabulation compares reporting coverage for income-and-loss data in this investigation and in investigation No. TA-201-50:

	<u>Investigation No.</u> <u>TA-201-50</u>	<u>Investigation No.</u> <u>TA-201-55</u>
Number of firms:		
Less than 200,000 pairs-----	25	29
200,000 to 499,999 pairs-----	28	25
500,000 to 999,999 pairs-----	31	27
1,000,000 to 1,999,999 pairs--	25	24
2,000,000 to 3,999,999 pairs--	19	15
4,000,000 pairs or more-----	14	15
Total-----	142	135
Percent of total production-----	80	82

compared with that in 1983, and net sales of domestically produced nonrubber footwear were down 3 percent in 1984. On the other hand, overall establishment operating income was down 33 percent in 1984, compared with that in 1983, and nonrubber footwear operating income was down 35 percent in 1984.

Overall establishment operations.--Data on overall establishment operations describe the operating performance of the establishments within which nonrubber footwear is produced. These data include income-and-loss data relative to domestically produced nonrubber footwear and to products other than such footwear which may be produced within the establishment; such products might be imported nonrubber footwear, rubber footwear, or related leather goods such as handbags. Data on overall establishment operations are presented in table 30. Two large firms, Genesco, Inc., and U.S. Shoe Corp., did not provide data that could be included in aggregate income-and-loss information. Available data for these two firms are presented in tables G-1 and G-2 in appendix G.

Overall establishment net sales rose annually from \$3.7 billion in 1980 to \$4.8 billion in 1984, or by 30 percent. The annual net sales growth rate ranged from a high of 14 percent in 1981 to a low of 2 percent in 1984. Net sales of domestically produced nonrubber footwear accounted for about 89 percent of total establishment net sales in 1980 and 1981. The relationship declined thereafter to about 74 percent in 1984. During 1980-83, operating income rose irregularly from \$355 million, or 9.7 percent of net sales, to \$504 million, or 10.8 percent of net sales. In 1984, operating income fell 33 percent to \$340 million, or 7.1 percent of net sales.

Domestic nonrubber footwear operations.--Data on domestic nonrubber footwear operations describe the income-and-loss performance of that part of an establishment devoted to the domestic production of nonrubber footwear. Data on other operations of a firm's business, such as imported nonrubber footwear, generally are not included in such data unless the other operations constituted 15 percent or less of the firm's total net sales and that firm could not present data on other operations separately from data on operations producing nonrubber footwear. ^{1/} Data on domestic nonrubber footwear operations are presented in table 31.

Overall, the income-and-loss data show increases in profitability in 1981 and 1983, and declines in 1982 and 1984. Net sales of nonrubber footwear rose from \$3.3 billion to \$3.7 billion, or by 14 percent, from 1980 to 1981. Net sales declined annually thereafter to \$3.5 billion in 1984. Operating income rose from \$297 million, or 9.1 percent of net sales, in 1980 to \$375 million, or 10.1 percent of net sales, in 1981. In 1982, operating income fell 23 percent to \$290 million, or 8.0 percent of net sales; it then recovered in 1983, rising to \$312 million, or 8.7 percent of net sales. Operating income fell to \$204 million, or 5.8 percent of net sales, in 1984. Out of 134 reporting producers in 1984, 36 firms, or 27 percent of the total, had operating losses, and 43 firms, or 32 percent of the total, had net losses before taxes.

^{1/} It has been Commission practice for many years to require firms to separate income-and-loss data for the product under investigation from data

Table 30.--Nonrubber footwear: Income-and-loss experience of U.S. producers on the overall operations of their establishments within which nonrubber footwear is produced, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	3,676,103	4,204,956	4,471,638	4,666,892	4,770,452
Cost of goods sold					
1,000 dollars--	2,798,141	3,155,213	3,361,683	3,435,434	3,622,172
Gross income-----do-----	877,962	1,049,743	1,109,955	1,231,458	1,148,280
General, selling, and administrative expenses					
1,000 dollars--	522,527	607,953	675,028	727,542	808,211
Operating income-----do-----	355,435	441,790	434,927	503,916	340,069
Other income or expense:					
Interest expense					
1,000 dollars--	40,155	42,707	64,339	55,831	53,373
All other income or (expense)--net					
1,000 dollars--	8,938	14,653	16,573	16,640	21,390
Total other income or (expense)--net					
1,000 dollars--	(31,217)	(28,054)	(47,766)	(39,191)	(31,983)
Net income before income taxes-----1,000 dollars--	324,218	413,736	387,161	464,725	308,086
Depreciation and amortization					
1,000 dollars--	40,060	45,224	51,888	58,335	69,721
Cash flow-----do-----	364,278	458,960	439,049	523,060	377,807
Ratio to net sales of--					
Gross income-----percent--	23.9	25.0	24.8	26.4	24.1
Operating income-----do-----	9.7	10.5	9.7	10.8	7.1
Net income before income taxes-----percent--	8.8	9.8	8.7	10.0	6.5
Cost of goods sold-----do-----	76.1	75.0	75.2	73.6	75.9
General, selling, and administrative expenses					
percent--	14.2	14.5	15.1	15.6	17.0
Number of reporting firms-----	123	128	130	133	134
Number of firms reporting--					
Operating losses-----	10	10	20	21	32
Net losses before taxes-----	16	13	21	23	40
Ratio of domestically produced nonrubber footwear sales to total establishment net sales-----percent--	88.6	88.6	81.5	77.2	73.5

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

Table 31.--Nonrubber footwear: Income-and-loss experience of U.S. producers on their operations producing nonrubber footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	3,256,050	3,723,742	3,645,421	3,604,077	3,506,905
Cost of goods sold					
1,000 dollars--	2,498,073	2,817,477	2,800,219	2,732,550	2,739,858
Gross income-----do-----	757,977	906,265	845,202	871,527	767,047
General, selling, and administrative expenses					
1,000 dollars--	461,105	530,932	554,813	559,319	563,104
Operating income					
1,000 dollars--	296,872	375,333	290,389	312,208	203,943
Other income or (expense):					
Interest expense					
1,000 dollars--	33,226	34,436	38,048	31,537	36,477
All other income or (expense)--net					
1,000 dollars--	8,593	12,942	14,983	14,853	19,661
Total other income or (expense)--net					
1,000 dollars--	(24,633)	(21,494)	(23,065)	(16,684)	(16,816)
Net income before income taxes-----1,000 dollars--	272,239	353,839	267,324	295,524	187,127
Depreciation and amortization					
1,000 dollars--	37,200	41,864	47,184	51,857	51,148
Cash flow-----do-----	309,439	395,703	314,508	347,381	238,275
Ratio to net sales of--					
Gross income-----percent--	23.3	24.3	23.2	24.2	21.9
Operating income-----do-----	9.1	10.1	8.0	8.7	5.8
Net income before income taxes-----percent--	8.4	9.5	7.3	8.2	5.3
Cost of goods sold-----do-----	76.7	75.7	76.8	75.8	78.1
General, selling, and administrative expenses					
percent--	14.2	14.2	15.2	15.5	16.1
Number of reporting firms-----	123	128	130	133	134
Number of firms reporting--					
Operating losses-----	12	12	22	25	36
Net losses before taxes-----	17	14	23	25	43

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

A comparison of nonrubber footwear operating income margins and net income before tax margins with those of all U.S. manufacturing and those of all nondurable goods manufacturing are shown in the following tabulations:

Year	Operating Income Margins		
	U.S. nonrubber footwear producers	All U.S. manufacturing 1/	Nondurable goods 1/
	Percent	Percent	Percent
1980-----	9.1	6.8	7.4
1981-----	10.1	6.7	6.9
1982-----	8.0	5.1	6.0
1983-----	8.7	5.9	6.6
1984-----	5.8	6.8	7.0

1/ Compiled from U.S. Bureau of the Census, Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Fourth Quarter, 1984.

Footnote continued from page A-50.

for other products produced in the establishment unless such other products constitute less than 15 percent of total establishment sales. This practice not only eliminates an unreasonable reporting burden on certain firms, but also results in more reliable data. Although a firm will often be able to calculate the net sales of a product that makes up less than 15 percent of its total sales, it will often be unable to calculate labor or factory costs incurred by that product or accurately allocate general, selling, and administrative expenses borne by that product. To require a firm to make such calculations would result in either a lower response rate to questionnaires or unacceptable estimates in submitted data.

Of the 135 firms included in aggregate income-and-loss data on operations producing nonrubber footwear--

-- 22 firms imported nonrubber footwear that constituted less than 15 percent of total sales, and such imports were included in data on operations producing nonrubber footwear;

-- 6 firms imported nonrubber footwear that constituted less than 15 percent of total sales, and such imports were not included in data on operations producing nonrubber footwear;

-- 17 firms imported nonrubber footwear that constituted more than 15 percent of total sales, and such imports were not included in data on operations producing nonrubber footwear;

-- 10 firms had retail operations that constituted less than 15 percent of total sales, and such operations were included in data on operations producing nonrubber footwear;

-- 5 firms purchased domestically made footwear for resale constituting more than 15 percent of total sales, and such operations were not included in data on operations producing nonrubber footwear;

-- 6 firms had retail operations which constituted more than 15 percent of total sales, and such operations were included in data on operations producing nonrubber footwear because a substantial part of the operations were devoted to selling the firm's own production;

-- 1 firm had operations manufacturing rubber footwear that constituted less than 15 percent of total sales, and such operations were included in data on operations producing nonrubber footwear.

Year	Pre-tax Income Margins		
	U.S. nonrubber footwear producers	All U.S. manufacturing 1/	Nondurable goods 1/
	Percent	Percent	Percent
1980	8.4	6.4	7.2
1981	9.5	7.4	7.8
1982	7.3	5.3	6.6
1983	8.2	5.5	7.4
1984	5.3	7.1	7.4

1/ Compiled from U.S. Bureau of the Census, Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Fourth Quarter, 1984.

As seen in the above tabulations, both the operating and pre-tax income margins for U.S. nonrubber footwear producers in 1984 dropped below their 1980-83 average. On the other hand, the 1984 income margins for all U.S. manufacturing and nondurable goods were above the 1980-83 average.

Income-and-loss data for groups of producers with similar levels of production in 1984 are presented in table 32. These data show that, in the aggregate, the footwear operations of those firms producing less than 1 million pairs of footwear annually are substantially less profitable than the footwear operations of those firms which produce more than 1 million pairs annually. In contrast, the return for larger producers was not only much higher, but more stable.

Income-and-loss data on domestic operations producing nonrubber footwear of firms producing principally men's shoes, women's shoes, children's shoes, "all other" shoes, and a variety of shoes are presented in appendix G. These data are divided into categories based on a firm's principal production; for example, if a firm's production is more than 51 percent men's footwear, its income-and-loss data will be in the men's category, although such data also include other types of footwear that constitute less than a majority of the firm's production. If no one category of footwear constitutes a majority of a firm's production, the firm is grouped under the "variety" category. Income-and-loss data on production of athletic nonrubber footwear is also presented in appendix G. These data describe performance of that part of a firm's operations devoted to the production of athletic footwear; these data were reported as a separate breakout of overall operations producing nonrubber footwear, and do not include data for other categories of shoes.

Men's, youths', and boys'.--Thirty-seven U.S. shoe producers reported that they produce principally men's nonrubber footwear. Net sales by these producers rose from \$1.4 billion in 1980 to \$1.6 billion in 1981, or by 13 percent, but then declined thereafter, falling 18 percent to \$1.3 billion in 1984 (table G-3). The operating margins for these producers rose from 9.9 percent in 1980 to 11.5 percent in 1981, declined to 5.6 percent in 1982, but then rose to 7.4 percent in 1984 when sales declined.

Table 32.--Nonrubber footwear: Income-and-loss data on domestic operations producing nonrubber footwear, by sizes of output, accounting years 1980-84

Size of output and item	1980	1981	1982	1983	1984
<u>0 to 199,999 pairs</u>					
Net sales-----1,000 dollars--:	89,043	102,442	76,499	63,340	56,595
Cost of goods sold					
1,000 dollars--:	67,902	78,880	59,240	48,974	44,283
Gross income-----do-----:	21,141	23,562	17,259	14,366	12,312
General, selling, and admin- istrative expenses					
1,000 dollars--:	17,105	19,847	16,206	14,077	14,048
Operating income or (loss)					
1,000 dollars--:	4,036	3,715	1,053	289	(1,736)
Other income or (expense):					
Interest expense					
1,000 dollars--:	1,406	1,709	1,417	1,166	1,373
All other income or (expense)--1,000 dollars--:	(131)	(2,317)	(1,372)	144	(18)
Total other income or (expense)--1,000 dollars--:	(1,537)	(4,026)	(2,789)	(1,022)	(1,391)
Net income or (loss) before income taxes-1,000 dollars--:	2,499	(311)	(1,736)	(733)	(3,127)
Depreciation and amortization					
1,000 dollars--:	2,656	1,655	1,822	1,762	1,922
Cash flow-----do-----:	5,155	1,344	86	1,029	(1,205)
Ratio to net sales of--					
Gross income-----percent--:	23.7	23.0	22.6	22.7	21.8
Operating income or (loss) percent--:	4.5	3.6	1.4	0.5	(3.0)
Net income or (loss) before income taxes-----percent--:	2.8	(0.3)	(2.3)	(1.2)	(5.5)
Cost of goods sold-----do-----:	76.3	77.0	77.4	77.3	78.2
General, selling, and ad- ministrative expenses percent--:	19.2	19.4	21.2	22.2	24.8
Reporting companies-----:	27	29	29	30	30
<u>200,000 to 499,999 pairs</u>					
Net sales-----1,000 dollars--:	185,213	191,374	192,851	180,727	178,282
Cost of goods sold					
1,000 dollars--:	150,464	155,396	156,697	141,849	139,144
Gross income-----do-----:	34,749	35,978	36,154	38,878	39,138
General, selling, and admin- istrative expenses					
1,000 dollars--:	28,054	31,244	34,412	36,458	36,741
Operating income					
1,000 dollars--:	6,695	4,734	1,742	2,420	2,397

Table 32.--Nonrubber footwear: Income-and-loss data on domestic operations producing nonrubber footwear, by sizes of output, accounting years 1980-84--Continued

Size of output and item	1980	1981	1982	1983	1984
<u>200,000 to 499,999 pairs--Con.</u>					
Other income or (expense):					
Interest expense					
1,000 dollars--	3,176	3,388	3,822	3,376	3,517
All other income or					
(expense)--1,000 dollars--	402	1,111	1,360	818	1,130
Total other income or					
(expense)--1,000 dollars--	(2,774)	(2,277)	(2,462)	(2,558)	(2,387)
Net income or (loss) before					
income taxes-1,000 dollars--	3,921	2,457	(720)	(138)	10
Depreciation and amortization					
1,000 dollars--	1,647	1,657	1,885	2,237	2,569
Cash flow-----do-----	5,568	4,114	1,165	2,099	2,579
Ratio to net sales of--					
Gross income-----percent--	18.8	18.8	18.7	21.5	22.0
Operating income-----do-----	3.6	2.5	0.9	1.3	1.4
Net income or (loss) before					
income taxes-----percent--	2.1	1.3	(0.4)	(0.1)	<u>1/</u>
Cost of goods sold-----do-----	81.2	81.2	81.3	78.5	78.0
General, selling, and ad-					
ministrative expenses					
percent--	15.2	16.3	17.8	20.2	20.6
Reporting companies-----	23	24	25	25	25
<u>500,000 to 999,999 pairs</u>					
Net sales-----1,000 dollars--	303,351	387,399	376,407	371,353	367,637
Cost of goods sold					
1,000 dollars--	237,782	305,403	312,683	291,867	293,212
Gross income-----do-----	65,569	81,996	63,724	79,486	74,425
General, selling, and admin-					
istrative expenses					
1,000 dollars--	41,804	54,040	62,647	57,766	59,678
Operating income					
1,000 dollars--	23,765	27,956	<u>2/</u> 1,077	21,720	14,747
Other income or (expense):					
Interest expense					
1,000 dollars--	3,693	4,289	4,096	6,277	7,031
All other income or					
(expense)--1,000 dollars--	602	1,697	2,890	2,086	1,671
Total other income or					
(expense)--1,000 dollars--	(3,091)	(2,592)	(1,206)	(4,191)	(5,360)
Net income or (loss) before					
income taxes-1,000 dollars--	20,674	25,364	(129)	17,529	9,387
Depreciation and amortization					
1,000 dollars--	2,984	3,833	4,894	5,614	6,099
Cash flow-----do-----	23,658	29,197	4,765	23,143	15,486

See footnotes at end of table.

Table 32.--Nonrubber footwear: Income-and-loss data on domestic operations producing nonrubber footwear, by sizes of output, accounting years 1980-84--Continued

Size of output and item	1980	1981	1982	1983	1984
<u>500,000 to 999,999 pairs--Con.</u>					
Ratio to net sales of--					
Gross income-----percent--	21.6	21.2	16.9	21.4	20.2
Operating income-----do----	7.8	7.2	.3	5.8	4.0
Net income or (loss) before					
income taxes-----percent--	6.8	6.5	1/	4.7	2.6
Cost of goods sold-----do----	78.4	78.8	83.1	78.6	79.8
General, selling, and ad-					
ministrative expenses					
percent--	13.8	14.0	16.6	15.6	16.2
Reporting companies-----	23	24	25	26	27
<u>1,000,000 to 1,999,999 pairs</u>					
Net sales-----1,000 dollars--	518,035	625,931	621,913	672,170	667,610
Cost of goods sold					
1,000 dollars--	387,378	460,695	461,896	497,204	517,978
Gross income-----do----	130,657	165,236	160,017	174,966	149,632
General, selling, and admin-					
istrative expenses					
1,000 dollars--	93,980	112,486	120,064	124,126	131,781
Operating income					
1,000 dollars--	36,677	52,750	39,953	50,840	17,851
Other income or (expense):					
Interest expense					
1,000 dollars--	6,444	6,372	9,611	7,925	9,384
All other income or					
(expense)--1,000 dollars--	926	1,053	912	3,225	1,837
Total other income or					
(expense)--1,000 dollars--	(5,518)	(5,319)	(8,699)	(4,700)	(7,547)
Net income before income					
taxes-----1,000 dollars--	31,159	47,431	31,254	46,140	10,304
Depreciation and amortization:					
1,000 dollars--	6,300	7,374	9,310	10,426	11,491
Cash flow-----do----	37,459	54,805	40,564	56,566	21,795
Ratio to net sales of--					
Gross income-----percent--	25.2	26.4	25.7	26.0	22.4
Operating income-----do----	7.1	8.4	6.4	7.6	2.7
Net income before income					
taxes-----percent--	6.0	7.6	5.0	6.9	1.5
Cost of goods sold-----do----	74.8	73.6	74.3	74.0	77.6
General, selling, and ad-					
ministrative expenses					
percent--	18.1	18.0	19.3	18.4	19.7
Reporting companies-----	23	24	24	24	24

See footnotes at end of table.

Table 32.--Nonrubber footwear: Income-and-loss data on domestic operations producing nonrubber footwear, by sizes of output, accounting years 1980-84--Continued

Size of output and item	1980	1981	1982	1983	1984
<u>2,000,000 to 3,999,999 pairs</u>					
Net sales-----1,000 dollars--	678,935	786,081	663,812	610,310	608,686
Cost of goods sold					
1,000 dollars--	531,692	599,032	542,796	486,359	479,623
Gross income-----do-----	147,243	187,049	121,016	123,951	129,063
General, selling, and admin- istrative expenses					
1,000 dollars--	74,760	94,314	83,560	81,536	78,211
Operating income					
1,000 dollars--	72,483	92,735	37,456	42,415	50,852
Other income or (expense):					
Interest expense					
1,000 dollars--	5,965	8,061	8,474	4,827	5,629
All other income or (expense)--1,000 dollars--	1,336	3,209	2,232	(2,717)	2,892
Total other income or (expense)--1,000 dollars--	(4,629)	(4,852)	(6,242)	(7,544)	(2,737)
Net income before income taxes-----1,000 dollars--	67,854	87,883	31,214	34,871	48,115
Depreciation and amortization					
1,000 dollars--	6,048	7,467	9,192	9,147	7,799
Cash flow-----do-----	73,902	95,350	40,406	44,018	55,194
Ratio to net sales of--					
Gross income-----percent--	21.7	23.8	18.2	20.3	21.2
Operating income-----do----	10.7	11.8	5.6	6.9	8.4
Net income before income taxes-----percent--	10.0	11.2	4.7	5.7	7.9
Cost of goods sold-----do----	78.3	76.2	81.8	79.7	78.8
General, selling, and ad- ministrative expenses					
percent--	11.0	12.0	12.6	13.4	12.8
Reporting companies-----	12	13	13	13	13
<u>4,000,000 pairs or more</u>					
Net sales-----1,000 dollars--	1,481,473	1,630,515	1,713,939	1,706,177	1,628,095
Cost of goods sold					
1,000 dollars--	1,122,855	1,218,071	1,266,906	1,266,297	1,265,618
Gross income-----do-----	358,618	412,444	447,033	439,880	362,477
General, selling, and admin- istrative expenses					
1,000 dollars--	205,402	219,001	237,925	245,356	242,645
Operating income					
1,000 dollars--	153,216	193,443	209,108	194,524	119,832
Other income or (expense)					
Interest expense					
1,000 dollars--	12,542	10,612	10,628	7,966	9,543

Table 32.--Nonrubber footwear: Income-and-loss data on domestic operations producing nonrubber footwear, by sizes of output, accounting years 1980-84--Continued

Size of output and item	1980	1981	1982	1983	1984
4,000,000 pairs or more--Con.					
All other income or (expense)--1,000 dollars--	5,458	8,184	8,961	11,297	12,149
Total other income or (expense)--1,000 dollars--	(7,084)	(2,428)	(1,667)	3,331	2,606
Net income before income taxes-----1,000 dollars--	146,132	191,015	207,441	197,855	122,438
Depreciation and amortization 1,000 dollars--	17,565	19,878	20,081	22,671	21,268
Cash flow-----do-----	163,697	210,893	227,522	220,526	143,706
Ratio to net sales of--					
Gross income-----percent--	24.2	25.3	26.1	25.8	22.3
Operating income-----do----	10.3	11.9	12.2	11.4	7.4
Net income or (loss) before income taxes-----percent--	9.9	11.7	12.1	11.6	7.5
Cost of goods sold----do-----	75.8	74.7	73.9	74.2	77.7
General, selling, and ad- ministrative expenses percent--	13.9	13.4	13.9	14.4	14.9
Reporting companies-----	15	15	15	15	15

1/ Less than 0.05 percent.

2/ The sharp decline in operating income resulted from ***.

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

Women's and misses'--Fifty-two U.S. producers reported that they produce principally women's and misses' nonrubber footwear. Net sales by these producers rose annually during 1980-82, from \$1.1 billion to \$1.3 billion, or by 16 percent (table G-4). Net sales slipped to \$1.2 billion in 1984, 6 percent below the 1982 level. Operating income also rose annually during 1980-82, rising from \$97.9 million, or 8.7 percent of net sales, to \$113 million, or 8.7 percent of net sales. Operating income dropped to \$94.2 million in 1983 and to \$42.1 million, or 3.4 percent of net sales, in 1984.

Children's and infants'--Children's and infants' shoes accounted for the principal production of 18 responding U.S. producers. Their data show that net sales increased from \$78.1 million in 1980 to \$86.5 million in 1981 but declined irregularly over 3 years to \$81.9 million in 1984 (table G-5). Income margins for this group were substantially below the industry average during 1980-84. Operating income margins ranged from a high of 5.8 percent in 1980 to a low of 4.4 percent in 1983. In 1984, these producers sustained an operating loss equal to 0.1 percent of net sales.

Variety.--Ten U.S. producers reported producing various categories (i.e., men's, women's, children's, etc.) of nonrubber footwear. Income-and-loss data for these producers are shown in table G-6. Net sales for these producers rose annually from \$462 million in 1980 to \$613 million in 1983, or by 33 percent over the period. Net sales dipped by 3 percent to \$593 million in 1984. Operating income margins also rose annually during 1980-83, rising from 9.1 percent to 13.3 percent. The operating margin for 1984 was 8.1 percent.

All other.--Seventeen U.S. producers reported producing nonrubber footwear principally in the "all other" category. Operating income margins for these producers dropped sharply, from 10.9 percent in 1983 to 5.7 percent in 1984 (table G-7).

Athletic.--Separate income-and-loss data were reported by 13 U.S. producers on their operations producing athletic footwear (table G-8). Net sales rose annually from \$103 million in 1980 to \$187 million in 1983, or by 81 percent. Net sales declined 11 percent to \$167 million in 1984. Operating income also rose annually during 1980-83, rising from \$5.3 million or 5.2 percent of net sales in 1980 to \$20.1 million or 10.8 percent of net sales in 1983. The operating income margin plunged to 1.8 percent of net sales in 1984.

Imports.--Income-and-loss experience of 10 U.S. producers on their operations importing nonrubber footwear is described in table G-9. Net sales of imports grew by over 400 percent during 1980-84, and by 19 percent from 1983 to 1984. Operating income margins, which increased from 12.5 percent in 1980 to 19.0 percent in 1983, fell to 11.1 percent in 1984.

Domestic purchases.--Eight U.S. producers reported their income-and-loss experience with domestically purchased nonrubber footwear. Operating income declined during 1981-84, and operating income margins declined as well (table G-10). The drop in the operating income margin was particularly sharp in 1984, when it fell from the 1983 level of 11.4 percent to 7.9 percent.

Imported uppers.--The income-and-loss experience of 40 firms that used imported uppers in 1984 is presented in table G-11. These data include all nonrubber footwear produced by such firms; separate data on footwear produced using imported uppers are not available. The net sales of these firms, after rising in 1981, declined from 1982 to 1984. Operating income followed a similar trend. As a result, operating income margins increased from 9.5 percent in 1980 to 10.8 percent in 1981, and then fell over the next three years to 5.4 percent in 1984. For purposes of comparison, the income-and-loss experience of 94 firms which did not use imported uppers in 1984 is presented in table G-12. Net sales for these firms increased steadily from 1980 to 1984. Operating income fluctuated during 1980-83, and declined from 1983 to 1984. Operating income margins for these firms increased from 8.4 percent in 1980 to 8.9 percent in 1981, declined to 6.9 percent in 1982, increased to 9.1 percent in 1983, and fell to 6.4 percent in 1984.

Financial analysis of total establishment operations.

Usable data on assets and liabilities were received from 124 U.S. producers in 1984. These data are presented in table 33 and have been used in combination with the profit-and-loss data provided for reporting firms' total establishment operations to calculate the financial ratios presented in table 34.

Table 33.--Nonrubber footwear: Balance sheet data and capital expenditures, accounting years 1980-84

(In thousands of dollars)

Item	1980 <u>1/</u>	1981 <u>2/</u>	1982 <u>2/</u>	1983 <u>3/</u>	1984 <u>3/</u>
Assets:					
Cash-----	68,398	81,069	116,313	126,374	127,505
Receivables-----	589,412	689,273	714,084	806,312	843,250
Inventory-----	634,035	782,812	732,585	772,756	819,571
Other current assets---	92,154	102,176	125,205	146,702	142,737
Total current assets-	1,383,999	1,655,330	1,688,187	1,852,144	1,933,063
Fixed assets-----	294,577	346,726	362,875	357,972	370,073
Other long-term assets-	89,757	108,736	142,838	156,451	157,757
Total assets-----	1,768,333	2,110,792	2,193,900	2,366,567	2,460,893
Liabilities and net worth:					
Current liabilities----	487,320	567,927	547,389	541,250	568,640
Long-term liabilities--	237,172	265,384	293,846	276,670	298,920
Net worth-----	1,043,841	1,277,481	1,352,665	1,548,647	1,593,333
Total liabilities and net worth-----	1,768,333	2,110,792	2,193,900	2,366,567	2,460,893
Capital expenditures:					
Land-----	1,770	2,865	3,385	1,228	1,644
Buildings-----	19,466	26,371	29,717	12,327	15,963
Machinery and equipment-----	51,078	73,636	54,207	49,431	61,441
Total-----	72,314	102,872	87,309	62,986	79,048

1/ 119 firms reporting.

2/ 123 firms reporting.

3/ 124 firms reporting.

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

Liquidity, an indicator of the quality and adequacy of current assets to meet current liabilities as they come due, is measured by the quick and current ratios. The quick ratio, which excludes inventory and other current assets from total current assets, is the more conservative measure of liquidity. For all producers, both the current and the quick ratios showed improvement from 1980 to 1983, and then remained constant in 1984.

The ratios of current, fixed, and other long-term assets to total assets indicate the structure of assets for all producers in their overall establishments. Current assets remained at about 78 percent of total assets during 1980-84, except for a slight dip in 1982 to 76.9 percent. Fixed assets fell slightly and irregularly over the period from 16.7 percent of total assets in 1980 to a low of 15.0 percent in 1984. This slight decrease was offset by a slight increase in other long-term assets, which rose from 5.1 percent in 1980 to a high of 6.6 percent in 1983 before falling slightly to 6.4 percent in 1984.

Table 34.--Nonrubber footwear: Financial ratios for all firms,
accounting years 1980-84

Item	1980 <u>1/</u>	1981 <u>2/</u>	1982 <u>2/</u>	1983 <u>3/</u>	1984 <u>3/</u>
Quick ratio-----times--:	1.3	1.4	1.5	1.7	1.7
Current ratio-----do----	2.8	2.9	3.1	3.4	3.4
Current assets/total assets---percent--:	78.3	78.4	76.9	78.3	78.6
Fixed assets/total assets-----do----	16.7	16.4	16.5	15.1	15.0
Other long-term assets/ total assets-----percent--:	5.1	5.2	6.5	6.6	6.4
Net sales/fixed assets-----times--:	12.4	12.0	12.2	12.7	12.5
Net sales/total assets-----do----	2.1	2.0	2.0	1.9	1.9
Debt/net worth-----percent--:	69.4	65.2	62.2	52.8	54.4
Fixed assets/net worth-----do----	28.2	27.1	26.8	23.1	23.2
Receivables turnover-----times--:	6.2	6.0	6.2	5.7	5.5
Inventory turnover-----do----	4.4	4.0	4.5	4.3	4.3
Total capital expenditures/ net worth-----percent--:	6.9	8.1	6.5	4.1	5.0
Total capital expenditures/ fixed assets-----percent--:	24.5	29.7	24.1	17.6	21.4
Operating income/total assets---do----	19.4	20.2	19.1	20.5	12.9
Operating income/net worth-----do----	32.9	33.4	31.1	31.4	20.0
Net income before taxes/ net worth-----percent--:	29.8	31.4	27.5	29.4	18.2

1/ 119 firms reporting.

2/ 123 firms reporting.

3/ 124 firms reporting.

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

The ratio of net sales to fixed assets indicates the productive use of a firm's fixed assets. After declining from 1980 to 1981, this ratio showed an increasing trend from 1981 to 1983, and then dipped slightly in 1984. The ratio of net sales to total assets declined slightly, from 2.1 in 1980 to 1.9 in 1984.

The ratio of debt to net worth indicates the relationship between capital provided by creditors and capital contributed by owners. A falling ratio indicates a decline in total liabilities relative to total capital. In general, declines in this ratio indicate increased long-term financial safety and increased ability to borrow. The ratio of debt to net worth declined each year from 69.4 percent in 1980 to 52.8 percent in 1983 before increasing to 54.4 percent in 1984.

The ratio of fixed assets to net worth indicates the extent to which owners' equity capital has been invested in plant and equipment. This ratio showed a slight downward trend, from 28.2 percent to 26.8 percent, during 1980-82, and then dropped to 23.1 percent in 1983 and remained essentially constant in 1984. The pattern of this ratio reflects the trends in fixed assets and net worth in table 33, which show that while fixed assets grew by 25.6 percent over the 5-year period, net worth increased by 52.6 percent during the same period.

The inventory turnover ratio, which measures the number of times inventory is turned over during the year, was 4.4 in 1980, 4.3 in 1984, and did not go below 4.0 or above 4.5 during 1980-84. This minimal variation indicates little change in the relationship between cost of goods sold and inventories. Cost of goods sold increased by 27.2 percent during 1980-84, while end-of-period inventories grew by 29.3 percent.

Operating, or profitability, ratios are measures designed to assist in the evaluation of management performance. The ratio of operating income to total assets measures the return from operations on total capital. The ratio of operating income to net worth measures the return on owners' equity capital. The ratio of net income before taxes to net worth is a measure of overall profitability on owners' equity. These profitability ratios showed no significant trend during 1980-83, but dropped sharply in 1984, with declines of between 36 and 38 percent.

In appendix H, financial ratios are presented for producers by size of production (tables H-1 to H-6). The decline in the ratio of debt to net worth experienced by producers in the two largest size categories over the period 1980-84 suggests that firms of larger size may be more financially sound. Of these larger firms, however, only those producing 2,000,000 to 3,999,999 pairs per year showed an increase in profitability from 1983 to 1984. All other categories of firms, including those producing over 4,000,000 pairs per year, experienced declines in profitability from 1983 to 1984. The smallest firms experienced the worst income-and-loss situation, with all three profitability ratios in 1984 reflecting losses (table H-1). The ratio of debt to net worth for these firms climbed from 94.8 percent in 1983 to 179.7 percent in 1984.

Capital expenditures.--Total capital expenditures increased from \$72 million in 1980 to \$103 million in 1981, declined to \$87 million in 1982 and \$63 million in 1983, and then increased to \$79 million in 1984 (table 33). The majority of this investment was in machinery and equipment.

Research and development expenditures.--U.S. producers providing usable profit and assets data reported expenditures for research and development, as shown in table 35. Many producers reported that research and development expenses could not be separated from other accounts. Several large firms reported that they did not engage in any "true research and development." Many firms reported research and development expenditures that included marketing surveys, product testing, management improvements, and management consultants, as well as other, more traditional, types of research and development expenditures.

Table 35.--Nonrubber footwear: Research and development expenditures, accounting years 1980-84

(In thousands of dollars)					
Expenditures	1980	1981	1982	1983	1984
Nonathletic footwear-----	10,181	11,915	14,491	14,654	17,130
Athletic footwear-----	842	1,281	2,112	2,884	4,585
Total-----	11,023	13,196	16,603	17,538	21,715

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

The Question of Threat of Serious Injury

Foreign producers

In 1984, the top three foreign suppliers of nonrubber footwear to the United States, in terms of quantity, were Taiwan, Korea, and Brazil, which accounted for 74 percent of all imports. In terms of value, the top three suppliers were Taiwan, Brazil, and Italy, which accounted for 64 percent of the value of imports. From 1980 to 1984, the quantity of imports from these four countries increased by more than 130 percent; however the increases were irregular. Of these countries, only Korea diminished as a supplier of imports by quantity in 1984, by 0.5 percent from 1983 levels. The following discussion addresses the top four foreign suppliers, in descending order on the basis of the quantity of their exports to the United States in 1984.

Taiwan. 1/--During every year of the period 1980-84, imports of nonrubber footwear from Taiwan, in terms of both quantity and value, exceeded those from any other country. In 1984, imports from Taiwan accounted for 42 percent of the quantity and 29 percent of the value of U.S. imports of nonrubber footwear, and 30 percent of the quantity and 16 percent of the value of apparent U.S. consumption.

Footwear is Taiwan's third largest export industry, following electronics and textiles. In 1984, Taiwan produced 628 million pairs of footwear, of which 587 million pairs, or 93 percent, were exported (table 36). The value of these exports was over \$2 billion and accounted for 7.2 percent of Taiwan's total export earnings through November 1984.

Plastic footwear is Taiwan's major type of exported footwear, but its importance is declining as that of leather shoes gains. The value of exports of leather shoes was \$499 million in 1983, representing an increase of 66 percent over that in 1982, while the value of exports of plastic footwear, at \$704 million, was an increase of only 6 percent over that in 1982.

Taiwan has been trying to develop high value-added footwear over the past several years. Production of leather shoes increased at an annual rate of 46 percent during 1980-83. The industry has acquired the capability of manufacturing polyurethane, an artificial leather requiring sophisticated techniques and machinery, which is difficult for other developing countries to emulate. A large Italian leather company announced plans in December 1984 to establish a leather processing factory in Taiwan. It is expected to upgrade the quality of locally produced footwear. 2/ Most of the industry's output, however, remains in the low end of the product line. Plastic shoes and slippers with an average value below \$3 per pair accounted for 46 percent of the quantity of production in 1983 and 56 percent through November 1984.

1/ Unless otherwise noted, sources for data in this section are Department of State telegrams R040347Z May 1984 (Taipei 02619), R020421Z April 1985 (Taipei 02042), and R160742Z April 1985 (Taipei 02418), and Department of State Industrial Outlook Report: Footwear (AIT Taipei A-034).

2/ Taiwan Economic News, February 1985.

Table 36.--Footwear in Taiwan: Production, capacity, capacity utilization, domestic shipments, export shipments, and share of exports to the United States, by categories, 1980-84

Item	1980	1981	1982	1983	1984
Production:					
Men's <u>1/</u> -----million pairs--:	84.1	80.8	87.1	105.2	114.9
Women's <u>2/</u> -----do-----:	240.1	247.3	238.3	290.9	317.8
Children's <u>3/</u> -----do-----:	22.3	17.3	31.5	23.0	25.7
Athletic-----do-----:	99.8	85.5	105.3	135.5	170.1
Total-----do-----:	446.2	430.8	462.3	554.5	628.5
Capacity:					
Men's <u>1/</u> -----million pairs--:	115.2	107.7	116.1	133.2	136.7
Women's <u>2/</u> -----do-----:	315.9	329.7	317.8	373.0	387.5
Children's <u>3/</u> -----do-----:	30.1	23.3	42.0	29.8	31.8
Athletic-----do-----:	116.0	100.6	119.7	150.5	179.1
Total-----do-----:	577.2	561.4	595.6	686.4	735.1
Capacity utilization: <u>4/</u>					
Men's <u>1/</u> -----percent--:	73	75	75	79	84
Women's <u>2/</u> -----do-----:	76	75	75	78	82
Children's <u>3/</u> -----do-----:	74	74	75	77	81
Athletic-----do-----:	86	85	88	90	95
Average-----do-----:	77	77	78	81	85
Domestic shipments:					
Men's <u>1/</u> -----million pairs--:	6.2	6.0	6.4	7.8	7.9
Women's <u>2/</u> -----do-----:	17.8	18.3	17.7	21.5	21.8
Children's <u>3/</u> -----do-----:	1.6	1.3	2.3	1.7	1.7
Athletic-----do-----:	7.4	6.3	7.8	10.0	10.1
Total-----do-----:	33.0	31.9	34.2	41.1	41.5
Export shipments:					
Men's <u>1/</u> -----million pairs--:	77.9	74.8	80.6	97.4	107.0
Women's <u>2/</u> -----do-----:	222.3	229.0	220.7	269.4	296.0
Children's <u>3/</u> -----do-----:	20.6	16.0	29.1	21.3	24.0
Athletic-----do-----:	92.4	79.2	97.5	125.4	160.0
Total-----do-----:	413.2	398.9	428.0	513.5	587.0
Percentage distribution of export shipments:					
Men's <u>1/</u> -----percent--:	18.8	18.8	18.8	19.0	18.2
Women's <u>2/</u> -----do-----:	53.8	57.4	51.6	52.5	50.4
Children's <u>3/</u> -----do-----:	5.0	4.0	6.8	4.1	4.1
Athletic-----do-----:	22.4	19.8	22.8	24.4	27.3
Total-----do-----:	100.0	100.0	100.0	100.0	100.0
Share of export shipments to the United States					
percent--:	51.2	49.3	53.2	56.8	59.8

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

4/ 100 percent capacity was assigned a value based on working 8 hours per day, 6 days per week.

Source: Compiled from data provided by Department of State telegrams R040347Z May 1984 (Taipei 02619), R020421Z April 1985 (Taipei 02042), and R160742Z April 1985 (Taipei 02418)

Taiwan's footwear industry is sensitive to the economic climate in its export markets, especially in the United States. In 1980, Taiwan had 565 firms producing nonrubber footwear that were registered with the Taiwan Footwear Exporters' Association (TFEA). In 1981, the year in which the OMA expired, the number of firms rose to 704. The increase continued, climbing to 933 firms in 1983. In the summer of 1984, high inventories and strong competition from other developing countries caused many firms to fold. Although other firms opened at the same time, the total number of firms stood at 877 at the end of 1984, representing a decline of 6 percent from that in 1983. In 1983, over 75 percent of footwear manufacturers were small, family-run firms with average capitalization of about \$100,000. Overall, however, the industry's invested capital amounted to \$195 million.

The capacity of Taiwan's industry to manufacture footwear has increased each year from 1981 to 1984. Capacity was 735 million pairs in 1984, representing a 7 percent increase over the 1983 level. Capacity utilization increased as well; from a low of 77 percent in 1980 and 1981, utilization increased to 81 percent in 1983 and 85 percent in 1984. As a result, production increased by 46 percent over the period 1981-84.

The first 2 months of 1985 showed a slight decline in industry performance compared with the corresponding period in 1984. Production stood at 101 million pairs at the end of February 1985 versus 104 million in the corresponding period of 1984, a decline of 3 percent. Capacity dropped in January-February 1985 to 116 million pairs, down 10 percent from 129 million in January-February 1984. At the same time, capacity utilization increased from 81 percent in January-February 1984 to 87 percent in the corresponding period of 1985.

Employment in the footwear industry in Taiwan rose from 121,196 in 1982 to 128,034 in 1983 and 148,101 in 1984. Labor costs in the industry have not been more than one-quarter of those in the United States during 1980-84 (table 37). Between 1980 and 1984, hourly compensation of footwear workers in Taiwan increased from \$1.11 to an estimated \$1.81, or by 63 percent over the period. According to an industry survey, labor accounted for 20 percent of total production costs in the first 10 months of 1984.

The United States is Taiwan's principal export market for footwear, taking over 57 percent of the value of such exports in each year since 1980. In 1984, 351 million pairs valued at \$1,485 million were shipped to the United States, accounting for 60 percent of the total quantity and 68 percent of the total value of footwear exports (table 38).

Exports of footwear from Taiwan will reportedly continue to grow in 1985; orders received climbed by 36 percent through October 1984, and total exports increased through the end of 1984. Nevertheless, increased competition from other developing countries such as China and Korea, and declining industry performance in the first 2 months of 1985, may herald a long-term slowdown in the growth of footwear exports from Taiwan.

Table 37.—Estimated hourly compensation in the footwear industries 1/ of the United States and Taiwan, 1980-84

Year	United States	Taiwan		
		National currency <u>2/</u>	U.S. currency <u>3/</u>	Share of U.S. compensation Percent
1980-----	\$5.91	40	\$1.11	19
1981-----	6.33	50	1.36	21
1982-----	6.81	58	1.49	22
1983 <u>4/</u> -----	7.18	62	1.55	22
1984 <u>4/</u> -----	7.51	71	1.81	24

1/ Data are for the rubber and plastics footwear industry; no data are available for the leather footwear industry in Taiwan.

2/ New Taiwan dollar.

3/ Hourly compensation in national currency units is converted to U.S. dollars using the average daily exchange rate for the reference period. Changes in hourly compensation in U.S. dollars from one period to another are therefore affected by changes in currency exchange rates as well as by changes in compensation. The exchange rates used are prevailing commercial market exchange rates as published by either the U.S. Federal Reserve or the International Monetary Fund.

4/ Estimates based on data for all manufacturing.

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

Table 38.—Footwear: Exports from Taiwan, by principal markets, 1980-84

Market	1980	1981	1982	1983	1984
Quantity (million pairs)					
United States-----	211.5	196.6	227.6	291.4	351.0
Japan-----	22.6	25.0	24.0	27.6	30.0
West Germany-----	26.9	19.0	19.3	24.0	20.0
Saudi Arabia-----	0.0	15.2	19.4	22.5	24.0
All other-----	152.2	143.1	137.7	148.0	162.0
Total-----	413.2	398.9	428.0	513.5	587.0
Value (million dollars)					
United States-----	813.1	834.8	906.2	1,183.8	1,485.0
Japan-----	67.8	85.0	81.2	86.1	103.0
West Germany-----	110.7	69.5	66.5	91.0	67.0
Saudi Arabia-----	-	35.2	38.4	41.8	44.0
All other-----	419.9	420.3	371.1	403.6	470.0
Total-----	1,411.5	1,444.8	1,463.4	1,806.3	2,169.0

Source: Compiled from data provided by Department of State telegrams R040347Z May 1984 (Taipei 02619), R020421Z April 1985 (Taipei 02042), and R160742Z April 1985 (Taipei 02418).

Korea. 1/--In 1980 and 1981, Korea was the third largest supplier of nonrubber footwear to the United States in terms of quantity, behind Taiwan and Italy. From 1982 to 1984, it supplanted Italy as the second largest supplier. In 1984, imports from Korea accounted for 16 percent of the quantity and 17 percent of the value of U.S. imports of nonrubber footwear, and 12 percent of the quantity and 9 percent of the value of apparent U.S. consumption.

The export performance of Korea's footwear industry in 1983 made it the country's fifth largest export earner, with its \$1.3 billion accounting for 5 percent of total exports. Out of total production of 310 million pairs in 1983, 271 million pairs, or 87 percent, were exported. In 1984, the quantity of exports increased by 2 percent to 276 million pairs and the value of exports increased by 10 percent to \$1.4 billion. Nevertheless, the industry experienced a slowdown in 1984. Total production fell by 1 percent to 307 million pairs, with exports taking 90 percent of the total pairage.

After the lifting of the U.S. orderly marketing agreement in 1981, there was a rapid increase in the number of smaller footwear manufacturers, but the Government halted this expansion by allocating export levels based on previous export performance. The number of companies declined from 105 in 1983 to 99 in 1984, and production capacity declined as well, from 366 million pairs in 1983 to 364 million in 1984 (table 39). Capacity utilization remained

Table 39.--Footwear in Korea: Production, capacity, and capacity utilization, 1980-84

Type	1980	1981	1982	1983	1984
Production:					
Rubber footwear					
million pairs--:	36.4	29.2	27.3	22.0	22.7
Athletic shoes-----do-----:	153.8	174.9	181.8	189.5	176.4
Vinyl shoes-----do-----:	22.2	19.3	23.7	25.5	19.2
Leather shoes-----do-----:	21.3	18.9	28.6	30.7	39.6
Slippers-----do-----:	20.5	21.8	21.4	20.7	19.4
All other-----do-----:	11.3	15.0	11.1	21.1	29.7
Total-----do-----:	265.5	279.1	293.9	309.5	307.0
Capacity: Total, all					
footwear-million pairs--:	296.0	338.7	362.6	366.4	364.4
Capacity utilization:					
Total, all footwear					
percent--:	90.0	82.4	81.0	84.5	84.2

Source: Compiled from data provided by Department of State telegrams P260205Z Apr. 1984 (Seoul 04314) and 0010900Z Apr. 1985 (Seoul 03250).

1/ Unless otherwise noted, sources for data in this section are Department of State telegrams P260205Z April 1984 (Seoul 04314) and 0010900Z April 1985 (Seoul 03250), and Department of State Industrial Outlook Report: Footwear (Seoul A-14), May 7, 1984.

relatively constant, at 85 percent in 1983 and 84 percent in 1984. Production of footwear, after increasing each year since 1980, declined in 1984. Nonrubber footwear accounted for an increasing share of total production through 1983; in both 1983 and 1984 nonrubber footwear made up 93 percent of total production. 1/

The number of employees in Korea's footwear industry was 122,000 in 1982 and 1983, but declined to 115,000 in 1984. The average hourly compensation for workers producing leather footwear in Korea was estimated at \$0.95 per hour in 1984. This included not only hourly wages, but fringe benefits, such as annual bonuses, subsidized daily meals, dormitory space for single workers, and health benefits. In 1980, the hourly compensation of footwear workers in Korea was \$0.87. Although there has been some growth in Korean wages during 1980-84, such wages in U.S. dollars declined as a share of U.S. hourly compensation (table 40).

Table 40.--Estimated hourly compensation in the leather footwear industries of the United States and Korea, 1980-84

Year	United States	Korea		
		National currency <u>1/</u>	U.S. currency <u>2/</u>	Share of U.S. compensation Percent
1980-----	\$5.67	530	\$0.87	15
1981-----	6.22	599	.88	14
1982-----	6.64	647	.88	13
1983 <u>3/</u> -----	7.00	718	.92	13
1984 <u>3/</u> -----	7.32	772	.95	13

1/ Won.

2/ Hourly compensation in national currency units is converted to U.S. dollars using the average daily exchange rate for the reference period. Changes in hourly compensation in U.S. dollars from one period to another are therefore affected by changes in currency exchange rates as well as by changes in compensation. The exchange rates used are prevailing commercial market exchange rates as published by either the U.S. Federal Reserve or the International Monetary Fund.

3/ Estimated based on data for all manufacturing.

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

1/ Although Korean statistics describe "rubber" footwear separately from all other footwear, it is not clear that the Korean "nonrubber" categories match the definition of nonrubber footwear as used in this investigation.

In 1984, Korea exported 162 million pairs of footwear to the United States, valued at \$955 million, which accounted for 58 percent of the quantity and 68 percent of the value of all footwear exports from Korea (table 41). These 1984 exports to the United States declined from 170 million pairs, valued at \$895 million, in 1983. Exports to the United States fell particularly sharply in the latter half of 1984 and in January-February 1985, a development attributed in part to overestimated demand and in part to fashion changes. In March and April 1985, however, orders rose strongly compared with those in earlier months, allegedly because U.S. inventories had been worked off or because this investigation was spurring additional imports. The future performance of the Korean footwear industry remains uncertain. In 1984, the largest Korean producer went bankrupt; its footwear operations were taken over by another firm that will reduce production lines from 128 in 1984 to 30 in 1985. Thus the Korean industry predicts that production will increase to 360 million pairs in 1985 and then decline to 350 million pairs in 1986, with capacity utilization of 83 and 81 percent in 1985 and 1986, respectively. Exports of footwear to the United States are predicted to be 150 million pairs in 1985, with 101 million being nonrubber.

Table 41.—Footwear: Exports from Korea, by principal markets, 1980-84

(Quantity in thousands of pairs; value in thousands of dollars)							
Market	1980	1981	1982	1983	1984	Percentage change, 1984 from 1983	
Quantity							
United States	96.9	107.2	146.9	169.8	161.6	-4.8	
Japan	27.9	24.9	21.4	16.6	26.0	+56.6	
United Kingdom	10.5	13.7	10.1	10.3	10.7	+3.8	
Canada	9.7	14.0	8.4	12.3	12.7	+3.3	
All other	57.9	72.0	64.4	62.2	65.2	+4.8	
Total	202.9	231.8	251.2	271.2	276.2	+1.8	
Value							
United States	497	575	800	895	955	+6.7	
Japan	8	6	78	60	107	+78.3	
United Kingdom	37	52	33	34	36	+5.8	
Canada	38	53	34	52	56	+7.7	
All other	324	363	237	229	244	+6.5	
Total	904	1,049	1,182	1,270	1,398	+10.1	

Source: Compiled from data provided by Department of State telegrams P260205Z April 1984 (Seoul 04314) and 0010900Z April 1985 (Seoul 03250).

Brazil. ^{1/}—From 1980 to 1982, Brazil was the fourth largest supplier of nonrubber footwear to the United States in terms of quantity, behind Taiwan, Korea, and Italy. In 1983 and 1984, Brazil took the third position from Italy. In 1984, imports from Brazil accounted for 15 percent of the quantity and 18 percent of the value of U.S. imports of nonrubber footwear, and 11 percent of the quantity and 10 percent of the value of apparent U.S. consumption.

Footwear declined from Brazil's eighth to ninth ranking export earner in 1984. Both the quantity and the value of export shipments increased, however, from 93 million pairs valued at \$681 million in 1983 to 154 million pairs valued at \$994 million in 1984 (table 42). The quantity of 1984 exports accounted for 22 percent of total 1984 production.

Approximately 4,000 firms made shoes in Brazil in 1983, with 98 percent of these employing less than 100 people and accounting for 47 percent of industry sales. The capacity of Brazil's industry to produce footwear reportedly remained stable from 1980 to 1982, and then increased to 550 million pairs in 1983 and 750 million in 1984. Capacity utilization increased yearly from 1980 to 1984, reaching about 92 percent in 1984. Thus, production of footwear in Brazil grew by 87 percent over the period 1980-84, from 371 million pairs in 1980 to 693 million in 1984. Nonrubber footwear accounted for 84 percent of total production in 1983 and 85 percent in 1984. Leather footwear accounted for 54 percent of total 1984 production of nonrubber footwear, representing a decline from 1983 when 62 percent of nonrubber footwear production was of leather.

The number of full-time employees in the Brazilian footwear industry is estimated at 200,000. The three largest shoe factories employ about 26,000 workers; many employees of smaller factories work at home. Hourly compensation for workers in Brazil's footwear industry increased rapidly in recent years because of inflation (table 43). Despite this increase in compensation, from 57 cruzeiros in 1980 to an estimated 1,611 cruzeiros in 1984, Brazilian labor costs, when converted into U.S. dollars, still amounted to only 12 percent of U.S. labor costs in 1984. The hourly compensation of footwear workers in Brazil fell from \$1.57 in 1982 to an estimated \$0.88 in 1984.

Leather footwear accounted for 91 percent of the quantity and 98 percent of the value of Brazil's total footwear exports in 1984. Exports of leather footwear to the United States accounted for 86 percent of the quantity and 89 percent of the value of all leather footwear exports from Brazil. Both the total quantity of exports of leather footwear to the United States and the share of such exports in total exports have increased each year since 1980. Brazil's successful showing in shoe exports is the result of various factors, including the strength of the U.S. dollar and the current popularity of the

^{1/} Unless otherwise noted, sources for data in this section are Department of State telegrams R241200Z April 1984 (Porto Alegre 0105) and P281620Z March 1985 (Porto Alegre 0104), and Department of Commerce telegram R181549Z April 1985 (Brasilia 04103). Data reported by these sources are estimates as no central source of data on the Brazilian footwear industry exists.

Table 42.--Footwear in Brazil: Production, capacity, capacity utilization, export shipments, and exports to the United States, 1980-84

Item	1980	1981	1982	1983	1984
Production:					
Leather footwear					
million pairs--:	<u>1/</u>	<u>1/</u>	<u>1/</u>	238.1	319.2
Total nonrubber footwear					
million pairs--:	<u>1/</u>	<u>1/</u>	<u>1/</u>	381.1	586.0
Total, all footwear--do----	371.4	399.2	425.0	451.1	693.0
Capacity:					
Total nonrubber footwear					
million pairs--:	<u>1/</u>	<u>1/</u>	<u>1/</u>	467.5	<u>1/</u>
Total, all footwear--do----	525.0	525.0	525.0	550.0	750.0
Capacity utilization:					
Total nonrubber footwear					
percent--:	-	-	-	82	-
Total, all footwear--do----	71	76	81	82	92
Export shipments:					
Leather footwear:					
Quantity--million pairs--:	43.2	61.7	58.1	80.8	140.0
Value--million dollars--:	365.3	<u>1/</u>	<u>1/</u>	650.8	972.9
Total, all footwear:					
Quantity--million pairs--:	49.0	69.7	61.3	93.2	153.8
Value--million dollars--:	<u>1/</u>	479.0	523.9	681.3	993.7
Export shipments to the					
United States:					
Leather footwear:					
Quantity--million pairs--:	25.9	39.9	42.0	67.6	120.0
Value--million dollars--:	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	865.5

1/ Not available.

Source: Compiled from data provided by Department of State telegrams R241200Z Apr. 1984 (Porto Alegre 0105) and P281620Z Mar. 1985 (Porto Alegre 0104), and Department of Commerce telegram R181549Z Apr. 1985 (Brasilia 04103).

"soft-leather" look that characterizes many Brazilian shoes. 1/ The country's footwear exports may be less successful in 1985, reportedly owing to unsold retail inventories of Brazilian shoes in the United States; orders for January-February 1985 were off by 40 percent compared with the corresponding period in 1984.

Italy 2/--From 1980 to 1981, Italy was the second largest supplier of imported nonrubber footwear to the United States, after Taiwan. In 1982, Italy's second-place position was taken by Korea, and in 1983, it lost its

1/ Transcript of the hearing, p. 455.

2/ Information in this section was compiled from data in Department of Commerce telegram R21102Z Feb. 1985 (Florence 0162) and Department of State Industrial Outlook Report: Shoes and Leather (Florence A-2) Jul. 31, 1984.

Table 43.--Estimated hourly compensation in the leather footwear industries of the United States and Brazil, 1980-84

Year	United States	Brazil		Share of U.S. compensation
		National currency <u>1/</u>	U.S. currency <u>2/</u>	
<u>Percent</u>				
1980-----	\$5.67	57	\$1.08	19
1981-----	6.22	127	1.36	22
1982-----	6.64	281	1.57	24
1983 <u>3/</u> -----	7.00	610	1.07	15
1984 <u>3/</u> -----	7.32	1,611	.88	12

1/ Cruzeiro.

2/ Hourly compensation in national currency units is converted to U.S. dollars using the average daily exchange rate for the reference period. Changes in hourly compensation in U.S. dollars from one period to another are therefore affected by changes in currency exchange rates as well as by changes in compensation. The exchange rates used are prevailing commercial market exchange rates as published by either the U.S. Federal Reserve or the International Monetary Fund.

3/ Estimated based on data for all manufacturing.

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

third-place position to Brazil. In 1984, though Italy remained in fourth place in terms of quantity of imports, it was in third place in terms of the value of imports, which was slightly higher than that for imports from Korea. In 1984, imports from Italy accounted for 9 percent of the quantity and 17 percent of the value of U.S. imports of nonrubber footwear, and 6 percent of the quantity and 9 percent of the value of apparent U.S. consumption.

Preliminary industry data indicate that Italian footwear production in 1984 was close to 470 million pairs, about 1 percent higher than that in 1983 (table 44). Total exports in January-October 1984 amounted to 332 million pairs valued at \$3 billion, representing an increase of 5 percent in terms of quantity and 18 percent in terms of value over the corresponding period in 1983. Footwear with leather uppers accounted for over 66 percent of the total quantity of exports and over 80 percent of the total value. The quantity of Italian exports to the United States increased from 47 million pairs in 1983 to 51 million pairs through October 1984, or by 9 percent, and the value of such exports increased by 31 percent (based upon value in Italian lire). The United States was Italy's second largest export market in terms of value, after the Federal Republic of Germany, and its third largest market in terms of quantity, after Germany and France. Sixty-five percent of the value of Italy's footwear exports are to the European Communities (EC).

The number of companies active in manufacturing shoes and related products increased from 8,226 in 1982 to 8,349 in 1983. Employment, however, declined from 138,000 in 1982 to 131,000 in 1983. Hourly compensation of

Table 44.--Footwear in Italy: Production, by types, 1982, 1983, and January-October 1984

(In thousands of pairs)				
Type	1982	1983	January-October 1984	
Leather uppers:				
Men's-----	79,770	80,489		1/
Women's-----	196,069	190,864		1/
Children's-----	33,441	28,029		1/
Sport shoes-----	25,785	29,321		1/
Total-----	335,065	328,704		1/
Synthetic uppers-----	112,590	94,442		1/
Slippers-----	22,366	19,267		1/
Rubber-----	7,707	5,592		1/
All other-----	26,771	15,019		1/
Total-----	504,499	463,024		470,000

1/ Not available.

Source: Compiled from data provided by Department of State Industrial Outlook Report: Shoes and Leather Products (Florence A-2) and Department of Commerce telegram R251102Z, Feb. 1985 (Florence 0162).

Italian workers in U.S. dollars decreased from \$6.17 in 1980 to an estimated \$5.82 in 1984, or from 109 percent of U.S. hourly compensation costs in 1980 to 80 percent of such costs in 1984 (table 45). The Italian National Association of Shoe Manufacturers reported an average 1984 increase of 11 percent in the cost of labor in the footwear industry, and a 25-percent increase in the price of leather. As a result of these increases in the costs of production, profits declined in 1984, investments in labor-saving machinery increased, and labor absenteeism decreased.

Italy's domestic market for footwear was reportedly as unsatisfactory in 1984 as it was in 1983. In the beginning of an economic recovery in 1984, Italy had high unemployment and slow growth in domestic consumption. Imports of low-priced footwear from Korea, China, and Taiwan maintained the high level reached in 1983, and accounted for over 33 percent of domestic sales.

Italian footwear exporters' prospects for 1985 depend largely on the value of the dollar. A high dollar makes Italy's imports of raw hides increasingly expensive and Italian exports to the EC less competitive, since other EC producers are less dependent on raw material imports valued in dollars.

U.S. importers' inventories

U.S. importers (not including U.S. producers that also import nonrubber footwear) reported inventory levels of imported nonrubber footwear in response to Commission questionnaires. These data are presented in table 46. Usable responses were received from importers that accounted for 41 percent of the quantity and 48 percent of the value of total imports of nonrubber footwear in

Table 45.—Estimated hourly compensation in the leather footwear industries of the United States and Italy, 1980-84

Year	United States	Italy		
		National currency <u>1/</u>	U.S. currency <u>2/</u>	Share of U.S. compensation Percent
1980-----	\$5.67	5,279	\$6.17	109
1981-----	6.22	6,441	5.69	91
1982-----	6.64	7,817	5.77	87
1983 <u>3/</u> -----	7.00	9,079	5.97	85
1984 <u>3/</u> -----	7.32	10,263	5.82	80

1/ Lira.

2/ Hourly compensation in national currency units is converted to U.S. dollars using the average daily exchange rate for the reference period. Changes in hourly compensation in U.S. dollars from one period to another are therefore affected by changes in currency exchange rates as well as by changes in compensation. The exchange rates used are prevailing commercial market exchange rates as published by either the U.S. Federal Reserve or the International Monetary Fund.

3/ Estimates based on data for all manufacturing.

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

Table 46.—Nonrubber footwear: End-of-period inventories of imports held by importers other than U.S. producers, 1980-84

Category	1980	1981	1982	1983	1984
	Quantity (1,000 pairs)				
Men's <u>1/</u> -----	3,361	3,848	4,621	6,393	8,189
Women's <u>2/</u> -----	18,824	24,173	24,565	26,492	36,014
Children's <u>3/</u> -----	2,345	3,352	3,204	4,154	4,218
Athletic-----	13,812	13,342	18,881	19,725	20,231
All other-----	1,488	1,832	1,640	1,651	1,973
Total-----	39,830	46,547	52,911	58,415	70,625
	Ratio of inventories to imports (percent)				
Men's <u>1/</u> -----	23.8	21.2	23.5	26.5	25.8
Women's <u>2/</u> -----	24.9	24.3	24.1	20.6	21.5
Children's <u>3/</u> -----	22.2	26.9	28.1	26.6	24.8
Athletic-----	26.6	27.8	29.0	32.1	30.3
All other-----	15.5	17.4	13.5	12.1	12.9
Average-----	24.6	25.1	25.2	24.0	23.7

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

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

1984. Some importers, however, did not report inventories for all years during the period, and others provided estimated data; therefore aggregate data should be used with caution. End-of-period inventories of nonrubber footwear reported by importers increased from 40 million pairs in 1980 to 71 million pairs in 1984. A part of this apparent increase is the result of certain importers being unable to supply data for earlier years. Gauging inventory levels by looking at the ratio of inventories to total imports suggests that inventories have remained relatively stable. As a share of total imports by reporting importers, inventories increased by less than 1 percentage point from 1980 to 1982, and then declined by less than 2 percentage points, from 25 percent in 1982 to 24 percent in 1984.

U.S. wholesalers' and retailers' inventories

The Commission requested information on inventories from U.S. producers, importers, and retailers ^{1/} of nonrubber footwear. This section provides data pertinent to wholesalers' and retailers' inventories that were provided by producers, importers, and retailers in their questionnaire responses, as well as pertinent official statistics.

Official statistics are available that provide an incomplete picture of wholesalers' and retailers' inventories. The Bureau of the Census collects data on the activities of wholesalers that deal primarily in footwear, whether rubber or nonrubber. In 1977, for 1,147 wholesalers of footwear, the value of total sales was \$3.8 billion, and the value of end-of-period inventories was \$414 million, or 10.8 percent of sales. In 1982, for 1,432 wholesalers, the value of total sales was \$6.9 billion and the value of inventories was \$704 million, or 10.2 percent of total sales.

The most pertinent official statistics on retail inventories are those describing total inventories of businesses for which shoes account for 50 percent or more of total sales. These statistics do not include department stores and other large purveyors of both shoes and other apparel, and do include items other than nonrubber footwear. Official statistics describe end-of-period inventories of shoe stores as follows:

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Sales--million dollars--	7,418	8,307	9,279	8,903	9,538	^{1/} 10,339
Inventories-----do----	1,866	2,137	2,350	2,302	2,410	^{2/}
Ratio of inventories to sales-----percent--	25.2	25.7	25.3	25.9	25.3	^{2/}

^{1/} Preliminary data.

^{2/} Not available.

^{1/}The Commission's request to retailers was in one of two forms. Retailers that did not import were sent a retailer's questionnaire, which requested data on inventories and total purchases of nonrubber footwear, broken out by imported and U.S.-produced footwear. Importers that were also retailers were requested to complete a section of the importer's questionnaire to describe their inventories and purchases of all nonrubber footwear, including their imported shoes that were separately reported.

Comparing inventories of shoe stores with those for all retail stores, official statistics show the ratio of inventories to sales for the U.S. retail sector as being 11.9 percent in 1979, 11.8 percent in 1980, 11.8 percent in 1981, 11.3 percent in 1982, 11.4 percent in 1983, and 11.6 percent in 1984.

Data submitted in response to Commission questionnaires can assist in analyzing wholesalers' inventories. Some manufacturers of nonrubber footwear supply only other manufacturers, for example, by finishing shoes that are added to another manufacturer's product line. Some manufacturers work only on order, and so carry no inventories. Other manufacturers sell their own production at retail. Most manufacturers, however, engage in wholesale sales and maintain inventories of their product line to serve the wholesale market. Thus, a portion of manufacturers' inventories can be analyzed as part of wholesale level inventories.

Precise data on manufacturers' wholesale inventories are not available; an estimate of these data is available by looking at inventories of those manufacturers that have less than 15 percent of net sales accounted for by retail operations. Data on inventories of U.S. production and imports by these manufacturers are presented in table 47. Inventories of their U.S. production held by these manufacturers were 26 million pairs in 1981; these decreased irregularly to reach 25 million pairs in 1984. As a share of reporting firms' total shipments, however, inventories increased each year from 10 percent in 1980 to 13 percent in 1984. Inventories of imports held by these manufacturers increased each year from 1980 to 1984; as a share of their total imports, inventories increased each year except 1984.

Data submitted in response to Commission questionnaires can also assist in analyzing retail inventories. Information on manufacturers' inventories held for the retail market, like their wholesale inventories, are not precisely available; an estimate of these data is available by looking at inventories of those manufacturers that have more than 25 percent of net sales accounted for by retail operations. Such data are presented in table 48.

Inventories of U.S. production held by producers that have more than 25 percent of net sales from retail operations decreased from 9 million pairs in 1980 to 8 million pairs in 1982, increased slightly in 1983, and then fell to 7 million pairs in 1984. As a share of reporting firms' total shipments, inventories held steady at about 20 percent during the period 1980-84. Inventories of imports held by such producers increased each year from 10 million pairs in 1980 to 14 million in 1984. As a share of total imports, inventories of imports declined from 25 percent in 1980 to 14 percent in 1984.

The Commission solicited data on retail inventories from importers that were also retailers (including U.S. producers that were importer-retailers). These firms were requested to report their total purchases and total inventories. Usable responses were received from 36 firms that had 1984 purchases accounting for 31 percent of apparent U.S. consumption by quantity. These firms include some of the nation's largest footwear retailers, such as Edison Brothers, Inc.; Thom McAn division of Melville Corp.; Stride-Rite Corp.; Volume Shoe Corp.; Kinney Shoe Corp.; Pic 'n' Pay; and Sears, Roebuck & Co. Not all firms were able to provide data for each year included in the survey; one firm could not provide inventories corresponding to reported purchases for 1980-81, one could not do so for 1980-82, and some firms

Table 47.—Nonrubber footwear: Inventories of U.S. production and imports held by U.S. producers for which retail sales account for less than 15 percent of total sales, by categories, 1980-84

Item	1980	1981	1982	1983	1984
	U.S. production				
Inventories:					
Men's-----1,000 pairs--:	5,124	5,608	4,973	4,777	4,611
Women's-----do-----:	8,508	9,431	9,422	10,096	9,796
Children's-----do-----:	2,041	2,274	2,131	1,818	2,075
Athletic-----do-----:	3,087	3,822	3,906	3,910	3,617
All other-----do-----:	3,367	4,742	4,863	5,018	4,650
Total-----do-----:	22,127	25,877	25,295	25,619	24,749
Ratio of inventories to shipments:					
Men's-----percent--:	11.3	12.0	12.5	12.8	12.3
Women's-----do-----:	9.9	10.4	10.4	11.6	12.1
Children's-----do-----:	10.5	10.9	11.3	10.4	11.3
Athletic-----do-----:	11.6	11.1	12.6	12.7	14.2
All other-----do-----:	7.8	12.6	14.6	17.2	18.4
Average-----do-----:	10.0	11.3	11.8	12.7	13.2
	Imports				
Inventories:					
Men's-----1,000 pairs--:	717	966	863	980	803
Women's-----do-----:	2,633	4,336	5,107	3,998	4,539
Children's-----do-----:	110	111	81	85	169
Athletic-----do-----:	1,855	3,430	11,173	16,865	17,068
All other-----do-----:	8	14	12	32	230
Total-----do-----:	5,323	8,857	17,236	21,960	22,809
Ratio of inventories to imports:					
Men's-----percent--:	22.6	17.8	13.9	18.3	11.0
Women's-----do-----:	20.8	24.0	30.9	24.2	20.2
Children's-----do-----:	11.5	6.3	5.7	2.1	7.7
Athletic-----do-----:	12.0	14.5	24.6	27.1	27.2
All other-----do-----:	1.0	0.4	0.3	1.0	5.2
Average-----do-----:	16.1	17.0	23.6	24.0	23.0

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

reported estimated data. Therefore aggregate data should be interpreted with caution. Total inventories reported by these importer-retailers, including nonrubber footwear imported directly by such firms as well as footwear purchased in the United States, are presented in table 49. Inventories of reporting firms increased yearly, from 61 million pairs in 1980 to 118 million

Table 48.—Nonrubber footwear: Inventories of U.S. production and imports held by U.S. producers for which retail sales account for more than 25 percent of total sales, by categories, 1980-84

Item	1980	1981	1982	1983	1984
U.S. production					
Inventories:					
Men's-----1,000 pairs--	5,475	5,402	4,702	5,157	4,703
Women's-----do-----	3,141	2,727	2,929	2,692	1,800
Children's-----do-----	197	95	82	134	64
Athletic-----do-----	527	525	508	502	491
All other-----do-----	0	0	1	1	2
Total-----do-----	9,340	8,749	8,222	8,486	7,060
Ratio of inventories to shipments:					
Men's-----percent--	20.9	20.8	20.6	22.1	21.8
Women's-----do-----	17.7	18.0	18.6	18.0	14.4
Children's-----do-----	26.3	12.6	7.9	41.5	12.0
Athletic-----do-----	43.5	37.2	53.1	45.3	45.8
All other-----do-----	-	-	14.3	11.1	18.2
Average-----do-----	20.4	20.2	20.2	21.4	19.7
Imports					
Inventories:					
Men's-----1,000 pairs--	3,669	3,466	2,823	3,104	3,683
Women's-----do-----	5,711	6,374	7,453	8,450	8,419
Children's-----do-----	227	238	197	72	71
Athletic-----do-----	606	1,056	949	1,038	1,729
All other-----do-----	43	53	54	85	282
Total-----do-----	10,256	11,187	11,476	12,749	14,184
Ratio of inventories to imports:					
Men's-----percent--	33.1	26.4	20.0	19.1	16.9
Women's-----do-----	27.1	25.8	25.2	24.9	17.8
Children's-----do-----	7.4	6.3	4.3	1.5	1.1
Athletic-----do-----	10.5	14.2	8.8	6.6	8.0
All other-----do-----	1/	1/	5.4	3.3	10.4
Average-----do-----	25.0	22.8	19.1	17.4	14.2

1/ Incomplete reporting causes data to be over 100 percent.

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

pairs in 1984, representing an increase of 92 percent over the period. The ratio of inventories to total purchases of these firms declined from 42 percent in 1981 to 37 percent in 1984.

One company that is a major U.S. producer, importer, and retailer of nonrubber footwear could not provide data on total purchases and inventories.

Table 49.--Nonrubber footwear: Total end-of period inventories held by U.S. importers that are retailers, and ratio of inventories to total purchases, by categories, 1980-84

Item	1980	1981	1982	1983	1984
Inventories:					
Men's-----1,000 pairs--	11,408	16,654	17,552	18,605	20,526
Women's-----do-----	31,781	43,866	42,807	47,069	54,825
Children's-----do-----	5,176	6,470	7,057	8,077	8,715
Athletic-----do-----	10,000	17,186	19,547	23,918	28,208
All other-----do-----	2,856	4,716	5,032	5,200	5,525
Total-----do-----	61,221	88,892	91,995	102,869	117,799
Ratio of inventories to total purchases:					
Men's-----percent--	41.6	45.9	49.3	46.8	44.7
Women's-----do-----	40.3	40.5	38.6	37.3	35.0
Children's-----do-----	43.0	39.8	39.7	40.2	39.1
Athletic-----do-----	48.5	46.6	39.7	37.6	36.7
All other-----do-----	35.3	33.8	32.8	34.8	38.3
Total-----do-----	41.6	42.0	40.2	38.9	37.2

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

***, reported the following information on the value of retail footwear inventories and the ratio of these inventories to total retail sales of footwear to unaffiliated customers:

* * * * *

The Commission also solicited data on retailers' inventories from retailers that were not also importers. Usable responses were received from 43 firms, all of which were engaged solely in retail sales of shoes. These firms would be generally characterized as traditional shoe stores of relatively small size: their total reported purchases in 1984 were 7.2 million pairs, or less than 1 percent of apparent U.S. consumption. Because of the small size of this sample, and because a number of firms found it necessary to report using estimates, interpretation of the aggregate data should be guarded. These data are presented in the following tabulation:

Item	1980	1981	1982	1983	1984
Inventories:					
U.S. produced--1,000 pairs--	1,823	1,846	1,940	1,993	2,023
Imported-----do-----	1,108	1,241	1,250	1,416	1,599
Total ^{1/} -----do-----	2,933	3,087	3,188	3,409	3,620
Ratio of inventories to total purchases:					
U.S. produced-----percent--	45.9	45.0	46.3	47.0	48.9
Imported-----do-----	54.6	54.1	50.8	50.9	52.8
Average-----do-----	48.9	48.2	48.0	48.6	50.5

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

The Question of Imports as a Substantial Cause of Serious Injury

U.S. imports

U.S. imports of nonrubber footwear have increased since 1980 (table 50). Imports rose from 366 million pairs in 1980 to 726 million pairs in 1984, or by 98 percent over the period. The single largest yearly increase occurred in 1982, when imports rose by 28 percent, but increases in 1983 and 1984 were not far behind, at 21 percent and 25 percent, respectively. In 1982 and 1983 these increases coincided with decreasing unit values of imports, but unit values increased in 1984. The unit value of U.S. imports increased from \$6.28 per pair in 1980 to \$6.61 per pair in 1981, then declined to \$6.29 per pair in 1983, and finally increased again in 1984 to reach \$6.41.

The 10 principal source countries for imported nonrubber footwear are presented in table 50. The three largest sources by quantity in 1984--Taiwan, Korea, and Brazil--increased their respective shares of U.S. imports during the period under consideration. Imports from the fourth largest source, Italy, fell as a share of total imports over the period. Together, these four countries accounted for 71 percent of imports in 1980 and 82 percent in 1984.

Imports of nonrubber footwear from Taiwan declined from 1980 to 1981, while the unit value of these imports increased. From 1981 to 1984, imports from Taiwan increased steadily from 119 million pairs in 1981 to 307 million pairs in 1984, or by 158 percent over the period. Simultaneously, the unit value declined from \$5.16 to \$4.42, or by 14 percent.

Imports from Korea increased from 1980 to 1983, and then decreased by less than 1 percent in 1984. In 1984, 76 percent of imports were of athletic shoes or were classified in the nonrubber footwear basket category of the TSUS.

In 1984, 95 percent of imported nonrubber footwear from Brazil was classified as leather footwear. Imports from Brazil increased irregularly from 31 million pairs in 1980 to 110 million pairs in 1984. The largest increase occurred from 1983 to 1984, totaling 70 percent. A countervailing duty order on nonrubber footwear from Brazil was revoked in June 1983. The unit value of imports from Brazil increased from 1980 to 1982, reaching \$8.51, and then declined through 1984, to \$7.78.

Although the quantity of imports from Italy increased from 1980 to 1982 and again from 1983 to 1984, the share of total imports accounted for by imports from Italy decreased almost steadily over 1980-84, from 13 percent to 9 percent. In terms of value, Italy's share of imports declined as well, from 22 percent in 1980 to 17 percent in 1984.

Official statistics on imports by category of nonrubber footwear are not entirely consistent with commonly used definitions of footwear or with statistics on U.S. production, and should be used with caution; see the section entitled "Statistical Information Used in this Report."

A percentage breakdown of U.S. imports by categories is presented in table 51. Women's shoes consistently accounted for the majority of imported footwear; their share declined from 1980 to 1982, held steady in 1983, and

Table 50.—Nonrubber footwear: U.S. imports for consumption, 1980-84

Item	1980	1981	1982	1983	1984
Quantity (1,000 pairs)					
Taiwan	144,032	118,906	183,202	243,430	307,115
Republic of Korea	37,054	43,993	90,606	118,854	118,282
Brazil	31,338	43,028	41,114	64,391	109,711
Italy	46,221	50,179	57,430	56,355	62,944
Spain	18,017	18,999	22,229	26,706	36,230
Hong Kong	20,762	28,312	24,536	18,186	27,627
China	2,207	7,106	6,164	7,167	12,659
Philippines	14,295	13,233	10,144	7,632	7,835
France	2,767	3,661	4,232	4,254	5,774
Mexico	5,498	6,517	5,608	4,224	5,530
All other	43,553	41,669	34,399	30,658	32,185
Total	365,743	375,600	479,663	581,857	725,893
Customs value (1,000 dollars)					
Taiwan	620,143	613,465	805,016	1,079,368	1,357,248
Republic of Korea	262,849	321,999	591,002	700,189	774,104
Brazil	239,596	357,251	349,710	513,181	853,519
Italy	506,528	489,021	609,339	658,612	774,817
Spain	173,744	194,595	231,842	254,731	365,560
Hong Kong	36,076	58,858	54,634	48,690	70,095
China	7,297	17,734	19,926	17,758	22,053
Philippines	34,133	44,005	33,839	29,356	28,827
France	49,504	58,377	76,606	74,108	95,609
Mexico	43,549	45,322	37,537	31,380	38,125
All other	324,888	280,348	274,408	254,585	271,441
Total	2,298,308	2,480,975	3,083,859	3,661,959	4,651,397
Unit value (per pair)					
Taiwan	\$4.31	\$5.16	\$4.39	\$4.43	\$4.42
Republic of Korea	7.09	7.32	6.52	5.89	6.54
Brazil	7.65	8.30	8.51	7.97	7.78
Italy	10.96	9.75	10.61	11.69	12.31
Spain	9.64	10.24	10.43	9.54	10.09
Hong Kong	1.74	2.08	2.23	2.68	2.54
China	3.31	2.50	3.23	2.48	1.74
Philippines	2.39	3.33	3.34	3.85	3.68
France	17.89	15.95	18.10	17.42	16.56
Mexico	7.92	6.95	6.69	7.43	6.89
All other	7.46	6.73	7.98	8.30	8.43
Average	6.28	6.61	6.43	6.29	6.41

Table continued on following page.

Table 50.—Nonrubber footwear: U.S. imports for consumption, 1980-84--Continued

Item	1980	1981	1982	1983	1984
Percent of total quantity					
Taiwan-----	39.4	31.7	38.2	41.8	42.3
Republic of Korea--	10.1	11.7	18.9	20.4	16.3
Brazil-----	8.6	11.5	8.6	11.1	15.1
Italy-----	12.6	13.4	12.0	9.7	8.7
Spain-----	4.9	5.1	4.6	4.6	5.0
Hong Kong-----	5.7	7.5	5.1	3.1	3.8
China-----	.6	1.9	1.3	1.2	1.7
Philippines-----	3.9	3.5	2.1	1.3	1.1
France-----	.8	1.0	.9	.7	.8
Mexico-----	1.5	1.7	1.2	.7	.8
All other-----	11.9	11.1	7.2	5.3	4.4
Total-----	100.0	100.0	100.0	100.0	100.0

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

Note.—Because of rounding, figures may not add to the totals shown.

increased in 1984. The share of men's and children's shoes increased through 1983 before decreasing in 1984, while that of athletic shoes, after initial increases, declined from 1982 to 1983 and increased in 1984.

Table 51.—Nonrubber footwear: Percentage distribution of U.S. imports for consumption, by categories, 1980-84

Item	1980	1981	1982	1983	1984
Men's ^{1/} -----	18.8	18.7	21.9	22.9	19.0
Women's ^{2/} -----	60.5	59.4	52.7	52.9	55.8
Children's ^{3/} -----	6.1	6.7	7.2	9.0	8.5
Athletic-----	14.6	15.3	18.1	15.1	16.8
All other-----	^{4/}	^{4/}	^{4/}	^{4/}	.1
Total-----	100.0	100.0	100.0	100.0	100.0

^{1/} Men's footwear also includes youths' and boys' but excludes athletic.

^{2/} Women's footwear also includes misses' but excludes athletic.

^{3/} Children's footwear also includes infants' but excludes athletic.

^{4/} Less than 0.05 percent.

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

Note.—Because of rounding, figures may not add to the totals shown.

A percentage distribution of imports of nonrubber footwear by the types of upper materials is presented in table 52. The share of imports accounted for by plastic shoes declined from 46 percent in 1980 to 32 percent in 1983, but climbed to 36 percent in 1984. The share of imports accounted for by leather shoes increased from 41 percent in 1980 to 46 percent in 1981 and held at approximately that level before increasing to 50 percent in 1984.

Table 52.—Nonrubber footwear: Percentage distribution of U.S. imports for consumption, by types of upper materials and by categories, 1980-84

Item	1980	1981	1982	1983	1984
Men's: <u>1/</u>					
Leather-----	45.9	42.4	35.9	36.9	45.2
Plastic-----	39.5	39.8	24.9	22.4	27.6
All other-----	14.6	17.8	39.2	40.7	27.2
Total-----	100.0	100.0	100.0	100.0	100.0
Women's: <u>2/</u>					
Leather-----	31.7	40.0	37.6	42.7	44.6
Plastic-----	54.6	47.3	48.8	42.1	46.2
All other-----	13.7	12.7	13.7	15.2	9.2
Total-----	100.0	100.0	100.0	100.0	100.0
Children's: <u>3/</u>					
Leather-----	17.4	16.1	13.7	11.9	13.0
Plastic-----	52.4	44.3	43.8	34.7	37.0
All other-----	30.2	39.6	42.5	53.4	50.0
Total-----	100.0	100.0	100.0	100.0	100.0
Athletic:					
Leather-----	85.2	86.1	88.4	90.0	91.5
Plastic-----	14.8	13.9	11.6	10.0	8.5
All other-----	4/	4/	4/	4/	4/
Total-----	100.0	100.0	100.0	100.0	100.0
All other:					
Leather-----	34.0	80.0	49.5	67.0	65.2
Plastic-----	66.0	20.0	50.5	33.0	34.8
All other-----	4/	4/	4/	4/	4/
Total-----	100.0	100.0	100.0	100.0	100.0
Total:					
Leather-----	41.4	45.9	44.7	45.8	49.9
Plastic-----	45.8	40.6	36.4	32.0	35.6
All other-----	12.8	13.5	18.9	22.2	14.5
Total-----	100.0	100.0	100.0	100.0	100.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

4/ Not reported separately.

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

Note.—Because of rounding, figures may not add to the totals shown.

Nonrubber footwear of materials other than leather or plastic (primarily fabric) increased from 13 percent of imports in 1980 to 22 percent in 1983, and then decreased to 15 percent in 1984. Much of the footwear classified as having uppers of material other than leather or plastic is, in fact, athletic footwear.

Commission questionnaires requested U.S. importers (not including U.S. producers that also import nonrubber footwear) to estimate the share of their total imports that fell into each of three wholesale value categories: below \$5 per pair, between \$5 and \$10 per pair, and over \$10 per pair (table 53). Not all importers provided complete data for all periods, and data provided are estimates; they should therefore be used with caution. In 1980, 46 percent of imports reported by nonproducers were valued below \$5, and 26 percent were valued between \$5 and \$10. By 1984, the share of imports in the lowest value category had dropped to 19 percent while the share valued between \$5 and \$10 had increased to 44 percent.

The Commission also requested U.S. importers to estimate the share of their total imports that were denominated in U.S. dollars versus those denominated in a foreign currency. Over 96 percent of reported imports were denominated in U.S. dollars over the period 1980-84, indicating that foreign producers tend to benefit when the U.S. dollar is strong in relation to foreign currencies (table 54).

Table 53.--Nonrubber footwear: U.S. imports, other than imports by U.S. producers, by categories of wholesale value, 1980-84

(In percent, per pair)						
Item	1980	1981	1982	1983	1984	
Wholesale value:						
Below \$5-----	46.1	43.6	28.7	22.4	18.8	
Between \$5 and \$10-----	25.9	29.4	40.0	40.7	44.2	
Over \$10-----	28.0	27.0	31.3	37.0	37.1	
Total-----	100.0	100.0	100.0	100.0	100.0	

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

Table 54.--Nonrubber footwear: Share of U.S. imports, other than imports by U.S. producers, denominated in U.S. dollars and in foreign currencies, 1980-84

(In percent)						
Item	1980	1981	1982	1983	1984	
Denominated in U.S. dollars---	96.2	97.1	97.3	97.7	97.6	
Denominated in foreign currencies-----	3.8	2.9	2.7	2.3	2.4	
Total-----	100.0	100.0	100.0	100.0	100.0	

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

Data on imports of nonrubber footwear by U.S. producers are presented in table 55. Such imports increased steadily from 1980 to 1984, growing by 182 percent in terms of quantity and 201 percent in terms of value. Imports of all categories of nonrubber footwear increased over the period, in terms of both quantity and value, with the exception of imports of children's shoes, the quantity of which declined from 1983 to 1984.

Table 55.--Nonrubber footwear: U.S. imports by U.S. producers, by categories, 1980-84

Item	1980	1981	1982	1983	1984
Quantity (1,000 pairs)					
Men's <u>1</u> /-----	14,320	18,602	20,372	21,615	29,111
Women's <u>2</u> /-----	33,806	42,892	46,417	50,888	70,205
Children's <u>3</u> /-----	4,155	5,612	6,087	9,069	8,940
Athletic-----	23,086	35,188	64,406	94,322	99,647
All other-----	815	3,186	4,501	5,636	7,129
Total-----	76,182	105,480	141,783	181,530	215,032
Value (1,000 dollars)					
Men's <u>1</u> /-----	199,518	241,638	253,105	265,600	351,982
Women's <u>2</u> /-----	292,417	371,232	405,169	465,467	626,617
Children's <u>3</u> /-----	19,426	36,289	40,829	44,298	44,929
Athletic-----	149,471	239,709	748,542	893,335	944,974
All other-----	2,654	7,546	11,030	16,790	26,746
Total-----	663,486	896,414	1,458,675	1,685,490	1,995,248
Unit value (per pair)					
Men's <u>1</u> /-----	\$13.93	\$12.99	\$12.42	\$12.29	\$12.09
Women's <u>2</u> /-----	8.65	8.66	8.73	9.15	8.93
Children's <u>3</u> /-----	4.68	6.47	6.71	4.88	5.03
Athletic-----	6.47	6.81	11.62	9.47	9.48
All other-----	3.27	2.37	2.45	2.98	3.75
Average-----	8.71	8.50	10.29	9.28	9.28
Share of total reported imports, by quantity <u>4</u> / (percent)					
Men's <u>1</u> /-----	18.8	17.6	14.4	11.9	13.5
Women's <u>2</u> /-----	44.4	40.7	32.7	28.0	32.6
Children's <u>3</u> /-----	5.5	5.3	4.3	5.0	4.2
Athletic-----	30.3	33.4	45.4	52.0	46.3
All other-----	1.1	3.0	3.2	3.1	3.3
Total-----	100.0	100.0	100.0	100.0	100.0

1/ Men's footwear also includes youths' and boys' but excludes athletic.

2/ Women's footwear also includes misses' but excludes athletic.

3/ Children's footwear also includes infants' but excludes athletic.

4/ Total imports reported by U.S. producers.

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

Note.--Because of rounding, figures may not add to the totals shown.

As a share of the total quantity of imports of nonrubber footwear as reported by official statistics, imports by U.S. producers increased from 21 percent in 1980 to 28 percent in 1981, 30 percent in 1982, and 31 percent in 1983, before declining to 30 percent in 1984. As a share of the total value of imports, imports by U.S. producers increased from 29 percent in 1980 to 36 percent in 1981 and 47 percent in 1982, before declining to 46 percent in 1983 and 43 percent in 1984.

U.S. producers were requested to estimate the portion of their imports that fell into the following three wholesale value categories: below \$5 per pair, between \$5 and \$10 per pair, and above \$10 per pair. Information provided by responding firms is presented in table 56. These data are estimates and should be used with caution.

The majority of imports by reporting U.S. producers had a wholesale value greater than \$10. In 1980, 56 percent of such imports were valued above \$10. After declining slightly in 1981, the share of imports in the highest value category increased each year to reach 58 percent in 1984. This increase of 2 percentage points appeared to come primarily from the share of imports in the category valued under \$5, which declined irregularly from 27 percent in 1980 to 26 percent in 1984.

Prices

Past studies, which were completed before 1980, suggest that the total quantity of nonrubber footwear purchased generally does not change significantly as a result of changes in its relative price (*vis-a-vis* the prices of other goods) or changes in income. ^{1/} This relationship may not hold for large changes in the relative price of nonrubber footwear or for

Table 56.--Nonrubber footwear: Imports by U.S. producers, by categories of wholesale value, 1980-84

(In percent, per pair)						
Item	1980	1981	1982	1983	1984	
Wholesale value:						
Below \$5-----	37.9	27.2	16.4	14.7	17.3	
Between \$5 and \$10-----	3.4	2.7	2.3	6.1	8.7	
Over \$10-----	58.6	70.0	81.1	79.1	73.9	
Total-----	100.0	100.0	100.0	100.0	100.0	

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

^{1/} Nonrubber Footwear: Report to the President on Investigation
No. TA-201-50 . . . , USITC Publication 1545, July 1984, app. E (discussion of statistical estimates of the sensitivity of footwear purchases to changes in prices and incomes).

large changes in income. These studies also suggest, however, that purchases of domestic nonrubber footwear are generally sensitive to changes in the prices of domestic and imported footwear. Important exceptions include nonrubber footwear that is significantly differentiated by style, quality of material, quality of construction, or by brand name.

Fluctuations in income, associated with the severe 1981-82 recession and the rapid recovery of 1983, and the increases in low-priced imports of nonrubber footwear after the OMA's with Taiwan and Korea expired in 1981, may have altered some of the past demand relationships in the U.S. nonrubber footwear market that were noted above. As a result, total demand for nonrubber footwear during 1980-84 may have been more responsive to changes in relative prices and income than would generally be expected, although there are no recent studies to confirm this. On the other hand, domestic footwear may currently not be as sensitive to changes in prices of the imported footwear as had generally been expected.

U.S. producers and importers of nonrubber footwear generally quote their prices f.o.b. plant or warehouse and sell from price lists. In some instances, however, they may quote delivered prices, and for large sales may sell on a negotiated price basis. Usual payment terms offered by domestic producers are 2 percent 10 days, net 30 days from the date of invoice, but terms can vary up to net 90 days, depending on market conditions. Importers' terms vary up to net 90 days, again depending on market circumstances.

Trends. 1/--Indexes of U.S. producers' selling prices of selected commodity categories are presented for comparison purposes in appendix table I-1, by quarters, from January-March 1979 through October-December 1984. The producer price indexes for nonrubber footwear, wearing apparel, and all nondurable manufactured commodities generally increased, rising by 23, 28, and 44 percent, respectively. 2/ Much of the increase in quarterly prices of these three commodity categories, however, occurred by the end of 1981. From January-March 1979 to October-December 1981, U.S. producers' selling prices of nonrubber footwear and wearing apparel increased by 18 and 21 percent,

1/ The price trends discussion is based on price indexes compiled and reported by the Bureau of Labor Statistics. The Producer Price Index (PPI) and the Consumer Price Index (CPI) are compiled and published monthly, whereas the import price index (IPI) is published quarterly. The PPI represents percentage changes in U.S. producers' selling prices, the CPI represents percentage changes in U.S. retailers' selling prices, and the IPI represents percentage changes in U.S. prices of imported commodities at the U.S. producers' selling price level. The IPI is based on c.i.f., duty-paid values, at the U.S. ports of entry. Analysts at the BLS stated that these three indexes accurately reflect changes in transaction prices.

2/ The nonrubber footwear industry and the apparel industry share many similarities in industry structure and production characteristics. These similarities include (1) easy entry and exit of firms; (2) channels of distribution where producers generally sell directly to retail outlets; (3) numerous small firms accounting for a small share of industry output accompanied by several large conglomerates producing a significant share of industry output; and (4) a relatively stable, labor-intensive production technology used by the many small producers versus a changing, more capital-intensive production technology used by the large producers.

respectively, whereas selling prices of all nondurable manufactured commodities increased by 41 percent. After October-December 1981, increases in the U.S. producers' selling prices slowed appreciably. From January-March 1982 through October-December 1984, selling prices of both nonrubber footwear and wearing apparel rose similarly, by approximately 4 percent, while selling prices of all nondurable manufactured commodities rose by only 1 percent.

Indexes of U.S. producers' selling prices of leather and of all intermediate products used in nondurable manufacturing are also presented in appendix table I-1, by quarters, from January-March 1979 through October-December 1984. These data suggest that domestic leather footwear manufacturers may have experienced less materials-cost pressure than some other sectors of nondurable manufacturing; 1/ quarterly prices of leather increased by 13 percent over the period, while prices of all intermediate products increased by 40 percent. Quarterly selling prices of leather generally fluctuated more sharply, however, than prices of all intermediate products during this period. The major exception was during 1981 and 1982, when leather prices remained within 4 percentage points of the January-March 1979 value. From January-March 1979 through October-December 1982, quarterly prices of leather declined by 2 percent. In contrast, quarterly selling prices of all intermediate products increased significantly during this period, rising by 35 percent. Thereafter, from January-March 1983 to October-December 1984, selling prices of both commodity categories generally increased but leather prices outpaced prices of all intermediate products. During this latter period leather prices increased by approximately 16 percent versus 5 percent for all intermediate products.

Price indexes for imports of footwear and clothing are presented in appendix table I-2, by quarters, from January-March 1979 through October-December 1984. 2/ Quarterly prices of imported footwear increased by 15 percent during this period, while prices of imported clothing increased by 26 percent. The prices of imported footwear generally increased from January-March 1979 to April-June 1981, ending at 16 percent above the initial period value. Thereafter the prices of imported footwear fluctuated, but ended in October-December 1984 at about the April-June 1981 level. The prices of imported clothing generally increased throughout the entire period.

Comparisons of indexes of prices for imported footwear and for domestically produced nonrubber footwear can be made from appendix tables I-1 and I-2, by quarters, from January-March 1979 through October-December 1984. Quarterly prices of the imported and domestically produced footwear increased during this period, rising by 15 and 23 percent, respectively. From January-March 1979 through April-June 1981, prices of the imported and domestic footwear generally increased, rising by 16 and 18 percent, respectively. Then from July-September 1981 through October-December 1983 prices of the imported footwear generally decreased, falling by approximately 4 percent, whereas prices of the domestic footwear continued to increase, rising by approximately 3 percent. During 1984, however, prices of the

1/ A PPI series for vinyl, to measure materials-cost pressures of domestic vinyl footwear manufacturers, was not available.

2/ The import price indexes are based on the c.i.f., duty-paid values, at the U.S. ports of entry. The index of prices for imported footwear includes prices of rubber and nonrubber footwear.

imported footwear increased by approximately 5 percent, while prices of the domestic footwear decreased by approximately 2 percent.

Indexes of U.S. consumer prices of footwear, 1/ wearing apparel, and nondurable commodities are presented in appendix table I-3, by quarters, from January-March 1979 through October-December 1984. Consumer prices of these three product categories increased during the period, rising by 24, 19, and 50 percent, respectively; however, like the producer prices, much of the increase in prices occurred by October-December 1981. Comparing the consumer price increases with the producer price increases in each product category during January-March 1979 through October-December 1984 suggests that the average retail price of footwear increased at about the same pace as the increase in producers' prices. During the same period, however, generally rising retail prices of wearing apparel lagged behind the pace of the rising producers' prices, while generally rising retail prices of nondurable commodities increased faster than the producers' prices.

Comparisons.—To analyze competition between domestic and imported nonrubber footwear, the Commission requested that domestic producers and importers report their 1984 weighted-average net selling prices and sales volume to independent shoe stores/department stores, chain stores, and self-service/discount stores by specified wholesale price ranges for 10 representative footwear categories. 2/ Domestic producers' selling prices are average f.o.b. factory prices, net of all discounts and allowances and excluding any U.S.-inland freight charges. Importers' net selling prices are f.o.b. their U.S. warehouse or ex-dock the U.S. ports-of-entry; importers who also retail the footwear reported their net landed, duty-paid costs plus any brokerage or handling fees as their wholesale price equivalent. 3/ Weighted-average prices and average margins of underselling between the domestic and imported footwear are shown in appendix tables J-1 through J-3, and reported quantities are shown in appendix tables J-4 through J-6. 4/ The reported price data 5/ suggest that imported nonrubber footwear tends to undersell

1/ The CPI for footwear includes prices of rubber as well as nonrubber and imported as well as domestically produced footwear.

2/ Independent shoe stores/department stores typically sell nationally branded footwear in the upper and middle price ranges; chain stores typically sell retailer-branded footwear in the middle and lower price ranges; and self-service/discount stores typically sell unbranded footwear in the lower price ranges. The three types of retail outlets and the 10 footwear categories are defined in app. J.

3/ F.o.b. prices are useful for comparing prices from the purchasers' viewpoint because U.S.-inland freight charges for footwear are not a significant factor in retailers' sourcing decisions.

4/ Ninety domestic producers and 132 importers reported usable price data for 1984. These respondents accounted for 54 percent of domestic nonrubber footwear shipments and 48 percent of imported nonrubber footwear during 1984.

5/ Because of the many types and styles of nonrubber footwear, the price comparisons between domestic and imported footwear may not always include directly competitive products. Comparing prices of domestic and imported nonrubber footwear by types of retail outlets, categories of footwear, and wholesale price brackets is an attempt to compare competing products. Even within these market segments, however, significant product differences may still exist.

domestic footwear, and that imported footwear generally accounts for a large proportion of the lowest priced footwear in each footwear category.

Comparisons of the weighted-average prices of domestic and imported nonrubber footwear, by type of retail outlet, footwear category, and wholesale price bracket, show the following: 20 instances of underselling (out of 35 comparisons) by the imported footwear in sales to independent shoe store/department store retailers, 19 instances of underselling (out of 34 comparisons) in sales to chain store retailers, and 10 instances of underselling (out of 23 comparisons) in sales to self-service/discount store retailers (tables J-1 through J-3). Margins of underselling averaged approximately 11, 12, and 15 percent, respectively, for the three types of retail accounts. 1/

Combining all nonrubber footwear reported sold in the lowest price bracket for each footwear category and for each of the retail outlets, imported footwear accounted for approximately 82 percent of the reported 142 million pairs, with domestic footwear accounting for the remaining 18 percent (tables J-4 through J-6). 2/ In independent shoe and department stores the import share of this low-price end of the market averaged approximately 73 percent, or 10.4 million pairs; in chain stores the share was approximately 83 percent, or 37.9 million pairs; and in the self-service/discount stores the share was approximately 83 percent, or 68.6 million pairs.

Exchange-rate changes.—One of the factors considered in examining the competitive position of domestic producers vis-a-vis foreign producers of nonrubber footwear is the change in the exchange rates between the U.S. dollar and the currencies of the foreign supplying countries and the effects of any such change on the cost of inputs used by foreign nonrubber footwear producers. From 1980 to 1983 the quantity of nonrubber footwear imported from Taiwan and Korea increased continuously, and imports from Taiwan continued to increase in 1984. As shown in appendix tables K-1 and K-2, the Taiwan dollar and the Korean won both depreciated in real terms against the U.S. dollar during 1980-84, by approximately 15 and 17 percent, respectively, on a quarterly basis. 3/ Depreciation of foreign currencies against the U.S. dollar (appreciation of the U.S. dollar) tends to make foreign products more

1/ The petitioners in investigation No. TA-201-50 alleged that retail markups are greater on imported footwear than on domestic footwear and as a result retail customers do not obtain all of the benefits of lower priced imported footwear. Retailers alleged, on the other hand, that intense competition in retailing limits markups on both domestic and imported footwear and forces retailers to pass on to the consumer the benefits of lower cost imported footwear. According to the retailers, any disparities between domestic and imported markups relate to the type of merchandise purchased and the way it is merchandised, rather than its source. Nonrubber Footwear: Report to the President on Investigation No. TA-201-50 . . ., USITC Publication 1545, July 1984, app. M.

2/ During investigation No. TA-201-50, wholesale price data reported for 1983 showed that importers accounted for approximately 72 percent of all the nonrubber footwear reported sold in this low-price end of the market.

3/ Taiwan and Korea together accounted for approximately 59 percent of U.S. imports of nonrubber footwear in 1984.

competitive in the U.S. market compared with domestic products. Changes in the real exchange rates between the U.S. dollar and the currencies of the top four foreign countries supplying nonrubber footwear to the U.S. market in 1984 are discussed in detail in appendix K. 1/

The competitive effects of any change in the U.S. dollar exchange rate tend to be greater as foreign footwear producers use more inputs that are priced in their home currencies. A significant portion of the cost of foreign footwear production is believed to be accounted for by labor costs, which are typically denominated in the home currencies.

Factors other than imports affecting the domestic industry

Imports of nonrubber footwear increased continuously from 1980-84, by approximately 360 million pairs, while domestic production of nonrubber footwear decreased continuously, by approximately 88 million pairs. Most of the increase in imports occurred during 1982-84, but over 50 percent of the decrease in domestic production occurred during 1984. These changes in imports and domestic production were accompanied by several factors including the following: (1) changes in aggregate incomes leading to increased demand for imported types and styles of imported nonrubber footwear, (2) shifts in consumer tastes and expiration of OMA's with Taiwan and Korea in 1981 leading to a surge of the previously restricted imports, (3) increases in the relative labor cost advantage of foreign versus domestic nonrubber footwear producers, (4) exceptionally high interest rates in the United States which may have diverted some investment funds away from capital improvements in domestic nonrubber footwear facilities to higher earning opportunities, and (5) efforts of U.S. producers to compete with imports leading to some contraction of the domestic industry and an increase in imports by domestic producers.

Aggregate income effects.--The recession of 1981-82 and the 1984 slowdown in the subsequent recovery may have contributed to the condition of the domestic industry. Some shifting of demand from higher priced to lower priced nonrubber footwear probably resulted from curtailed personal incomes caused by the recession. This shift in demand favored sales of the imported footwear, which are concentrated in the lower price brackets, whereas sales of the domestic footwear are concentrated in the middle and upper price brackets. 2/ The approximately 13-percent increase in the quantity of apparent consumption of all nonrubber footwear in 1982 was accompanied by a significant increase in

1/ The top four foreign countries supplying nonrubber footwear to the U.S. market accounted for approximately 82 percent of U.S. imports of nonrubber footwear in 1984. In descending order these countries are Taiwan, Korea, Brazil, and Italy.

2/ Some parties in opposition to relief for the U.S. industry argue that purchasers of low-priced footwear generally do not substitute higher priced footwear for lower priced footwear, and that the limited amount of domestic footwear sold in the low-priced market are types that generally do not compete with the imported footwear sold in this market. The U.S. industry argues, however, that low-priced imported footwear competes directly with low- and medium-priced domestic footwear.

imports of low-priced nonrubber footwear, 1/ and a decrease in shipments of domestically produced nonrubber footwear. Thus, sales of the domestically produced footwear may have declined somewhat as a result of the recession. 2/ Furthermore, the slowdown in the recovery from the 1981-82 recession, beginning in the third quarter of 1984 and continuing into the first quarter of 1985, was somewhat coincident with reduced domestic production of nonrubber footwear and some slowdown in imports of nonrubber footwear.

Shifts in consumer tastes and expiration of OMA's.--Some respondents argue that the increase in imports since 1981 is largely the result of increased demand for athletic nonrubber footwear and an increase in the supply of previously restricted imports of low-priced nonrubber footwear. 3/ Apparent consumption of athletic footwear grew by 82 percent between 1981 and 1984; however, apparent consumption data on low-priced footwear are not available. The increase in U.S imports of athletic nonrubber footwear and of low-priced nonrubber footwear, identified here as nonathletic nonrubber footwear with a customs value of \$5 per pair or less, together accounted for approximately 64 percent of the total increase in imports of nonrubber footwear from 1981 through 1984. 4/

Relative labor costs.--Labor costs of nonrubber footwear producers in the top three countries supplying nonrubber footwear to the U.S. market--Taiwan, Korea, and Brazil--are significantly less than those of U.S. nonrubber

1/ Imports of nonrubber footwear from Taiwan and Korea, the top two suppliers of low-priced footwear to the U.S. market, together increased by approximately 68 percent in 1982. Prior to 1982, imports from Taiwan and Korea had been subject to orderly marketing agreements.

2/ Parties in support of relief for the domestic industry argue that the substitution of imported nonrubber footwear for directly competitive domestic nonrubber footwear, rather than the recession and a consequent shift in demand, was responsible for the decline in domestic production.

3/ The supply of low-priced nonrubber footwear to the U.S. market was restricted during the 1977-81 period of OMA's with Taiwan and Korea. During 1982, the first full year after the OMA's expired, imports of nonrubber footwear from Taiwan and Korea increased and the unit values decreased as product mixes of these imports returned to their pre-OMA patterns. Unit values of the footwear imports from Taiwan and Korea decreased by approximately 15 and 11 percent, respectively, in 1982. Imports of nonrubber footwear from Taiwan and Korea continued to increase in 1983, and imports from Taiwan increased in 1984 while those from Korea declined. Unit values of these imports in 1984 remained at about their 1982 levels as the product mixes stabilized.

4/ Parties in support of relief for the U.S. industry argue that imports of nonrubber footwear with a customs value of \$2.50 per pair or less should be identified as low-priced, whereas some opponents claim that imports of \$8 per pair or less is the proper cutoff for the low-priced category. Imports of all nonrubber athletic footwear and of nonathletic nonrubber footwear with a customs value of \$2.50 per pair or less together accounted for approximately 38 percent of the total increase in nonrubber footwear imported from 1981 through 1984. Using the \$8 per pair figure, the athletic and the low-priced imports together accounted for approximately 82 percent of the total increase in nonrubber footwear imported during this period.

footwear producers. As previously noted, hourly compensation in the nonrubber footwear industries of these foreign countries is less than 25 percent of that in the United States. In addition, hourly compensation (denominated in U.S. dollars) in Brazil and Korea declined vis-a-vis that in the United States during 1980-84, and the relative labor costs between Taiwan and the United States remained relatively stable during this period. Furthermore, U.S. producers' unit labor costs rose during 1980-84, along with labor's share of the domestic average selling price.

Parties in opposition to relief for the U.S. industry allege that because of the relatively high U.S. labor costs and a shortage of skilled workers, U.S. producers have only a limited capability to produce nonrubber footwear with intricate designs, requiring extensive hand sewing or hand manipulation in their construction. Although some U.S. producers import this footwear, others have produced the more labor-intensive footwear and some of these latter producers use imported leather uppers to reduce costs.

Interest rates.--Interest rates have generally been higher in the United States than elsewhere in the world in the last few years. Although interest expenses are not a significant expense for nonrubber footwear producers, high interest rates may have diverted some cash flow from capital investment in footwear to debt retirement or to interest-earning accounts that entail little or no risk.

Adjustment efforts.--Respondents argue that many recent plant closings and the resulting unemployment can be attributed to an "adjustment" process following termination of the OMA's in 1981; plants that were unable to compete with imports in an open market have closed after protection expired. The producers closing plants either left the industry or consolidated their manufacturing facilities, and a few of these latter firms replaced at least some of their retired domestic production with imports. The available data that categorize U.S. production by firm size show that production of the small, medium, and large firms all declined continuously from 1981 through 1984. ^{1/} The smallest firms, which generally have limited capital and use very labor-intensive production methods, are typically the hardest hit by imports; whereas some of the medium and large firms, which reduced their domestic manufacturing operations, have expanded their footwear retailing operations and increased their imports of footwear. Petitioners argue, however, that the declines in production and sales by domestic manufacturers, coupled with the concurrent plant closings, rising unemployment, and loss of market share are much greater than is attributable to any adjustment process.

Competition between U.S. nonrubber footwear producers seems to have favored the medium- and large-size firms that compete with both their domestically produced and imported footwear. Profit data from domestic nonrubber footwear manufacturers indicate that the larger producers are faring

^{1/} Small firms were those producing less than 1 million pairs of nonrubber footwear annually, medium firms were those producing at least 1 million pairs but less than 4 million pairs annually, and large firms were those producing 4 million pairs or more annually.

significantly better than the small producers. Some of the larger firms have reduced their domestic production costs by using more efficient equipment and production techniques than the small firms, and by increasing their use of imported footwear components, such as imported leather uppers. Further, the larger producers, which account for most of the nonrubber footwear imported by U.S. producers, complement their profitable domestic production with imported styles that they find less profitable to produce in the United States. Reported imports of nonrubber footwear by U.S. producers more than doubled during 1980-84, increasing from approximately 76 million pairs in 1980 to about 215 million pairs in 1984. As a result of these competitive efforts, small producers may be producing some footwear at a loss because it competes directly with lower cost domestic footwear of the larger producers or lower cost foreign footwear imported by the larger producers.

U.S. producers' efforts to compete with imports

The Commission requested information from the domestic industry regarding efforts undertaken to compete with imports during 1980-84. To summarize these efforts and report them in the aggregate, they have been classified into two categories: (1) initiatives to reduce unit costs and thus become more price competitive with imports, and (2) initiatives to develop or enhance a nonprice aspect of competition such as marketing, warehousing, management development, or improved quality and service. A summary of these efforts is presented in table 57. U.S. producers reported spending \$180 million on efforts to compete with imports during 1980-84. Efforts that had a direct effect on cost of production accounted for \$97 million, or 54 percent of total expenditures. Efforts related to nonprice factors accounted for \$83 million.

Cost-saving efforts by U.S. producers included the purchase of productivity-improving equipment. Firms were asked to indicate whether they had purchased certain specific items of equipment that are considered to be some of the most important technological improvements in shoe manufacturing. ^{1/} These items include computer-aided or computer-controlled design and grading systems, cutting systems, and stitching machines, other stitching room work aids, injection molding equipment, and unit bottom molding equipment. The reported investments by the U.S. industry in each of these items are presented in table 58. Reporting firms spent \$21 million on computer-aided-stitching equipment and \$17 million on injection molding equipment, the two most popular items which were specifically identified.

Apart from investments in new equipment, reporting firms cited other cost-saving actions. Eight U.S. producers indicated that they have begun importing uppers and other components as a cost-saving effort. Two producers opened offshore plants to produce uppers and two other companies indicated opening complete offshore assembly facilities. Many companies also indicated adding imported shoe lines to complement their domestically made lines.

In order to develop or enhance nonprice aspects of competition, U.S. producers most often cited increased sales and marketing efforts. These

^{1/} Such items were recommended by FIA for inclusion in the Commission's questionnaire.

Table 57.--Nonrubber footwear: U.S. producers' efforts undertaken to compete with imports and actions to be taken should relief be granted, by sizes of output, 1980-84

Item and size of output	Number of firms	Total efforts		Efforts related to cost of production		Efforts related to nonprice factors	
		Number of items	Related expenses 1/	Number of items affecting price	Related expenses 1/	Items affecting nonprice competition	Related expenses 1/
			1,000 dollars		1,000 dollars		1,000 dollars
<u>Efforts undertaken to compete with imports</u>							
Less than 200,000 pairs-----	12	56	2,932	27	1,517	29	1,415
200,000 to 499,999 pairs-----	19	61	10,230	50	3,100	11	7,130
500,000 to 999,999 pairs-----	21	148	11,357	85	6,348	63	5,009
1,000,000 to 1,999,999 pairs--	21	223	28,606	162	19,829	61	8,777
2,000,000 to 3,999,999 pairs--	14	236	30,130	169	22,993	67	7,137
4,000,000 pairs or more-----	15	255	96,658	162	43,347	93	53,311
Total-----	102	979	179,913	655	97,134	324	82,779
<u>Actions to be taken should relief be granted 2/</u>							
Less than 200,000 pairs-----	9	39	3,636	27	2,245	12	1,391
200,000 to 499,999 pairs-----	13	36	3,239	21	1,825	15	1,414
500,000 to 999,999 pairs-----	18	65	9,841	43	6,465	22	3,376
1,000,000 to 1,999,999 pairs--	12	58	14,078	26	6,606	32	7,472
2,000,000 to 3,999,999 pairs--	6	36	20,731	22	14,806	14	5,925
4,000,000 pairs or more-----	11	96	48,415	65	37,015	31	11,400
Total-----	69	330	99,940	204	68,962	126	30,978

1/ Not all firms were able to report expenses related to their efforts.

2/ Assuming global quotas limiting imports to 50 percent of the U.S. market for 5 years.

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

Table 58.--U.S. producers' expenditures on specific items of equipment that are important technological improvements in shoe manufacturing, 1/ 1980-84

(In thousands of dollars)						
Item	1980	1981	1982	1983	1984	Total
Computer-aided design and grading system-----	33	651	712	178	1,283	2,857
Computer-aided and numerically controlled cutting systems-----	0	25	129	0	76	230
Computer-aided stitching----	1,989	11,084	1,484	2,362	4,576	21,495
Stitching room work aids----	828	1,489	1,702	1,229	1,895	7,143
Injection molding-----	3,136	3,066	1,682	3,308	5,445	16,637
Unit bottom molding equipment-----	1,241	1,733	2,163	1,033	1,027	7,197
Other cost-saving investments <u>2/</u> -----	3,685	3,838	5,707	7,468	12,209	32,907
Total, all items-----	10,912	21,886	13,579	15,578	26,511	88,466

1/ Such items of equipment were identified by Footwear Industries of America, Inc. Not all firms were able to report expenses for each item.

2/ Includes all other items reported by firms in their efforts to compete with imports.

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

included advertising, using computers for increased control of orders and shipments, and adding sales personnel. Other frequently reported efforts included adding additional lines of shoes, wider sizes, branded lines, and specialty products.

Actions to be undertaken should relief be granted

The Commission asked U.S. producers of nonrubber footwear whether their firm or its workers have a plan to undertake specific adjustments if temporary relief under section 201 is granted. Of the firms which responded to the question, 69 answered "yes," 49 answered "no," and the responses of 7 were uncertain. The responding firms then went on to describe the adjustments which they would make if a 5-year period of relief were granted limiting the market share of imports to 50 percent of the quantity of U.S. consumption.

U.S. producers reported that they would spend \$100 million on measures to compete with imports (table 57). Of this total, \$69 million would be aimed at reducing the cost of production, and \$31 million would be spent on nonprice factors of competition. Firms reported that, as part of cost reduction efforts, they would continue to purchase productivity-improving equipment similar to that procured during 1980-84. Several firms indicated that they would increase expenditures on research and development of new technology. Most nonprice efforts were aimed at recapturing market share lost to imports. These measures

included increased hiring of sales and marketing personnel as well as increased expenditures on advertising.

The Commission asked domestic producers if the collective effect of all the adjustments undertaken by their firms during the period of import relief would enable them to compete successfully with imports after the period of relief had expired. Of the producers responding to this question, 65 indicated that they would be able to compete successfully with imports following the period of relief. Many of these firms explained that the relief period would give them a period of certainty in which to make the capital investments necessary to reduce unit costs. Thirty-seven firms responded that, following a period of relief, they would not be able to successfully compete with imports. Some of these firms remarked that a 5-year period is too short to allow an adequate return on long-term investments. One firm responding to this question in the negative indicated that it is already operating at full capacity. Five firms stated that they are uncertain whether they would be able to compete following a period of relief. Two firms indicated that the question did not apply to them as they are not now in competition with imports or that imports complement their domestically made shoes. The following tabulation presents responses, by groups of firms with similar annual production ranges, to the question of whether all the adjustments made during the period of import relief would enable the firm to compete successfully with imports after the period of relief had expired:

<u>Size of output</u>	<u>Yes</u>	<u>No</u>	<u>Uncertain</u>	<u>Not applicable</u>
Less than 200,000 pairs-----	10	13	1	0
200,000 to 499,999 pairs-----	10	4	0	1
500,000 to 999,999 pairs-----	15	8	0	0
1,000,000 to 1,999,999 pairs---	14	6	2	0
2,000,000 to 3,999,999 pairs---	7	3	1	0
4,000,000 pairs or more-----	9	3	1	1
Total-----	65	37	5	2

APPENDIX A

RESOLUTION OF THE SENATE COMMITTEE ON FINANCE

ROBERT J. DOLE, KANS. CH.

A-100

BOB PACKWOOD, OREG.
WILLIAM V. ROTH, JR., DEL.
JOHN C. DANFORTH, MO.
JOHN H. CHAFFEE, R.I.
JOHN HEINZ, PA.
MALCOLM WALLOP, WYO.
DAVID OURENBERGER, MINN.
WILLIAM L. ARMSTRONG, COLO.
STEVEN D. SYMMS, IDAHO
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LA.
LLOYD BENTSEN, TEX.
SPARK M. MATSUNAGA, HAWAII
DANIEL PATRICK MOYNIHAN, N.Y.
MAX BAUCUS, MONT.
DAVID L. BOREN, OKLA.
BILL BRADLEY, N.J.
GEORGE J. MITCHELL, MAINE
DAVID PRYOR, ARK.

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

RODERICK A. DEARMENT, CHIEF COUNSEL AND STAFF DIRECTOR
MICHAEL STERN, MINORITY STAFF DIRECTOR

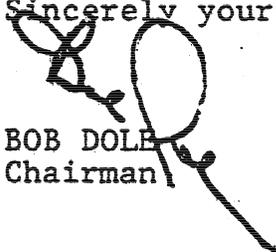
December 31, 1984

The Honorable Paula Stern
Chairwoman
International Trade Commission
Washington, D.C. 20436

Dear Madam Chairwoman:

I hereby transmit a Resolution of the Committee on Finance requesting that the International Trade Commission commence an investigation on the effect of nonrubber footwear imports on the domestic industry on or about January 1, 1985.

Sincerely yours,


BOB DOLE
Chairman

BD/lcj

Enc.

694737

RESOLUTION OF THE COMMITTEE ON FINANCE
OF THE UNITED STATES SENATE

Whereas, the Committee on Finance resolved on September 19, 1984, to request the International Trade Commission to investigate whether increasing imports of nonrubber footwear are a substantial cause of serious injury or the threat thereof to the domestic industry producing a like or directly competitive product;

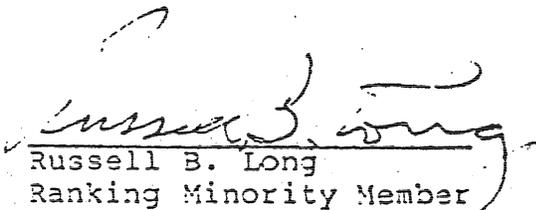
Whereas, Congress has adopted amendments to section 201 of the Trade Act of 1974 intended to clarify the meaning of that provision;

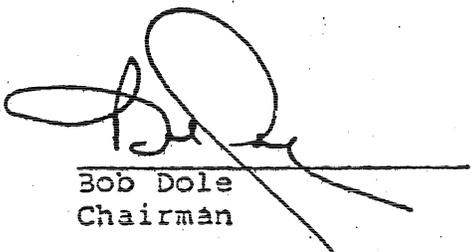
Whereas, the Committee wishes the International Trade Commission to base its investigation on full 1984 financial statistics, plant closings, and other facts which will become available after January 1, 1985; and

Whereas, imports of nonrubber footwear are continuing to increase to unprecedented levels, causing distress in the domestic industry.

THEREFORE, IT IS RESOLVED:

1. That there exists good cause to undertake a new investigation of nonrubber footwear pursuant to section 201(e) of the Trade Act of 1984;
2. That the Committee on Finance's September 19, 1984, resolution shall be amended to provide that the International Trade Commission shall commence its investigation on or about January 1, 1985, and complete its investigation on or about July 1, 1985; and
3. That the investigation address all footwear provided for in items 700.05 through 700.45, inclusive, 700.56, 700.72 through 700.83, inclusive, and 700.95 of the Tariff Schedules of the United States.


Russell B. Long
Ranking Minority Member


Bob Dole
Chairman

APPENDIX B

THE COMMISSION'S NOTICE OF INSTITUTION

[Investigation No. TA-201-55]

Nonrubber Footwear

AGENCY: International Trade Commission.

ACTION: Institution of an investigation under section 201 of the Trade Act of 1974 (19 U.S.C. 2251) and scheduling of a hearing to be held in connection with the investigation.

SUMMARY: Following receipt of a resolution of the Committee on Finance of the United States Senate on December 31, 1984, and upon consideration of all relevant data, including data contained in Nonrubber Footwear Quarterly Statistical Report to the Senate Committee on Finance on Investigation No. 331-191, USITC Publication 1670 (December 1984) and data contained in a January 3, 1985 submission by Footwear Industries of America, Inc., et al., and a January 4, 1985 submission by the Volume Shoe Corp., the United States International Trade Commission found good cause to institute investigation No. TA-201-55 under section 201 of the Trade Act of 1974 to determine whether nonrubber footwear, provided for in items 700.05 through 700.45, inclusive, 700.56, 700.72 through 700.83, inclusive, and 700.95 of the Tariff Schedules of the United States, 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. Pursuant to section 201(d)(2) of the Act (19 U.S.C. 2251(d)(2)) the Commission will make its determination in this investigation by July 1, 1985.

EFFECTIVE DATE: December 31, 1984.

FOR FURTHER INFORMATION CONTACT: Dan Dwyer (202-523-4618), Office of Investigations, U.S. International Trade Commission, 701 E Street NW., Washington, DC 20436.

For further information concerning the conduct of this investigation, hearing procedures, rules of general application,

consult the Commission's Rules of Practice and Procedures, part 206, subparts A and B (19 CFR part 206), and part 201, subparts A through E (19 CFR part 201).

SUPPLEMENTARY INFORMATION

Participation in the investigation:

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

Service list

Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) of the rules (19 CFR 201.16(c)), each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Hearing

The Commission will hold a hearing in connection with this investigation beginning at 10:00 a.m. on April 16, 1985, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, DC. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on April 5, 1985. All persons desiring to appear at the hearing and make oral presentations, with the exception of public officials and persons not represented by counsel, should file prehearing briefs and attend a prehearing conference to be held at 10:00 a.m. on April 8, 1985, in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is April 8, 1985. Posthearing briefs must be submitted not later than the close of business on April 23, 1985. Confidential material should be filed in accordance with the procedures described below.

Parties are encouraged to limit their testimony at the hearing to a

nonconfidential summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. Any written materials submitted at the hearing must be filed in accordance with the procedures described below and any confidential materials must be submitted at least three (3) working days prior to the hearing (see section 201.6(b)(2) of the Commission's rules (19 CFR § 201.6(b)(2), as amended by 49 FR 32569, Aug. 15, 1984)).

Written submission

As mentioned, parties to this investigation may file prehearing and posthearing briefs by the dates shown above. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before April 23, 1985. A signed and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired shall be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6, as amended by 49 FR 32569, Aug. 15, 1984).

Remedy

In the event that the Commission makes an affirmative injury determination in this investigation, remedy briefs will be due to the Secretary no later than the close of business on May 28, 1985, and must conform with the requirements of § 201.6 of the Commission's rules.

Authority

This investigation is being conducted under the authority of section 201 of the Trade Act of 1974. This notice is published pursuant to 201.10 of the Commission's rules (19 CFR 201.10).

Issued: January 23, 1985.

By order of the Commission.
Kenneth R. Mason,
Secretary.

[FR Doc. 85-2407 Filed 1-29-85; 8:45 am]
BILLING CODE 7030-03-01

APPENDIX C

LIST OF WITNESSES APPEARING AT THE PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing on:

Subject : Nonrubber Footwear
Inv. No. : TA-201-55
Date and time: April 16, 1985 - 10:00 a.m.

Sessions were held in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

Congressional appearances:

Honorable Dale Bumpers, United States Senator, State of Arkansas
Honorable John C. Danforth, United States Senator, State of Missouri
Honorable Jim Sasser, United States Senator, State of Tennessee
Honorable William S. Cohen, United States Senator, State of Maine
Honorable George J. Mitchell, United States Senator, State of Maine
Honorable Ed Jones, United States Representative, State of Tennessee
Honorable Olympia J. Snowe, United States Representative, State of Maine
Honorable John R. McKernan, Jr., United States Representative, State of Maine
Honorable Don Sundquist, United States Representative, State of Tennessee

Government:

Federal Trade Commission, Bureau of Competition, Washington, D.C.
Benjamin Cohen, Attorney, Division of International Antitrust, Bureau of Competition
Beverly J. Thomas, Attorney
Dr. E. Morkre, Economist

In support of the petition:

Collier, Shannon, Rill & Scott--Counsel
Washington, D.C.
on behalf of

Footwear Industries of America, Inc.,
The Amalgamated Clothing and Textile Workers Union,
AFL-CIO
The United Food & Commercial Workers International Union,
AFL-CIO

Richard W. Shomaker, President, Brown Shoe Company

Charles C. Murray, President, Georgia Boot, Inc.

G. Bruce Miller, President and Chief Executive
Officer, Craddock-Terry Corporation

Murray H. Finley, President, Amalgamated Clothing
and Textile Workers Union, AFL-CIO

Jeanne J. Hebert, President, The Shoe Workers of
Maine, Livermore, Maine

Barry Huff, Secretary, The Shoe Workers of Maine

John G. Reilly, Principal, ICF Incorporated

George Langstaff, President, Footwear Industries
of America, Inc.

Donald Munro, Chairman, Footwear Industries of
America, Inc. and President, Munro & Co.

Theodore C. Johanson, President, Falcon Shoe
Mfg. Company

John O'Neil, President, Converse, Inc.

Arthur Gundersheim, Assistant to the President
and Director, International Trade Affairs,
Amalgamated Clothing and Textile Workers
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Robert Slossberg, Ripley Industries, Inc.

Collier, Shannon, Rill & Scott--Counsel
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David Gray, Assistant Director for Footwear,
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National Affairs, Footwear Industries
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David A. Hartquist)
Lauren R. Howard)--OF COUNSEL
Michael R. Kershow)

Alymr's Shoes, Mobile, Alabama

Harvey Pesnell, Vice President

Kirpatrick & Lockhart--Counsel
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Wolverine World Wide, Inc. ("Wolverine")

Thomas D. Gleason, President and Chief Executive
Officer

Karen S. Holcomb, Esq., General Counsel

Glenn R. Reichardt--OF COUNSEL

- more -

In opposition to the petition:

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Washington, D.C.
on behalf of

The Footwear Retailers of America (FRA)

Tom Enrich, Vice President, International
Business Economic Research Corporation

Peter Mangione, President, Footwear Retailers
of America

Cameron Anderson, President, Kinney Shoes

Julian Edison, Chairman of the Board, Edison
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George Kaye, Chairman of the Board, Shoetown, Inc.

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Volume Shoe Corporation

Dale W. Hilpert, Chairman, Volume Shoe Corporation

Dr. John Mutti, Professor of Economics, University
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Dr. Malcolm D. Bale, Economist, The World Bank

Duane L. Cantrell, Vice President, Divisional
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National Shoe Retailers Association

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on behalf of

The American Association of Exporters and Importers (AAEI)

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Harris & Berg--Counsel
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on behalf of

Adidas (USA), Inc., and ACICS Tiger Corporation

Steven Tannen, President, Adidas (USA), Inc.

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on behalf of

Nike, Inc., Beaverton, Oregon

Chris Van Dyke, Director of Corporate Communications

Bill Alberger--OF COUNSEL

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PUMA USA, INC.

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Robert V. McIntyre)
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S.H. Hyun, Chairman, KFEA; Chairman, H.S. Corporation

N.K. Kim, Vice-Chairman, KFEA

J.W. Kim, Executive Vice President, H.S. Corporation

N.S. Kim, Director, Kukje Corporation

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The European Confederation of Footwear Industries (CEC)

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Charles E. Ostrander, Vice President-Marketing,
Aris Isotoner, Inc.

Joseph F. Donohue, Sr.)
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Camara Nacional de la Industria del Calzado
(Mexico's National Footwear Chamber of Commerce)

Donald S. Stein--OF COUNSEL

APPENDIX D

INFORMATION ON PREVIOUS COMMISSION INVESTIGATIONS
CONCERNING NONRUBBER FOOTWEAR

Escape clause and related investigations

Trade Act of 1974.--Investigation No. TA-201-7 was instituted by the Commission in September 1975 after receipt of a petition for import relief from the American Footwear Industries Association, the Boot and Shoe Workers' Union, and the United Shoe Workers of America. The Commission unanimously found that the U.S. nonrubber footwear industry had been seriously injured by imported products. 1/ On April 6, 1976, President Ford determined that adjustment assistance was the most effective remedy for the injury to the industry and directed the Secretaries of Commerce and Labor to expedite consideration of any petitions for such assistance.

The Commission's second escape-clause investigation on footwear was instituted in October 1976 after the Senate Committee on Finance passed a resolution directing the Commission to reinvestigate the effect of imports on the domestic industry, even though 1 year had not yet passed since the Commission's first investigation. In February 1977, the Commission again unanimously determined that the domestic industry had been seriously injured by increased imports. 2/ On April 1, 1977, President Carter rejected the Commission's proposed remedy of tariff-rate quotas and took action to negotiate orderly marketing agreements (OMA's) with Korea and Taiwan and to strengthen the trade adjustment assistance programs.

Investigation No. TA-203-7 was instituted in December 1980 under sections 203(i)(2) and (i)(3) of the Trade Act of 1974 (19 U.S.C. 2253) for the purpose of gathering information needed for the Commission to advise the President as to the probable economic effect on the industry of the extension, reduction, or termination of the import relief provided by the OMA's. 3/ The Commission unanimously advised the President in April 1981 that termination of the OMA then in effect with Taiwan would have a significant adverse economic effect on the domestic nonrubber footwear industry, and therefore advised that relief be extended for 2 years. The Commission also advised the President that termination of the OMA with Korea would not have a significant adverse effect on the industry and that it should not be extended. However, both OMA's were allowed to expire on June 30, 1981.

Trade Expansion Act of 1962.--On January 15, 1971, the Commission reported to the President on investigation No. TEA-I-18, conducted under section 301(b)(1) of the Trade Expansion Act of 1962 at the request of the President. Section 301(b)(1), an escape-clause provision, required the Commission to determine whether "as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article." The Commission was evenly divided on

1/ Footwear: Report to the President on Investigation No. TA-201-7. . . ., USITC Publication 758, February 1976.

2/ Footwear: Report to the President on Investigation No. TA-201-18, USITC Publication 799, February 1977.

3/ Nonrubber Footwear: Report to the President on Investigation No. TA-203-7, USITC Publication 1139, April 1981.

the question of injury to the industry, and no action was taken by the President. 1/

Countervailing duty investigations

In July 1976, the Commission completed a countervailing duty investigation under section 303(b) of the Tariff Act of 1930 with respect to footwear known as zoris, imported from Taiwan. 2/ Zoris are provided for under TSUS item 700.54 and are accorded duty-free treatment under the Generalized System of Preferences (sec. 501 of the Trade Act of 1974). On the basis of its investigation, the Commission made a unanimous determination of no injury.

After receiving advice from the Department of the Treasury on October 24, 1979, that a bounty or grant was being paid with respect to certain nonrubber footwear components 3/ imported from India, the Commission, on November 20, 1979, instituted investigation No. 303-TA-11 under section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). Because that investigation had not been completed at the time the new countervailing duty provisions became effective (January 1, 1980), the investigation was terminated and reinstated as investigation No. 701-TA-1 (Final) 4/ pursuant to section 102 of the Trade Agreements Act of 1979. On March 10, 1980, the Commission unanimously determined that an industry in the United States was not materially injured or threatened with material injury and that the establishment of an industry in the United States was not materially retarded by reason of imports of unlasted leather footwear uppers from India, which Treasury had found were being subsidized.

On October 26, 1981, October 7, 1981, and April 23, 1982, the Commission received requests from the Governments of Brazil, India, and Spain, respectively, for investigations under section 104 of the Trade Agreements Act of 1979 (19 U.S.C. 1671 note) to determine whether a U.S. industry would be materially injured or threatened with material injury if an outstanding countervailing duty order were to be revoked. On January 25, 1983, the Commission instituted investigations Nos. 104-TAA-16, 17, and 18, and on May 24, 1983, determined that an industry in the United States would not be materially injured or threatened with material injury by reason of imports of nonrubber footwear from Brazil, India, and Spain covered by the outstanding countervailing duty orders, if the orders were to be revoked. 5/ As a result

1/ Nonrubber Footwear: Report to the President on Investigation No. TEA-I-18, TC Publication 359, 1971.

2/ Certain Zoris From the Republic of China (Taiwan): Determination of No Injury or Likelihood Thereof in Investigation No. 303-TA-1, USITC Publication 787, 1976.

3/ Unlasted leather footwear uppers provided for in TSUS item 791.27 and accorded duty-free treatment under the Generalized System of Preferences.

4/ Unlasted Leather Footwear Uppers From India: Determination of No Material Injury or Threat Thereof in Investigation No. 701-TA-1, USITC Publication 1045, March 1980.

5/ Certain Nonrubber Footwear From Brazil, India, and Spain: Determinations of the Commission in Investigations Nos. 104-TAA-16, 17, and 18, USITC Publication 1388, May 1983.

of the Commission's decisions, the countervailing duty orders on nonrubber footwear from Brazil and India were revoked on June 21, 1983. The order for Spain was revoked on June 28, 1983.

Antidumping investigations

The Commission has conducted two investigations on footwear under the Antidumping Act, 1921. The first, in 1966, involved leather work shoes from Czechoslovakia and resulted in a unanimous negative injury determination. 1/ The second, in 1975, involved welt work shoes from Romania and also resulted in a negative injury determination. 2/

Section 332 investigations

On January 15, 1969, the Commission issued its report on investigation No. 332-56, instituted at the request of the President under section 332 of the Tariff Act of 1930, in which it gathered information on the economic condition of the domestic nonrubber footwear industry, and the effects of imports upon the industry. 3/

In December 1969, the Commission issued its report on investigation No. 332-62 supplementing the previous section 332 investigation. This investigation was instituted by the Commission on its own motion to provide a current assessment of trends in domestic production and imports. 4/

The Commission is currently conducting investigation No. 332-191 to provide a series of quarterly status reports on the nonrubber footwear industry for the Senate Committee on Finance.

Trade adjustment assistance investigations

The Commission conducted 155 individual firm and worker adjustment assistance investigations between 1963 and 1974 under sections 301(c)(1) and 301(c)(2) of the Trade Expansion Act of 1962. Of these, 128 were worker cases, and 27 were firm cases. The Commission made affirmative findings in 23 of the worker cases and 7 of the firm cases and was evenly divided in 26 of the worker cases and 6 of the firm cases. The Trade Act of 1974 transferred the authority for firm and worker investigations to the Departments of Commerce and Labor, respectively.

1/ Leather Work Shoes From Czechoslovakia: Determination of No Injury or Likelihood Thereof in Investigation No. AA1921-48 . . . , TC Publication 185, 1966.

2/ Welt Work Shoes From Romania; Determination of No Injury or Likelihood Thereof in Investigation No. AA1921-144 . . . , USITC Publication 731, 1975.

3/ Nonrubber Footwear: Report to the President on Investigation No. 332-56 . . . , TC Publication 276, 1969.

4/ Nonrubber Footwear: Report to the President on Investigation No. 332-62 . . . , TC Publication 307, 1969.

APPENDIX E

SCHEDULE 7, PART 1, OF THE TSUS

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1960)

SCHEDULE 7. - SPECIFIED PRODUCTS, MISCELLANEOUS AND NONENUMERATED PRODUCTS
 Part 1. - Footwear; Headwear and Hat Braids; Gloves; Luggage,
 Handbags, Billfolds, and Other Flat Goods

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 7 - 1 - A

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDCC	2
			<p>PART 1. - FOOTWEAR; HEADWEAR AND HAT BRAIDS; GLOVES; LUGGAGE, HANDBAGS, BILLFOLDS, AND OTHER FLAT GOODS</p> <p>Subpart A. - Footwear</p> <p>Subpart A headnotes:</p> <p>1. This subpart covers boots, shoes, slippers, sandals, moccasins, slipper socks (socks with applied soles of leather or other material), scuffs, overshoes, rubbers, arctics, galoshes, and all allied footwear (including athletic or sporting boots and shoes) of whatever material composed, and by whatever method constructed, all the foregoing designed for human wear except --</p> <p>(i) footwear with permanently attached skates or snowshoes (see part 5D of this schedule),</p> <p>(ii) hosiery (see part 6C of schedule 3), and</p> <p>(iii) infants' knit footwear (see part 6F of schedule 3).</p> <p>2. For the purposes of this subpart --</p> <p>(a) the term "<u>huaraches</u>" (item 700.05) means a type of leather-soled sandal having a woven-leather upper laced to the insole, with the insole machine-stitched to the outsole, and having a heel which is nailed on;</p> <p>(b) the term "<u>McKay-sewed footwear</u>" (item 700.10) means footwear the soles of which are sewed to the upper by means of a McKay chainstitch, with the stitching passing through the outsole, upper, lining, and insole;</p> <p>(c) the term "<u>moccasins</u>" (item 700.15) means footwear of the American Indian handicraft type, having no line of demarcation between the soles and the uppers;</p> <p>(d) the term "<u>welt footwear</u>" (items 700.25 through 700.29) means footwear constructed with a welt, which extends around the edge of the tread portion of the sole, and in which the welt and shoe upper are sewed to a lip on the surface of the insole, and the outsole of which is sewed or cemented to the welt;</p> <p>(e) the term "<u>slippers</u>" (item 700.32) means footwear of the slip-on type without laces, buckles, zippers, or other closures, the heel of which is of underwedge construction, and (1) having a leather upper permanently trimmed with a real or imitation fur collar, or (2) having a leather upper and a split leather tread sole (including heel) held together by a blown sponge-rubber midsole created and simultaneously vulcanized thereto;</p>				

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED ()

Part 7-4
- 1 - A

SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS
Part 1. - Footwear; Headwear and Hat Braids; Gloves; Luggage,
Handbags, Billfolds, and Other Flat Goods

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDLC	2
			<p>(f) the term "footwear for men, youths, and boys" (item 700.35) covers footwear of American youths' size 11-1/2 and larger for males, and does not include footwear commonly worn by both sexes; and</p> <p>(g) the term "fibers" means unspun fibrous vegetable materials, vegetable fibers, wool, silk, or other animal fibers, man-made fibers, paper yarns, or any combination thereof.</p> <p>3. For the purposes of items 700.51 through 700.56, the rubber or plastics forming the exterior surface area specified, if supported by fabric or other material, must coat or fill the supporting material with a quantity of rubber or plastics sufficient to visibly and significantly affect the surface otherwise than by change in color, whether or not the color has been changed thereby.</p> <p><u>Subpart A statistical headnote:</u></p> <p>1. For the purposes of this subpart --</p> <p>(a) the term "athletic footwear" covers footwear of special construction for baseball, football, soccer, track, skating, skiing, and other athletic games, or sports;</p> <p>(b) the term "work footwear" covers footwear having outsoles 1/4 inch or over in thickness (measured at the ball of the foot) and having uppers of grain leather extending above the ankle;</p> <p>(c) the term "soled moccasins" covers footwear in which the vamp extends completely under the foot, whether or not seamed, forming both the bottom and the sides to which an outsole is attached;</p> <p>(d) the term "cement footwear" covers footwear in which the outsole (or midsole, if any) is affixed to the upper by an adhesive without sewing, but not including footwear having vulcanized soles or injection molded soles;</p> <p>(e) the term "casual footwear" covers footwear constructed with a wedge heel, or with an open toe and so constructed that the heel of the foot is not over 1 inch above the ball of the foot;</p> <p>(f) the term "boots" covers footwear the upper of which extends above the ankle (other than footwear of oxford height), designed to be worn next to the sock rather than over the shoe;</p> <p>(g) the term "footwear for men" covers footwear of American men's size 6 and larger for males, and does not include footwear commonly worn by both sexes;</p> <p>(h) the term "footwear for youths and boys" covers footwear of American youths' size 11-1/2 and larger but not as large as American men's size 6, and does not include footwear commonly worn by both sexes;</p>				

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1981)

SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS
 Part 1. - Footwear; Headwear and Hat Braids; Gloves; Luggage,
 Handbags, Billfields, and Other Flat Goods

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
			(i) the term "footwear for women" covers footwear of American women's size 4 and larger, whether for females or of types commonly worn by both sexes; (j) the term "footwear for misses" covers footwear of American misses' size 12-1/2 and larger but not as large as American women's size 4, whether for females or of types commonly worn by both sexes; (k) the term "footwear for children" covers footwear of American children's size 8-1/2 and larger but not as large as the footwear described in statistical headnotes (i) and (j); (l) the term "footwear for infants" covers all footwear not included in the foregoing statistical headnotes (g), (h), (i), (j), and (k).				
			Footwear, of leather (except footwear with uppers of fibers):				
	700.05	00	Euaraches.....	Prs.....	20% ad val.		20% ad val.
	700.10	00	McKay-sewed footwear.....	Prs.....	10% ad val.		30% ad val.
	700.15	00	Moccasins.....	Prs.....	10% ad val.		20% ad val.
	700.20	00	Turn or turned footwear.....	Prs.....	2.5% ad val.		10% ad val.
		20	For men, youths, and boys.....	Prs.			
		45	For women.....	Prs.			
		50	For misses.....	Prs.			
		60	For children and infants.....	Prs.			
	700.25	00	Welt footwear:				
			Valued not over \$2 per pair.....	Prs.....	17% ad val.		20% ad val.
	700.26	00	Valued over \$2 but not over \$5 per pair.....	Prs.....	17c per pair		20% ad val.
		10	Work footwear.....	Prs.			
			Other:				
		30	For men.....	Prs.			
		50	Other.....	Prs.			
	700.27	00	Valued over \$5 but not over \$6.80 per pair....	Prs.....	5% ad val.		20% ad val.
		18	Work footwear.....	Prs.			
			Other:				
		38	For men.....	Prs.			
		48	Other.....	Prs.			
			Valued over \$6.80 per pair:				
	700.28	00	Ski boots.....	Prs.....	Free		20% ad val.
	700.29	00	Other.....	Prs.....	5% ad val.		20% ad val.
		20	Athletic footwear other than ski boots.....	Prs.			
			Work footwear.....	Prs.			
		40	Other:				
		60	For men.....	Prs.			
		80	Other.....	Prs.			
	700.30	00	Footwear with molded soles laced to uppers.....	Prs.....	5% ad val.		20% ad val.
	700.32	00	Slippers.....	Prs.....	5% ad val.		20% ad val.

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1955)

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SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS
 Part 1. - Footwear; Headwear and Hat Braids; Gloves; Luggage,
 Handbags, Billfields, and Other Flat Goods

7 - 1 - A
 700.35 - 700.43

G S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
	700.35		Footwear, of leather, etc. (con.): Other:				
			For men, youths, and boys.....	.....	6.5% ad val.		20% ad val.
			Athletic footwear:				
		05	Ski boots.....	Prs.			
		15	Other athletic footwear.....	Prs.			
			Work footwear:				
		27	For men.....	Prs.			
		29	For youths and boys.....	Prs.			
			Soled "moccasins":				
		30	For men.....	Prs.			
		35	For youths and boys.....	Prs.			
			Other:				
			With soles vulcanized to uppers or with soles simultaneously molded and attached to uppers:				
		40	For men.....	Prs.			
		45	For youths and boys.....	Prs.			
			Cement footwear:				
		50	For men.....	Prs.			
		55	For youths and boys.....	Prs.			
			Other:				
		75	For men.....	Prs.			
		80	For youths and boys.....	Prs.			
	700.41		For other persons: Sandals of buffalo leather, the uppers of which consist primarily of straps across the instep and big toe.....	.....	10% ad val.		20% ad val.
		10	For women.....	Prs.			
		20	For misses.....	Prs.			
		30	For children.....	Prs.			
		40	For infants.....	Prs.			
			Other:				
	700.43		Valued not over \$2.50 per pair.....	.....	15% ad val.		20% ad val.
			Athletic footwear:				
		06	For women and misses.....	Prs.			
		07	Other.....	Prs.			
			Casual footwear:				
		10	For women.....	Prs.			
		15	Other.....	Prs.			
			Soled "moccasins":				
		20	For women.....	Prs.			
		25	Other.....	Prs.			
			Other:				
			With soles vulcanized to uppers or with soles simultaneously molded and attached to uppers:				
		30	For women.....	Prs.			
		35	Other.....	Prs.			
			Cement footwear:				
		40	For women.....	Prs.			
		45	For misses.....	Prs.			
		50	For children.....	Prs.			
		55	For infants.....	Prs.			
			Other:				
		60	For women.....	Prs.			
		65	For misses.....	Prs.			
		70	For children.....	Prs.			
		75	For infants.....	Prs.			

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985)

SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS
 Part 1. - Footwear; Headwear and Hat Braids; Gloves; Luggage,
 Handbags, Billfolds, and Other Flat Goods

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7 - 1 - A
 700.57 - 700.71

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
	700.57	00	Footwear (whether or not described elsewhere in this subpart) which is over 50 percent by weight of rubber or plastics or over 50 percent by weight of fibers and rubber or plastics with at least 10 percent by weight being rubber or plastics (con.): Other footwear (except footwear having uppers of which over 50 percent of the exterior surface area is leather) (con.): Other: Hunting boots, galoshes, rainwear, and other footwear designed to be worn over, or in lieu of, other footwear as a protection against water, oil, grease, or chemicals or cold or inclement weather.....	Prs.....	37.5% ad val.		66% ad val.
	700.59	00	Footwear with open toes or open heels; footwear of the slip-on type, that is held to the foot without the use of laces or buckles or other fasteners, the foregoing except footwear provided for in item 700.57 and except footwear having a foxing or foxing-like band wholly or almost wholly of rubber or plastics applied or molded at the sole and overlapping the upper..... Other: Footwear having soles (or midsoles, if any) of rubber or plastics which are affixed to the upper exclusively with an adhesive (any midsoles also being affixed exclusively to one another and to the outsole with an adhesive); the foregoing except footwear having a foxing or foxing-like band applied to or molded at the sole and overlapping the upper and except footwear with soles which overlap the upper other than at the toe or heel: Valued not over \$6.50 per pair.....	Prs.....	37.5% ad val.		66% ad val.
	700.61	00	Valued over \$6.50 but not over \$12 per pair.....	Prs.....	90c per pr. + 20% ad val.		\$1.58 per pr. + 35% ad val.
	700.62	00	Valued over \$12 per pair.....	Prs.....	20% ad val.		35% ad val.
	700.63	00	Other: Valued not over \$3.00 per pair.....	Prs.....	48% ad val.		84% ad val.
	700.64	00	Valued over \$3.00 but not over \$6.50 per pair.....	Prs.....	90c per pr. + 37.5% ad val.		\$1.58 per pr. + 66% ad val.
	700.65	00	Valued over \$6.50 but not over \$12 per pair.....	Prs.....	90c per pr. + 20% ad val.		\$1.58 per pr. + 35% ad val.
	700.66	00	Valued over \$12 per pair.....	Prs.....	20% ad val.		35% ad val.
	700.67	00					
	700.68	00					
	700.69	00					
	700.70	00					
	700.71	00					

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1981)

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SCHEDULE 7. - SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENumerATED PRODUCTS
 Part 1. - Footwear; Headwear and Hat Brims; Gloves; Luggage,
 Handbags, Billfolds, and Other Flat Goods

7 - 1 - A, F
 700.72 - 700.95

G S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
	700.72		Footwear, with uppers of fibers: With soles of leather: Valued not over \$2.50 per pair.....	Prs.	15% ad val.		35% ad val.
		20	Slipper socks.....	Prs.			
		40	Other:				
		60	For men, youths, and boys.....	Prs.			
	700.73		Valued over \$2.50 per pair.....	Prs.	10% ad val.		35% ad val.
		20	Slipper socks.....	Prs.			
		40	Other:				
		60	For men, youths, and boys.....	Prs.			
	700.74		With soles of material other than leather: With uppers of vegetable fibers.....	Prs.	7.5% ad val.		35% ad val.
		20	For men, youths, and boys.....	Prs.			
		65	For women.....	Prs.			
		70	For misses.....	Prs.			
		75	For children.....	Prs.			
		80	For infants.....	Prs.			
	700.75		With soles and uppers of wool felt.....	Prs.	3.9% ad val.		35% ad val.
		10	For men.....(459)	Prs. v Lb.			
		20	For youths and boys.....(459)	Prs. v Lb.			
		30	For women.....(459)	Prs. v Lb.			
		40	For misses.....(459)	Prs. v Lb.			
		50	For children.....(459)	Prs. v Lb.			
		60	For infants.....(459)	Prs. v Lb.			
	700.80		Other.....	Prs.	12.5% ad val.		35% ad val.
		20	For men, youths, and boys.....	Prs.			
		65	For women.....	Prs.			
		70	For misses.....	Prs.			
		75	For children.....	Prs.			
		80	For infants.....	Prs.			
	700.83		Other footwear: Of wood.....	Prs.	8% ad val.		33-1/3% ad val.
		10	For men.....	Prs.			
		20	For youths and boys.....	Prs.			
		30	For women.....	Prs.			
		40	For misses.....	Prs.			
		50	For children.....	Prs.			
		60	For infants.....	Prs.			
	A* 700.90	00	Other: Disposable footwear, designed for one-time use.....	Prs.	8.8% ad val.	7.5% ad val.	35% ad val.
	700.95		Other.....	Prs.	12.5% ad val.		35% ad val.
		15	For men, youths, and boys.....	Prs.			
		25	For women.....	Prs.			
		30	For misses.....	Prs.			
		35	For children.....	Prs.			
		45	For infants.....	Prs.			

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

APPENDIX F

ANNUAL OUTPUT OF COMPANIES PRODUCING NONRUBBER FOOTWEAR,
BY SIZE GROUPS, 1980-84

Table F-1.--Nonrubber footwear: U.S. production, by types and by size of producing company, 1980

(In thousands of pairs)

Product description	Companies with total production of:													
	Total		< 200		, 200-499		500-999		1,000-1,999		2,000-3,999		4,000 and over	
	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced
Shoes and slippers, except rubber and plastic.....	279	386,311	80	6,481	71	24,971	45	34,443	41	60,420	22	62,421	20	197,575
Shoes, total.....	249	313,400	70	5,283	66	23,207	41	31,070	37	54,844	16	39,066	19	159,930
Men's work shoes.....	40	21,487	11	501	9	1,808	5	2,094	3	2,935	3	3,835	9	10,314
Men's shoes, other than work, except athletic.....	90	66,728	21	1,246	20	3,818	9	3,487	14	8,638	9	7,646	17	41,893
Youths' and boys' shoes, except athletic.....	42	13,766	(D)	(D)	(D)	(D)	4	384	9	175	5	3,264	14	7,696
Women's shoes, except athletic.....	156	142,954	34	2,548	35	11,483	30	17,058	28	27,438	11	14,441	18	69,986
Misses' shoes, except athletic.....	34	11,268	(D)	(D)	(D)	(D)	4	610	6	2,465	7	2,673	10	4,948
Children's shoes, except athletic.....	52	14,707	5	137	12	1,115	8	1,389	10	4,270	6	1,359	11	6,437
Infants' and babies' shoes.	44	23,650	3	250	10	2,325	9	4,586	6	2,932	5	3,637	11	9,920
Athletic shoes and other footwear.....	47	18,840	17	547	7	1,469	4	1,462	6	4,415	4	2,211	9	8,736
Slippers, total.....	47	72,911	16	1,198	9	1,764	6	3,373	4	5,576	8	23,355	4	37,645
Rubber and plastic footwear	(NA)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)

(D) Data withheld to avoid disclosing figures for individual companies. (NA) Not available. (X) Not applicable.

Source: Compiled from unpublished data by the U.S. Department of Commerce.

Table F-2.--Nonrubber footwear: U.S. production, by types and by size of producing company, 1981

(In thousands of pairs)

Product description	Companies with total production of:													
	Total		< 200		200-499		500-999		1,000-1,999		2,000-3,999		4,000 and over	
	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced	Number of companies	Pairs produced
Shoes and slippers, except rubber and plastic.....	257	370,848	73	6,562	52	17,683	40	26,956	45	57,300	24	61,323	23	201,024
Shoes, total.....	229	301,079	64	5,221	48	15,844	36	23,414	39	50,257	20	45,252	22	161,091
Men's work shoes.....	37	20,830	8	431	4	1,153	6	2,284	4	2,916	4	3,741	11	10,305
Men's shoes, other than work, except athletic.....	88	66,853	20	952	14	2,554	15	3,190	11	6,930	11	9,732	17	43,495
Youths' and boys' shoes, except athletic.....	41	11,266	6	91	4	192	5	384	8	1,605	4	1,729	14	7,265
Women's shoes, except athletic.....	147	135,069	35	2,751	25	7,050	27	13,266	27	23,940	16	21,588	17	66,474
Misses' shoes, except athletic.....	32	9,902	(D)	(D)	(D)	(D)	3	412	6	1,790	7	2,145	9	4,942
Children's shoes, except athletic.....	45	12,921	4	80	8	623	7	1,463	9	2,411	6	2,778	11	5,566
Infants' and babies' shoes.	45	21,977	4	396	9	2,217	5	1,143	11	6,525	5	1,433	11	10,263
Athletic shoes and other footwear.....	43	22,261	12	471	6	1,491	4	1,272	4	4,140	5	2,106	12	12,781
Slippers, total.....	48	69,769	17	1,341	7	1,839	6	3,542	6	7,043	7	16,071	5	39,933
Rubber and plastic footwear	43	110,740	(D)	(D)	(D)	(D)	6	2,548	11	8,408	7	12,254	16	87,007

(D) Data withheld to avoid disclosing figures for individual companies. (NA) Not available. (X) Not applicable.

Source: Compiled from unpublished data by the U.S. Department of Commerce.

Table F-3.--Nonrubber footwear: U.S. production, by types and by size of producing company, 1982
(In thousands of pairs)

Census Product Class Code	Item	Companies with a total production (thousand pairs) of:														
		Total		<200		200-499		500-999		1000-1999		2000-3999		4000 & over		
		No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	
	Shoes and Slippers, except rubber and plastic	278	362,550	87	7,064	58	19,902	44	32,040	43	54,303	23	61,408	23	187,833	
314-	Shoes, total	260	302,493	82	5,943	56	18,154	45	29,125	36	47,733	19	46,989	22	154,548	
31433	Men's work shoes	36	21,323	9	484	5	1,713	3	968	6	5,088	3	4,810	10	8,260	
31431	Men's shoes, other than work (except athletic)	96	59,223	28	1,611	21	3,924	8	2,931	13	8,212	9	6,522	17	36,023	
31432																
31433																
31491	Youths' and Boys' shoes (except athletic)	35	9,388	(D)	(D)	(D)	(D)	(D)	(D)	6	639	6	(D)	11	5,581	
31441	Women's shoes (except athletic)	156	142,532	36	2,546	27	6,303	36	20,506	24	23,487	15	18,794	18	70,896	
31442																
31443																
31444																
31445																
31492pt	Misses' shoes (except athletic)	37	8,536	(D)	(D)	7	(D)	(D)	(D)	7	995	(D)	(D)	9	4,703	
31492pt	Children's shoes (except athletic)	46	13,218	4	99	11	1,225	4	526	7	3,300	9	2,831	11	5,237	
31493	Infants' and Babies' shoes	46	21,764	6	646	11	2,262	5	1,015	6	3,080	7	4,975	11	9,786	
31494	Athletic shoes and other footwear	54	26,509	16	443	7	2,023	9	1,950	4	2,932	5	5,098	13	14,063	
31420	Slippers, total	47	60,057	17	1,121	7	1,748	5	2,915	7	6,570	7	14,419	4	33,284	
3021	Rubber and Plastic Footwear	11	13,920	(D)	(D)	(D)	(D)	(D)	(D)	3	4,090	(D)	(D)	3	5,824	

Source: Compiled from unpublished data by the U.S. Department of Commerce.

Table F-4.--Nonrubber footwear: U.S. production, by types and by size of producing company, 1983

(In thousands of pairs)

Census Product Class Code	Item	Companies with a total production (thousand pairs) of:													
		Total		<200		200-499		500-999		1000-1999		2000-3999		4000 & over	
		No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)
	Shoes and Slippers, except rubber and plastic	276	345,853	89	7,098	59	19,349	45	32,964	37	48,629	21	52,387	25	185,426
314-	Shoes, total	249	289,631	81	5,974	56	18,343	40	29,638	30	39,815	19	44,942	23	150,919
31433	Men's work shoes	38	19,361	13	576	4	(D)	(D)	(D)	(D)	(D)	5	3,895	(D)	(D)
31431	Men's shoes, other than work														
31432	(except athletic)	95	61,103	28	1,306	19	3,210	12	4,812	10	5,867	10	7,668	16	36,240
31433															
31491	Youths' and Boys' shoes (except athletic)	37	9,339	(D)	(D)	(D)	(D)	6	1,062	3	1,076	5	1,619	12	(D)
31441															
31442															
31443	Women's shoes (except athletic)	154	132,838	38	2,932	30	7,632	30	15,081	24	21,947	14	19,982	18	65,264
31444															
31445															
31492pt	Misses' shoes (except athletic)	35	7,531	4	199	6	481	4	710	4	800	8	1,039	9	4,302
31492pt	Children's shoes (except athletic)	46	11,413	4	23	11	1,173	7	1,728	6	1,710	7	1,736	11	5,043
31493	Infants' and Babies' shoes	45	21,145	6	396	12	2,375	7	1,720	4	2,798	5	2,935	11	10,921
31494	Athletic shoes and other footwear	54	26,901	19	(D)	7	1,677	(D)	(D)	(D)	(D)	5	6,068	13	14,411
31420	Slippers, total	44	56,222	16	1,124	5	1,006	5	3,326	9	8,814	4	7,445	5	34,507
3021	Rubber and Plastic Footwear	11	14,947	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)	4	8,744	(D)	(D)

Source: Compiled from unpublished data by the U.S. Department of Commerce.

Table F-5.--Nonrubber footwear: U.S. production, by types and by size of producing company, 1984
(In thousands of pairs)

Census Product Class Code	Item	Companies with a total production (thousand pairs) of:													
		Total		<200		200-499		500-999		1000-1999		2000-3999		4000 & over	
		No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)	No. of Co.'s	Pairs Produced (1,000)
	Shoes and Slippers, except rubber and plastic	222	299,471	50	5,471	56	10,755	43	32,551	32	43,119	18	46,242	23	153,333
314-	Shoes, total	201	243,583	49	5,213	53	16,933	38	27,579	28	35,433	14	33,861	19	124,564
31433	Men's work shoes	36	16,835	9	367	6	1,011	4	1,667	6	5,708	4	2,894	7	5,208
31431 31432 31433	Men's shoes, other than work (except athletic)	77	56,937	16	1,111	15	2,567	15	5,667	9	6,535	8	7,121	14	33,934
31491	Youths' and Boys' shoes (except athletic)	33	6,531	(D)	(D)	6	374	(D)	(D)	9	(D)	4	1,324	(D)	(D)
31441 31442 31443 31444 31445	Women's shoes (except athletic)	127	106,064	27	2,574	29	7,111	26	15,601	17	11,655	12	13,006	16	56,117
31492pt	Misses' shoes (except athletic)	32	7,338	(D)	(D)	8	287	(D)	(D)	(D)	(D)	6	899	8	(D)
31492pt	Children's shoes (except athletic)	43	11,729	4	200	11	1,051	4	1,039	8	969	8	2,728	8	5,742
31493	Infants' and Babies' shoes	42	22,005	5	297	13	2,845	3	1,332	9	6,028	5	1,958	7	9,545
31494	Athletic shoes and other footwear	44	16,144	9	468	8	1,687	6	1,290	8	2,394	5	3,931	8	6,374
31420	Slippers, total	45	55,888	6	258	7	1,822	10	4,972	9	7,686	7	12,381	6	28,769
3021	Rubber and Plastic Footwear	13	10,315	(D)	(D)	3	1,008	(D)	(D)	(D)	(D)	3	3,805	(D)	(D)

Source: Compiled from unpublished data by the U.S. Department of Commerce.
Note.--Data for 1984 are preliminary.

APPENDIX G

INCOME-AND-LOSS DATA ON DOMESTIC OPERATIONS PRODUCING
NONRUBBER FOOTWEAR

Table G-1.--Income-and-loss experience of Genesco, Inc., on its operations wholesaling and retailing nonrubber footwear, 1980-84 1/

* * * * *

Table G-2.--Miscellaneous financial data for U.S. Shoe Corp. on its footwear operations, 1980-84 1/

Item	1980	1981	1982	1983	1984
Net sales:					
Manufacturing and wholesaling:					
Women's shoes					
1,000 dollars--	301,860	312,098	384,218	416,736	443,671
Men's shoes					
1,000 dollars--	52,106	50,808	56,860	67,204	77,052
Western and casual boots					
1,000 dollars--	68,304	85,332	45,412	51,212	54,099
Juvenile shoes					
1,000 dollars--	5,170	0	0	0	0
Total-----do-----	427,440	448,238	486,490	535,152	574,822
Retailing-----do-----	172,408	182,031	184,413	206,783	236,673
Total-----do-----	599,848	630,269	670,903	741,935	811,495
Operating income <u>2/</u>					
1,000 dollars--	49,281	61,941	71,985	85,112	79,407
Ratio of operating income to net sales-----percent--	8.2	9.8	10.7	11.5	9.8

1/ Accounting year ends Jan. 31.

2/ Not available by type of shoe operation.

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

Table G-3.--Nonrubber footwear: Income-and-loss data on operations producing nonrubber footwear of firms that produce principally men's, youths', and boys' footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	1,405,817	1,593,091	1,395,379	1,310,727	1,304,710
Cost of goods sold					
1,000 dollars--	1,082,081	1,193,083	1,103,107	1,010,262	1,002,358
Gross income-----do-----	323,736	400,008	292,272	300,465	302,352
General, selling, and administrative expenses					
1,000 dollars--	184,584	215,893	213,635	202,314	205,759
Operating income					
1,000 dollars--	139,152	184,115	78,637	98,151	96,593
Other income or (expense):					
Interest expense					
1,000 dollars--	12,851	12,279	13,614	11,261	12,392
All other income or (expense)--net					
1,000 dollars--	6,246	11,067	11,026	11,538	18,252
Total other income or (expense)--net					
1,000 dollars--	(6,605)	(1,212)	(2,588)	277	5,860
Net income before income taxes-----1,000 dollars--	132,547	182,903	76,049	98,428	102,453
Depreciation and amortization					
1,000 dollars--	15,272	16,670	20,399	20,883	20,522
Cash flow from operations					
1,000 dollars--	147,819	199,573	96,448	119,311	122,975
Ratio to net sales of--					
Gross income-----percent--	23.0	25.1	20.9	22.9	23.2
Operating income-----do-----	9.9	11.5	5.6	7.5	7.4
Net income before income taxes-----percent--	9.4	11.5	5.5	7.5	7.9
Cost of goods sold----do-----	77.0	74.9	79.1	77.1	76.8
General, selling, and administrative expenses					
percent--	13.1	13.6	15.3	15.4	15.8
Number of reporting firms-----	37	37	37	37	37
Number of firms reporting:					
Operating losses-----	3	4	10	7	8
Net losses-----	6	5	11	8	10

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

Table G-4.--Nonrubber footwear: Income-and-loss data on operations producing nonrubber footwear of firms that produce principally women's and misses' footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	1,124,948	1,233,594	1,300,179	1,284,179	1,223,424
Cost of goods sold					
1,000 dollars--	845,458	933,457	980,248	976,478	975,676
Gross income-----do-----	279,490	300,137	319,931	307,701	247,748
General, selling, and administrative expenses					
1,000 dollars--	181,598	201,688	207,345	213,452	205,675
Operating income					
1,000 dollars--	97,892	98,449	112,586	94,249	42,073
Other income or (expense):					
Interest expense					
1,000 dollars--	8,866	9,549	12,120	10,517	13,338
All other income or (expense)--net					
1,000 dollars--	3,118	341	1,005	2,048	2,283
Total other income or (expense)--net					
1,000 dollars--	(5,748)	(9,208)	(11,115)	(8,469)	(11,055)
Net income before income taxes-----1,000 dollars--	92,144	89,241	101,471	85,780	31,018
Depreciation and amortization					
1,000 dollars--	11,569	12,383	13,854	15,609	16,283
Cash flow from operations					
1,000 dollars--	103,713	101,624	115,325	101,389	47,301
Ratio to net sales of--					
Gross income-----percent--	24.8	24.3	24.6	24.0	20.3
Operating income-----do-----	8.7	8.0	8.7	7.3	3.4
Net income before income taxes-----percent--	8.2	7.2	7.8	6.7	2.5
Cost of goods sold----do-----	75.2	75.7	75.4	76.0	79.7
General, selling, and administrative expenses					
percent--	16.1	16.3	15.9	16.6	16.8
Number of reporting firms-----	44	48	49	51	52
Number of firms reporting:					
Operating losses-----	3	4	7	11	17
Net losses-----	6	4	8	12	22

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

Table G-5.--Nonrubber footwear: Income-and-loss data on operations producing nonrubber footwear of firms that produce principally children's and infants' footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--:	78,088	86,450	82,079	78,115	81,912
Cost of goods sold					
1,000 dollars--:	62,329	69,374	64,114	60,458	65,845
Gross income-----do-----:	15,759	17,076	17,965	17,657	16,067
General, selling, and administrative expenses					
1,000 dollars--:	11,233	12,592	13,631	14,186	16,133
Operating income or (loss)					
1,000 dollars--:	4,526	4,484	4,334	3,471	(66)
Other income or (expense):					
Interest expense					
1,000 dollars--:	908	1,161	1,067	811	1,075
All other income or (expense)--net					
1,000 dollars--:	(151)	(52)	47	(22)	615
Total other income or (expense)--net					
1,000 dollars--:	(1,059)	(1,213)	(1,020)	(833)	(460)
Net income or (loss) before income taxes					
1,000 dollars--:	3,467	3,271	3,314	2,638	(526)
Depreciation and amortization					
1,000 dollars--:	1,043	1,075	1,273	1,378	1,521
Cash flow from operations					
1,000 dollars--:	4,510	4,346	4,587	4,016	995
Ratio to net sales of--					
Gross income-----percent--:	20.2	19.8	21.9	22.6	19.6
Operating income or (loss) percent--:	5.8	5.2	5.3	4.4	(0.1)
Net income or (loss) before income taxes----percent--:	4.4	3.8	4.0	3.4	(0.6)
Cost of goods sold----do-----:	79.8	80.2	78.1	77.4	80.4
General, selling, and administrative expenses					
percent--:	14.4	14.6	16.6	18.2	19.7
Number of reporting firms-----:	17	17	18	18	18
Number of firms reporting:					
Operating losses-----:	0	1	2	1	5
Net losses-----:	0	1	2	1	5

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

Table G-6.--Nonrubber footwear: Income-and-loss data on operations producing nonrubber footwear of firms that produce a variety ^{1/} of footwear, accounting years 1980-84.

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	461,918	548,216	580,474	613,459	593,233
Cost of goods sold					
1,000 dollars--	360,835	416,612	431,220	440,312	450,840
Gross income-----do-----	101,083	131,604	149,254	173,147	142,393
General, selling, and administrative expenses					
1,000 dollars--	59,079	71,057	83,076	91,452	94,325
Operating income					
1,000 dollars--	42,004	60,547	66,178	81,695	48,068
Other income or (expense):					
Interest expense					
1,000 dollars--	7,250	7,449	7,505	5,100	5,801
All other income or (expense)--net					
1,000 dollars--	(741)	703	1,090	456	(1,551)
Total other income or (expense)--net					
1,000 dollars--	(7,991)	(6,746)	(6,415)	(4,644)	(7,352)
Net income before income taxes-----1,000 dollars--	34,013	53,801	59,763	77,051	40,716
Depreciation and amortization					
1,000 dollars--	4,686	6,067	6,235	8,418	6,999
Cash flow from operations					
1,000 dollars--	38,699	59,868	65,998	85,469	47,715
Ratio to net sales of--					
Gross income-----percent--	21.9	24.0	25.7	28.2	24.0
Operating income-----do-----	9.1	11.0	11.4	13.3	8.1
Net income before income taxes-----percent--	7.4	9.8	10.3	12.6	6.9
Cost of goods sold-----do-----	78.1	76.0	74.3	71.8	76.0
General, selling, and administrative expenses					
percent--	12.8	13.0	14.3	14.9	15.9
Number of reporting firms-----	9	10	10	10	10
Number of firms reporting:					
Operating losses-----	1	0	0	2	2
Net losses-----	1	1	0	2	2

^{1/} Includes a combination of men's, women's, and/or children's nonrubber footwear.

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

Table G-7.--Nonrubber footwear: Income-and-loss data on operations producing nonrubber footwear of firms that produce principally "all other" footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	185,279	262,391	287,310	317,597	303,626
Cost of goods sold					
1,000 dollars--	147,370	204,951	221,529	245,040	245,139
Gross income-----do-----	37,909	57,440	65,781	72,557	58,487
General, selling, and administrative expenses					
1,000 dollars--	24,611	29,702	37,127	37,915	41,212
Operating income					
1,000 dollars--	13,298	27,738	28,654	34,642	17,275
Other income or (expense):					
Interest expense					
1,000 dollars--	3,351	3,998	3,742	3,848	3,871
All other income or (expense)--net					
1,000 dollars--	121	883	1,815	833	62
Total other income or (expense)--net					
1,000 dollars--	(3,230)	(3,115)	(1,927)	(3,015)	(3,809)
Net income before income taxes-----1,000 dollars--	10,068	24,623	26,727	31,627	13,466
Depreciation and amortization					
1,000 dollars--	4,630	5,669	5,423	5,569	5,823
Cash flow from operations					
1,000 dollars--	14,698	30,292	32,150	37,196	19,289
Ratio to net sales of--					
Gross income-----percent--	20.5	21.9	22.9	22.8	19.3
Operating income-----do-----	7.2	10.6	10.0	10.9	5.7
Net income before income taxes-----percent--	5.4	9.4	9.3	10.0	4.4
Cost of goods sold----do-----	79.5	78.1	77.1	77.2	80.7
General, selling, and administrative expenses					
percent--	13.3	11.3	12.9	11.9	13.6
Number of reporting firms----	16	17	17	17	17
Number of firms reporting:					
Operating losses-----	4	3	3	3	5
Net losses-----	4	3	2	2	4

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

Table G-8.--Nonrubber footwear: Income-and-loss data on domestic manufacturing operations producing athletic footwear, 1/ accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--:	103,046	143,455	161,361	186,870	166,505
Cost of goods sold					
1,000 dollars--:	83,912	115,076	125,549	143,422	135,997
Gross income-----do-----:	19,134	28,379	35,812	43,448	30,508
General, selling, and administrative expenses					
1,000 dollars--:	13,827	16,193	22,824	23,316	27,565
Operating income					
1,000 dollars--:	5,307	12,186	12,988	20,132	2,943
Other income or (expense):					
Interest expense					
1,000 dollars--:	2,114	2,680	2,884	3,032	3,165
All other income or (expense)--net					
1,000 dollars--:	150	395	1,009	699	739
Total other income or (expense)--net					
1,000 dollars--:	(1,964)	(2,285)	(1,875)	(2,333)	(2,426)
Net income before income taxes-----1,000 dollars--:	3,343	9,901	11,113	17,799	517
Depreciation and amortization:					
1,000 dollars--:	3,113	4,090	4,081	4,008	3,645
Cash flow from operations					
1,000 dollars--:	6,456	13,991	15,194	21,807	4,162
Ratio to net sales of--					
Gross income-----percent--:	18.6	19.8	22.2	23.3	18.3
Operating income-----do-----:	5.2	8.5	8.1	10.8	1.8
Net income before income taxes-----percent--:	3.2	6.9	6.9	9.5	0.3
Cost of goods sold-----do-----:	81.4	80.2	77.8	76.7	81.7
General, selling, and administrative expenses					
percent--:	13.4	11.3	14.1	12.5	16.5
Number of reporting firms-----:	13	13	13	13	13
Number of firms reporting:					
Operating losses-----:	3	3	4	3	4
Net losses-----:	3	3	5	4	3

1/ Data on operations producing athletic nonrubber footwear were reported separately from data on operations producing all nonrubber footwear.

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

Table G-9.--Nonrubber footwear: Income-and-loss experience of U.S. producers on their operations importing nonrubber footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--:	188,118	240,294	609,141	849,110	1,007,382
Cost of goods sold					
1,000 dollars--:	142,346	177,040	419,562	567,483	715,370
Gross income-----do-----:	45,772	63,254	189,579	281,627	292,012
General, selling, and administrative expenses					
1,000 dollars--:	22,194	33,412	79,049	120,867	180,580
Operating income					
1,000 dollars--:	23,578	29,842	110,530	160,760	111,432
Other income or (expense):					
Interest expense					
1,000 dollars--:	3,884	5,347	18,809	20,586	12,732
All other income or (expense)--net					
1,000 dollars--:	15	496	(80)	315	926
Total other income or (expense)--net					
1,000 dollars--:	(3,869)	(4,851)	(18,889)	(20,271)	(11,806)
Net income before income taxes-----1,000 dollars--:	19,709	24,991	91,641	140,489	99,626
Depreciation and amortization					
1,000 dollars--:	583	928	1,285	2,492	3,007
Cash flow from operations					
1,000 dollars--:	20,292	25,919	92,926	142,981	102,633
Ratio to net sales of--					
Gross income-----percent--:	24.3	26.3	31.1	33.2	29.0
Operating income-----do-----:	12.5	12.4	18.1	19.0	11.1
Net income before income taxes-----percent--:	10.5	10.4	15.0	16.5	9.9
Cost of goods sold-----do-----:	75.7	73.7	68.9	66.8	71.0
General, selling, and administrative expenses					
percent--:	11.8	13.9	13.0	14.2	17.9
Number of reporting firms-----:	10	9	9	10	10
Number of firms reporting:					
Operating losses-----:	3	1	1	1	1
Net losses-----:	2	1	1	1	2

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

Table G-10.--Nonrubber footwear: Income-and-loss experience of U.S. producers on their operations purchasing domestically produced nonrubber footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--	106,050	126,578	98,346	100,325	94,746
Cost of goods sold					
1,000 dollars--	72,445	85,705	65,843	66,954	63,981
Gross income-----do-----	33,605	40,873	32,503	33,371	30,765
General, selling, and administrative expenses					
1,000 dollars--	18,913	23,852	20,509	21,967	23,265
Operating income					
1,000 dollars--	14,692	17,021	11,994	11,404	7,500
Other income or (expense):					
Interest expense					
1,000 dollars--	1,119	1,199	1,134	1,115	566
All other income or (expense)--net					
1,000 dollars--	(306)	1,433	2,066	1,497	454
Total other income or (expense)--net					
1,000 dollars--	(1,425)	234	932	382	(112)
Net income before income taxes-----1,000 dollars--	13,267	17,255	12,926	11,786	7,388
Depreciation and amortization					
1,000 dollars--	433	552	526	756	620
Cash flow from operations					
1,000 dollars--	13,700	17,807	13,452	12,542	8,008
Ratio to net sales of--					
Gross income-----percent--	31.7	32.3	33.0	33.3	32.5
Operating income-----do-----	13.9	13.4	12.2	11.4	7.9
Net income before income taxes-----percent--	12.5	13.6	13.1	11.7	7.8
Cost of goods sold-----do-----	68.3	67.7	67.0	66.7	67.5
General, selling, and administrative expenses					
percent--	17.8	18.8	20.8	21.9	24.6
Number of reporting firms-----	7	8	7	6	6
Number of firms reporting:					
Operating losses-----	1	1	2	1	0
Net losses-----	1	1	3	0	0

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

Table G-11.--Nonrubber footwear: Income-and-loss experience of U.S. producers that use imported uppers on their operations producing nonrubber footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--:	2,051,782	2,275,844	2,197,278	2,122,943	2,005,752
Cost of goods sold					
1,000 dollars--:	1,575,977	1,716,926	1,694,658	1,630,448	1,594,290
Gross income-----do-----:	475,805	558,918	502,620	492,495	411,462
General, selling, and administrative expenses					
1,000 dollars--:	280,370	312,836	312,492	315,127	303,684
Operating income					
1,000 dollars--:	195,435	246,082	190,128	177,368	107,778
Other income or (expense):					
Interest expense					
1,000 dollars--:	19,433	18,628	21,431	15,360	17,932
All other income or (expense)--net					
1,000 dollars--:	7,960	11,065	13,072	10,247	16,053
Total other income or (expense)--net					
1,000 dollars--:	(11,473)	(7,563)	(8,359)	(5,113)	(1,879)
Net income before income taxes-----1,000 dollars--:	183,962	238,519	181,769	172,255	105,899
Depreciation and amortization:					
1,000 dollars--:	22,297	25,594	29,241	31,972	29,993
Cash flow from operations					
1,000 dollars--:	206,259	264,113	211,010	204,227	135,892
Ratio to net sales of--					
Gross income-----percent--:	23.2	24.6	22.9	23.2	20.5
Operating income-----do-----:	9.5	10.8	8.7	8.4	5.4
Net income before income taxes-----percent--:	9.0	10.5	8.3	8.1	5.3
Cost of goods sold-----do-----:	76.8	75.4	77.1	76.8	79.5
General, selling, and administrative expenses					
percent--:	13.7	13.8	14.2	14.8	15.1
Number of reporting firms-----:	36	37	38	39	40
Number of firms reporting:					
Operating losses-----:	4	5	9	10	14
Net losses-----:	6	5	10	9	17

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

Table G-12.--Nonrubber footwear: Income-and-loss experience of U.S. producers that do not use imported uppers on their operations producing nonrubber footwear, accounting years 1980-84

Item	1980	1981	1982	1983	1984
Net sales-----1,000 dollars--:	1,204,268	1,447,898	1,448,144	1,481,134	1,501,153
Cost of goods sold					
1,000 dollars--:	922,096	1,100,551	1,105,561	1,102,102	1,145,568
Gross income-----do-----:	282,172	347,347	342,583	379,032	355,585
General, selling, and administrative expenses					
1,000 dollars--:	180,735	218,096	242,322	244,192	259,420
Operating income					
1,000 dollars--:	101,437	129,251	100,261	134,840	96,165
Other income or (expense):					
Interest expense					
1,000 dollars--:	13,793	15,803	16,617	16,177	18,545
All other income or (expense)--net					
1,000 dollars--:	633	1,877	1,911	4,606	3,608
Total other income or (expense)--net					
1,000 dollars--:	(13,160)	(13,926)	(14,706)	(11,571)	(14,937)
Net income before income taxes-----1,000 dollars--:	88,277	115,325	85,555	123,269	81,228
Depreciation and amortization					
1,000 dollars--:	14,903	16,270	17,943	19,885	21,155
Cash flow from operations					
1,000 dollars--:	103,180	131,595	103,498	143,154	102,383
Ratio to net sales of--					
Gross income-----percent--:	23.4	24.0	23.7	25.6	23.7
Operating income-----do-----:	8.4	8.9	6.9	9.1	6.4
Net income before income taxes-----percent--:	7.3	8.0	5.9	8.3	5.4
Cost of goods sold-----do-----:	76.6	76.0	76.3	74.4	76.3
General, selling, and administrative expenses					
percent--:	15.0	15.1	16.7	16.5	17.3
Number of reporting firms-----:	87	92	93	94	94
Number of firms reporting:					
Operating losses-----:	8	7	13	15	21
Net losses-----:	11	9	13	16	26

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

APPENDIX H
FINANCIAL RATIOS

Table H-1.--Nonrubber footwear: Financial ratios for firms producing less than 200,000 pairs annually, accounting years 1980-84 1/

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.4	1.3	1.2	1.2	0.7
Current ratio-----do----	2.6	2.5	2.4	2.3	1.7
Current assets/total assets---percent--:	87.8	87.0	87.1	86.7	82.0
Fixed assets/total assets-----do----	11.3	12.0	11.6	12.0	16.4
Other long-term assets/ total assets-----percent--:	0.9	1.0	1.3	1.3	1.6
Net sales/fixed assets-----times--:	17.7	17.9	15.7	13.7	13.2
Net sales/total assets-----do----	2.0	2.1	1.8	1.6	2.2
Debt/net worth-----percent--:	85.1	82.5	92.5	94.8	179.7
Fixed assets/net worth-----do----	21.0	21.9	22.3	23.4	45.9
Receivables turnover-----times--:	5.2	6.0	5.3	5.0	10.4
Inventory turnover-----do----	4.1	4.3	3.6	3.5	3.7
Total capital expenditures/ net worth-----percent--:	4.5	6.3	4.7	3.7	10.3
Total capital expenditures/ fixed assets-----percent--:	21.7	28.7	20.9	15.8	22.4
Operating income or (loss)/total assets-----percent--:	11.7	12.4	5.2	0.8	(6.6)
Operating income or (loss)/net worth percent--:	21.7	22.7	9.9	1.6	(18.5)
Net income or (loss) before taxes/ net worth-----percent--:	15.1	16.8	6.2	(3.4)	(34.2)

1/ 23 firms reporting.

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

Table H-2.--Nonrubber footwear: Financial ratios for firms producing 200,000 to 499,999 pairs annually, accounting years 1980-84 1/

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.9	1.7	1.8	1.8	1.7
Current ratio-----do--:	3.4	2.9	2.9	3.0	3.0
Current assets/total assets---percent--:	85.0	85.5	84.9	84.9	85.4
Fixed assets/total assets-----do--:	11.5	11.3	11.9	12.3	11.7
Other long-term assets/ total assets-----percent--:	3.4	3.1	3.2	2.8	2.9
Net sales/fixed assets-----times--:	17.2	17.7	17.1	15.7	15.8
Net sales/total assets-----do--:	2.0	2.0	2.0	1.9	1.9
Debt/net worth-----percent--:	120.0	98.8	95.2	104.2	96.6
Fixed assets/net worth-----do--:	25.4	22.5	23.3	25.1	23.0
Receivables turnover-----times--:	4.6	4.5	4.3	4.1	4.1
Inventory turnover-----do--:	4.1	4.4	4.8	4.1	4.0
Total capital expenditures/ net worth-----percent--:	9.7	3.4	4.2	3.4	2.9
Total capital expenditures/ fixed assets-----percent--:	38.2	14.9	18.0	13.4	12.7
Operating income/total assets-----do--:	11.3	10.5	9.8	10.8	7.4
Operating income/net worth-----do--:	24.8	21.0	19.1	22.0	14.6
Net income before taxes/ net worth-----percent--:	16.7	17.1	17.4	19.6	11.4

1/ 22 firms reporting.

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

Table H-3.—Nonrubber footwear: Financial ratios for firms producing 500,000 to 999,999 pairs annually, accounting years 1980-84 ^{1/}

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.2	1.5	1.3	1.8	1.5
Current ratio-----do----:	2.4	3.0	2.5	3.3	2.7
Current assets/total assets---percent--:	83.4	83.5	82.8	82.5	79.1
Fixed assets/total assets-----do----:	14.6	15.0	15.3	14.7	18.2
Other long-term assets/ total assets-----percent--:	2.0	1.5	1.9	2.8	2.7
Net sales/fixed assets-----times--:	13.8	12.2	12.0	12.1	9.0
Net sales/total assets-----do----:	2.0	1.8	1.8	1.8	1.6
Debt/net worth-----percent--:	117.1	131.4	124.3	87.3	138.9
Fixed assets/net worth-----do----:	31.7	34.7	34.4	27.6	43.6
Receivables turnover-----times--:	6.2	6.0	5.5	5.0	4.6
Inventory turnover-----do----:	3.8	3.5	3.8	4.0	3.8
Total capital expenditures/ net worth-----percent--:	18.6	17.7	16.5	8.2	14.9
Total capital expenditures/ fixed assets-----percent--:	58.7	51.1	47.9	29.6	34.3
Operating income/total assets---do----:	15.5	13.6	3.5	12.1	7.8
Operating income/net worth-----do----:	33.7	31.4	7.9	22.7	18.6
Net income before taxes/ net worth-----percent--:	27.5	26.9	5.7	19.0	12.6

^{1/} 25 firms reporting in 1980, 26 firms reporting in 1981-82, and 27 firms reporting in 1983-84.

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

Table H-4.--Nonrubber footwear: Financial ratios for firms producing 1,000,000 to 1,999,999 pairs annually, accounting years 1980-84 1/

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.2	1.1	1.2	1.2	1.1
Current ratio-----do--:	2.5	2.3	2.4	2.3	2.1
Current assets/total assets---percent--:	73.1	75.0	73.2	74.7	74.0
Fixed assets/total assets-----do--:	15.7	15.6	17.7	16.8	16.0
Other long-term assets/ total assets-----percent--:	11.2	9.4	9.2	8.5	10.0
Net sales/fixed assets-----times--:	16.5	17.2	20.3	23.0	24.7
Net sales/total assets-----do--:	2.6	2.7	3.6	3.9	3.9
Debt/net worth-----percent--:	92.7	89.3	75.5	76.7	85.9
Fixed assets/net worth-----do--:	30.3	29.5	31.0	29.8	29.7
Receivables turnover-----times--:	9.2	9.1	13.5	13.4	12.7
Inventory turnover-----do--:	5.5	5.9	8.2	9.2	9.8
Total capital expenditures/ net worth-----percent--:	6.6	7.0	9.7	6.4	5.8
Total capital expenditures/ fixed assets-----percent--:	21.6	23.7	31.3	21.6	19.6
Operating income/total assets---do--:	21.8	25.1	45.6	55.2	27.7
Operating income/net worth---do--:	42.0	47.6	80.1	97.6	51.6
Net income before taxes/ net worth-----percent--:	34.9	41.5	67.2	86.2	43.8

1/ 22 firms reporting in 1980, 23 firms reporting in all other years.

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

Table H-5.--Nonrubber footwear: Financial ratios for firms producing 2,000,000 to 3,999,999 pairs annually, accounting years 1980-84 ^{1/}

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.7	1.4	1.9	2.0	2.0
Current ratio-----do----:	3.2	2.9	3.8	3.7	3.5
Current assets/total assets---percent--:	85.0	83.6	81.7	84.5	77.6
Fixed assets/total assets-----do----:	14.4	14.8	16.3	13.7	11.5
Other long-term assets/ total assets-----percent--:	0.6	1.5	2.1	1.8	11.0
Net sales/fixed assets-----times--:	16.9	15.0	13.2	13.0	14.3
Net sales/total assets-----do----:	2.4	2.2	2.1	1.8	1.6
Debt/net worth-----percent--:	45.6	54.7	36.2	37.9	36.0
Fixed assets/net worth-----do----:	21.0	22.9	22.1	18.9	15.6
Receivables turnover-----times--:	5.9	5.7	5.9	4.3	4.3
Inventory turnover-----do----:	5.0	4.1	4.4	4.1	4.3
Total capital expenditures/ net worth-----percent--:	3.7	9.5	4.2	1.7	3.3
Total capital expenditures/ fixed assets-----percent--:	17.8	41.3	19.1	9.2	21.2
Operating income/total assets---do----:	26.9	27.0	12.5	12.4	14.3
Operating income/net worth-----do----:	39.2	41.8	17.1	17.1	19.4
Net income before taxes/ net worth-----percent--:	37.2	40.4	15.0	15.2	19.9

^{1/} 10 firms reporting in 1980, 11 firms reporting in all other years.

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

Table H-6.--Nonrubber footwear: Financial ratios for firms producing over 4,000,000 pairs annually, accounting years 1980-84 ^{1/}

Item	1980	1981	1982	1983	1984
Quick ratio-----times--:	1.3	1.3	1.6	1.8	2.0
Current ratio-----do--:	2.9	3.1	3.3	3.9	4.3
Current assets/total assets---percent--:	75.3	75.3	74.3	75.8	78.9
Fixed assets/total assets-----do--:	18.8	18.2	17.3	15.6	15.5
Other long-term assets/ total assets-----percent--:	5.9	6.5	8.4	8.6	5.6
Net sales/fixed assets-----times--:	9.8	9.6	9.6	10.1	9.8
Net sales/total assets-----do--:	1.8	1.7	1.7	1.6	1.5
Debt/net worth-----percent--:	61.2	51.5	55.3	43.1	40.3
Fixed assets/net worth-----do--:	30.3	27.6	26.8	22.3	21.8
Receivables turnover-----times--:	6.0	5.8	5.3	5.0	4.7
Inventory turnover-----do--:	4.1	3.6	3.9	3.5	3.3
Total capital expenditures/ net worth-----percent--:	6.3	7.0	5.4	3.8	4.7
Total capital expenditures/ fixed assets-----percent--:	21.0	25.2	20.1	16.9	21.7
Operating income/total assets---do--:	18.7	19.6	19.2	18.0	11.2
Operating income/net worth-----do--:	30.2	29.7	29.8	25.8	15.7
Net income before taxes/ net worth-----percent--:	28.4	28.9	27.3	25.8	15.1

^{1/} 17 firms reporting.

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

APPENDIX I

TABLES OF U.S. PRODUCERS' PRICE INDEXES FOR SELECTED
COMMODITY CATEGORIES

Table I-1.--Indexes of U.S. producer prices of nonrubber footwear, wearing apparel, nondurable manufactured commodities, leather, and all intermediate products used to produce nondurable manufactures, by quarters; January 1979-December 1984

(January-March 1979=100)						
Period	Nonrubber footwear	Wearing apparel ^{1/}	Nondurable mfg. commodities	Leather	Interm. products, nondurable mfg.	
1979:						
January-March----	100	100	100	100	100	100
April-June-----	106	101	104	127	104	104
July-September----	110	102	109	114	109	109
October-December--	112	103	114	106	114	114
1980:						
January-March----	113	106	120	103	120	120
April-June-----	114	108	125	90	124	124
July-September----	115	111	129	95	126	126
October-December--	117	113	131	101	129	129
1981:						
January-March----	118	115	137	99	133	133
April-June-----	118	117	141	102	137	137
July-September----	119	119	142	100	139	139
October-December--	118	121	141	99	140	140
1982:						
January-March----	118	123	142	98	139	139
April-June-----	120	123	141	96	137	137
July-September----	121	124	143	97	135	135
October-December--	122	124	142	98	135	135
1983:						
January-March----	123	124	140	97	133	133
April-June-----	122	124	139	102	133	133
July-September----	123	126	142	108	135	135
October-December--	123	127	142	107	137	137
1984:						
January-March----	125	127	144	112	139	139
April-June-----	123	127	145	121	140	140
July-September----	123	128	145	120	140	140
October-December--	123	128	144	113	140	140

^{1/} Excludes footwear.

Source: Compiled from official statistics of the Bureau of Labor Statistics, U.S. Department of Labor.

Table I-2.--Indexes of U.S. import prices of footwear and clothing, by quarters, January 1979-December 1984 1/

(January-March 1979=100)

Period	Footwear <u>2/</u>	Clothing
1979:		
January-March-----	100	100
April-June-----	105	102
July-September-----	108	104
October-December-----	109	105
1980:		
January-March-----	111	106
April-June-----	112	107
July-September-----	113	108
October-December-----	113	110
1981:		
January-March-----	116	111
April-June-----	116	114
July-September-----	114	114
October-December-----	113	115
1982:		
January-March-----	112	116
April-June-----	112	117
July-September-----	111	115
October-December-----	110	115
1983:		
January-March-----	110	114
April-June-----	108	114
July-September-----	110	114
October-December-----	109	117
1984:		
January-March-----	110	118
April-June-----	113	120
July-September-----	111	123
October-December-----	115	126

1/ Import prices of footwear are c.i.f., duty-paid values, at the ports of entry; whereas import prices of clothing are f.o.b., the foreign ports.

2/ Includes rubber as well as nonrubber footwear.

Source: Compiled from official statistics of the Bureau of Labor Statistics, U.S. Department of Labor.

Table I-3.--Indexes of U.S. consumer prices of footwear, wearing apparel, and nondurable commodities, by quarters, January 1979-December 1984

(January-March 1979=100)

Period	Footwear <u>1/</u>	Wearing apparel <u>2/</u>	Nondurable commodities <u>3/</u>
1979:			
January-March-----	100	100	100
April-June-----	102	101	106
July-September-----	105	101	113
October-December-----	107	103	117
1980:			
January-March-----	109	105	125
April-June-----	110	107	130
July-September-----	112	108	131
October-December-----	114	109	133
1981:			
January-March-----	115	110	139
April-June-----	117	111	143
July-September-----	118	112	143
October-December-----	119	112	144
1982:			
January-March-----	120	113	143
April-June-----	120	113	142
July-September-----	121	113	146
October-December-----	120	114	147
1983:			
January-March-----	121	114	144
April-June-----	121	115	146
July-September-----	121	117	149
October-December-----	121	117	149
1984:			
January-March-----	122	116	148
April-June-----	122	116	149
July-September-----	123	117	149
October-December-----	124	119	150

1/ Includes rubber as well as nonrubber footwear and imported as well as domestic footwear.

2/ Excludes footwear.

3/ Excludes food and beverages.

Source: Compiled from official statistics of the Bureau of Labor Statistics, U.S. Department of Labor.

APPENDIX J

DEFINITIONS OF RETAIL OUTLETS AND FOOTWEAR CATEGORIES, AND
TABLES OF FOOTWEAR PRICES AND QUANTITIES DISCUSSED IN THE PRICE SECTION

Retail outlets

Shoe stores and concept/department stores.--These retail outlets sell predominantly, if not exclusively, nationally branded footwear 1/ and provide full customer service. The largest group of stores in this category are the independent shoe stores. Included in this category are producer-owned shoe chains selling producer-branded footwear, such as the Naturalizer stores, Red Cross, and Stride Rite. Also included in this latter group are concept stores, such as the Foot Locker, which sells exclusively athletic footwear. In addition, national and regional department stores are included. All the stores in this category typically sell higher priced footwear than those in the following two categories.

Chain stores.--These retail outlets sell predominantly their store brands (retailer-branded) 2/ or unbranded footwear and provide full customer service. This category includes the nation's largest shoe store chains, such as Kinney and Thom McAn, and the nation's leading general merchandise store chains, such as Sears, Roebuck and J.C. Penney. Although many of these chains sell shoes for the entire family, some specialize in either men's or women's shoes. All the stores in this category sell shoes in the middle and lower price ranges.

Self-service shoe stores and discount chains.--These retail outlets offer primarily retailer-brands 2/ or unbranded footwear and offer limited or no customer service; the latter are known as bin or rack stores, where customers serve themselves. This category includes self-service shoe chains, such as Pay Less shoe stores, Pic 'n Pay shoe stores, and Fayva; general-merchandise discount stores and discount chains, such as K-Mart and Zayre; and any budget departments in department stores. Stores in this category typically sell the lowest priced footwear in the U.S. market.

"Off-price" retailers sell predominantly nationally branded merchandise at discounted prices, which are significantly greater than those in self-service outlets. Shipments to these "off-price" retailers were not included in any of the three types of outlets specified above.

1/ Nationally branded footwear is labeled with brand names of domestic producers, foreign producers, or U.S. importers. Individual national brands are retailed by many different companies. Examples are Naturalizer (a label of Brown Shoe Co., a domestic producer) and Nine West (a label of Fisher Camuto Corp., a U.S. importer).

2/ Retailer-branded footwear carries the label of the individual retailing company. An example of a retailer brand is Sears shoes, which are sold only through Sears, Roebuck outlets.

Footwear CategoriesGENERAL TERMS

Leather and vinyl.--These terms, used in the footwear descriptions below, refer to the upper material.

Footwear sizes.--Men's = sizes 6 and over, including big boys' shoes.
 Women's = sizes 4 and over, including growing girls' shoes.
 Children's = sizes 8-1/2 to 12, including little boys' shoes.

Sandals.--Nonrubber footwear with uppers consisting primarily of straps, with any heel one inch or less in height.

Boots.--Nonrubber footwear with uppers ankle height or higher.

CATEGORIES

1. Men's leather dress and casual shoes
2. Men's leather boots (except cowboy boots)
3. Men's vinyl dress and casual shoes
4. Men's vinyl boots (except cowboy boots)
5. Women's leather dress and casual shoes
6. Women's leather sandals
7. Women's vinyl dress and casual shoes
8. Women's vinyl sandals
9. Children's nonrubber footwear (excluding slippers, sandals, and athletic shoes, but including both leather and vinyl uppers)
10. Athletic footwear (excluding nonrubber footwear for specific sports, such as baseball, football, soccer, track, skating (without blades or skates), or skiing, which is reported under SIC number 3149. Includes nonrubber footwear not dedicated to specific sports, which are (1) suitable for use in playing "court" games, e.g. tennis, basketball, racketball, handball, or squash, or suitable for running or jogging, and (2) suitable for use as street wear. Includes men's and women's, with both leather and vinyl uppers).

Table J-1.--Nonrubber footwear sold to INDEPENDENT SHOE STORES AND DEPARTMENT STORES: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins of under/(over) selling 1/
	Per pair		Percent
Men's footwear:			
Leather dress and casual shoes:			
Under \$10.01-----	\$6.96	\$7.95	(14)
\$10.01-\$18.00-----	15.27	12.69	17
\$18.01-\$25.00-----	22.07	20.89	5
\$25.01-\$38.00-----	31.06	31.34	(1)
Over \$38.00-----	48.76	46.69	4
Average-----	26.94	25.24	6
Leather boots: 2/			
Under \$10.01-----	3/	9.42	4/
\$10.01-\$18.00-----	16.30	13.86	15
\$18.01-\$25.00-----	23.68	20.58	13
\$25.01-\$38.00-----	29.15	28.34	3
Over \$38.00-----	42.62	55.85	(31)
Average-----	32.47	18.56	43
Vinyl dress and casual shoes:			
Under \$10.01-----	6.40	7.57	(18)
\$10.01-\$18.00-----	17.62	12.89	27
\$18.01-\$25.00-----	23.15	21.00	9
\$25.01-\$38.00-----	27.50	3/	4/
Over \$38.00-----	3/	3/	4/
Average-----	13.02	9.16	30
Vinyl boots: 2/			
Under \$10.01-----	3/	3/	4/
\$10.01-\$18.00-----	3/	12.14	4/
\$18.01-\$25.00-----	3/	3/	4/
\$25.01-\$38.00-----	31.50	3/	4/
Over \$38.00-----	3/	3/	4/
Average-----	31.50	12.14	61
Women's footwear:			
Leather dress and casual shoes:			
Under \$9.01-----	6.21	7.72	(24)
\$9.01-\$14.00-----	12.10	11.82	2
\$14.01-\$24.00-----	19.15	18.34	4
\$24.01-\$37.00-----	29.92	29.11	3
Over \$37.00-----	40.86	46.15	(13)
Average-----	19.37	20.12	(4)
Leather sandals:			
Under \$5.01-----	3/	4.70	4/
\$5.01-\$10.00-----	7.85	7.17	9
\$10.01-\$17.00-----	12.89	12.88	5/
\$17.01-\$24.00-----	19.25	18.63	3
Over \$24.00-----	33.71	28.95	14
Average-----	16.88	14.00	17

Table J-1.--Nonrubber footwear sold to INDEPENDENT SHOE STORES AND DEPARTMENT STORES: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984--Continued

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins
			of under/(over) selling 1/ Percent
-----Per pair-----			Percent
Women's footwear:--Continued			
Vinyl dress and casual shoes:			
Under \$9.01-----	\$6.33	\$7.17	(13)
\$9.01-\$14.00-----	11.13	11.84	(6)
\$14.01-\$24.00-----	16.04	16.82	(5)
\$24.01-\$37.00-----	25.50	3/	4/
Over \$37.00-----	3/	3/	4/
Average-----	13.96	8.78	37
Vinyl sandals:			
Under \$5.01-----	3/	2.91	4/
\$5.01-\$10.00-----	8.00	8.25	(3)
\$10.01-\$17.00-----	13.67	12.50	9
\$17.01-\$24.00-----	18.97	3/	4/
Over \$24.00-----	3/	3/	4/
Average-----	14.73	6.95	53
Children's footwear:			
Under \$5.01-----	3.69	1.87	49
\$5.01-\$9.00-----	5.78	7.76	(34)
\$9.01-\$13.00-----	11.27	11.74	(4)
\$13.01-\$18.00-----	15.54	15.05	3
Over \$18.00-----	3/	20.00	3/
Average-----	10.90	7.74	29
Athletic footwear:			
Under \$6.01-----	4.25	5.31	(25)
\$6.01-\$10.00-----	7.10	8.71	(23)
\$10.01-\$17.00-----	13.05	13.86	(6)
\$17.01-\$24.00-----	20.08	19.95	1
Over \$24.00-----	38.13	29.53	23
Average-----	26.38	16.27	38

1/ Calculated as the percentage difference in the import price from the domestic price. Average margins resulting from domestic prices less than import prices are shown in parentheses ().

2/ Excludes cowboy boots.

3/ No sales data reported.

4/ Not available.

5/ Underselling by less than 0.5 percent.

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

Note: The "Total" prices and margins of underselling shown for each nonrubber footwear category actually reflect unit values rather than prices and, as such, are not meaningful for price comparison purposes. These total figures do show, however, whether the quantities of imported footwear are concentrated in low or high wholesale price brackets compared with the quantities of domestic footwear. For instance, the total of 6 percent underselling by imports in the men's leather dress and casual footwear category suggests that a higher proportional volume of this imported footwear was sold in the low-price brackets compared with sales of domestic footwear.

Table J-2.—Nonrubber footwear sold to CHAIN STORES: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins of under/(over) selling 1/
	Per pair		Percent
<u>Men's footwear:</u>			
Leather dress and casual shoes:			
Under \$10.01-----	\$8.30	\$7.10	14
\$10.01-\$18.00-----	14.80	13.16	11
\$18.01-\$25.00-----	21.48	19.68	8
\$25.01-\$38.00-----	28.99	32.90	(13)
Over \$38.00-----	43.41	42.72	2
Average-----	17.90	14.50	19
Leather boots: 2/			
Under \$10.01-----	3/	8.79	4/
\$10.01-\$18.00-----	16.93	14.54	14
\$18.01-\$25.00-----	23.01	20.55	11
\$25.01-\$38.00-----	30.65	29.06	5
Over \$38.00-----	46.62	55.67	(19)
Average-----	29.52	19.92	33
Vinyl dress and casual shoes:			
Under \$10.01-----	9.37	4.93	47
\$10.01-\$18.00-----	12.25	13.52	(10)
\$18.01-\$25.00-----	18.91	20.16	(7)
\$25.01-\$38.00-----	3/	27.95	4/
Over \$38.00-----	3/	39.90	4/
Average-----	10.53	6.91	34
Vinyl boots: 2/			
Under \$10.01-----	3/	8.18	4/
\$10.01-\$18.00-----	3/	12.45	4/
\$18.01-\$25.00-----	3/	3/	4/
\$25.01-\$38.00-----	3/	3/	4/
Over \$38.00-----	3/	3/	4/
Average-----	3/	9.42	4/
<u>Women's footwear:</u>			
Leather dress and casual shoes:			
Under \$9.01-----	7.96	7.74	3
\$9.01-\$14.00-----	11.28	10.65	6
\$14.01-\$24.00-----	14.98	16.97	(13)
\$24.01-\$37.00-----	24.25	31.66	(31)
Over \$37.00-----	42.00	43.11	(3)
Average-----	12.38	10.19	18
Leather sandals:			
Under \$5.01-----	3/	4.22	4/
\$5.01-\$10.00-----	7.08	6.88	3
\$10.01-\$17.00-----	11.43	14.19	(24)
\$17.01-\$24.00-----	19.02	18.61	2
Over \$24.00-----	3/	26.09	4/
Average-----	10.24	6.99	32

Table J-2.--Nonrubber footwear sold to CHAIN STORES: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984--Continued

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins of under/(over) selling 1/
	Per pair		Percent
<u>Women's footwear:--Continued</u>			
<u>Vinyl dress and casual shoes:</u>			
Under \$9.01-----	\$8.39	\$6.06	28
\$9.01-\$14.00-----	10.07	10.32	(2)
\$14.01-\$24.00-----	15.42	16.95	(10)
\$24.01-\$37.00-----	3/	32.53	4/
Over \$37.00-----	3/	39.61	4/
Average-----	9.83	7.16	27
<u>Vinyl sandals:</u>			
Under \$5.01-----	3/	3.83	4/
\$5.01-\$10.00-----	6.35	6.87	(8)
\$10.01-\$17.00-----	13.61	12.68	7
\$17.01-\$24.00-----	3/	21.58	4/
Over \$24.00-----	3/	26.00	4/
Average-----	8.93	5.65	37
<u>Children's footwear:</u>			
Under \$5.01-----	3.30	3.67	(11)
\$5.01-\$9.00-----	7.21	6.39	11
\$9.01-\$13.00-----	11.00	10.87	1
\$13.01-\$18.00-----	14.13	14.64	(4)
Over \$18.00-----	3/	22.42	4/
Average-----	7.27	6.65	9
<u>Athletic footwear:</u>			
Under \$6.01-----	4.29	5.52	(29)
\$6.01-\$10.00-----	8.55	8.08	5
\$10.01-\$17.00-----	15.20	15.20	0
\$17.01-\$24.00-----	23.30	18.08	22
Over \$24.00-----	39.67	27.74	30
Average-----	11.70	10.80	8

1/ Calculated as the percentage difference in the import price from the domestic price. Average margins resulting from domestic prices less than import prices are shown in parentheses ().

2/ Excludes cowboy boots.

3/ No sales data reported.

4/ Not available.

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

Note: The "Total" prices and margins of underselling shown for each nonrubber footwear category actually reflect unit values rather than prices and, as such, are not meaningful for price comparison purposes. These total figures do show, however, whether the quantities of imported footwear are concentrated in low or high wholesale price brackets compared with the quantities of domestic footwear. For instance, the total of 19 percent underselling by imports in the men's leather dress and casual footwear category suggests that a higher proportional volume of this imported footwear was sold in the low-price brackets compared with sales of domestic footwear.

Table J-3.--Nonrubber footwear sold to SELF-SERVICE SHOE STORES AND DISCOUNT CHAINS: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins of under/(over) selling 1/
	Per pair		Percent
Men's footwear:			
Leather dress and casual shoes:			
Under \$10.01-----	\$6.07	\$7.93	(31)
\$10.01-\$18.00-----	12.55	12.20	3
\$18.01-\$25.00-----	19.53	20.08	(3)
\$25.01-\$38.00-----	26.50	29.03	(10)
Over \$38.00-----	3/	3/	4/
Average-----	11.49	10.03	13
Leather boots: 2/			
Under \$10.01-----	3/	8.61	4/
\$10.01-\$18.00-----	16.04	12.83	20
\$18.01-\$25.00-----	22.42	23.14	(3)
\$25.01-\$38.00-----	31.39	27.63	12
Over \$38.00-----	3/	3/	4/
Average-----	25.80	14.01	46
Vinyl dress and casual shoes:			
Under \$10.01-----	5.70	5.76	(1)
\$10.01-\$18.00-----	3/	11.96	4/
\$18.01-\$25.00-----	3/	3/	4/
\$25.01-\$38.00-----	3/	3/	4/
Over \$38.00-----	3/	3/	4/
Average-----	5.70	5.88	(3)
Vinyl boots: 2/			
Under \$10.01-----	8.81	7.92	10
\$10.01-\$18.00-----	3/	12.15	4/
\$18.01-\$25.00-----	3/	3/	4/
\$25.01-\$38.00-----	3/	3/	4/
Over \$38.00-----	3/	3/	4/
Average-----	8.81	8.90	(1)
Women's footwear:			
Leather dress and casual shoes:			
Under \$9.01-----	5.95	6.39	(7)
\$9.01-\$14.00-----	12.59	10.56	16
\$14.01-\$24.00-----	15.00	15.45	(3)
\$24.01-\$37.00-----	3/	32.27	4/
Over \$37.00-----	3/	3/	4/
Average-----	9.32	7.71	17
Leather sandals:			
Under \$5.01-----	3/	3.86	4/
\$5.01-\$10.00-----	9.19	6.89	25
\$10.01-\$17.00-----	11.00	12.04	(9)
\$17.01-\$24.00-----	3/	18.23	4/
Over \$24.00-----	3/	3/	4/
Average-----	9.52	7.65	20

Table J-3.--Nonrubber footwear sold to SELF-SERVICE SHOE STORES AND DISCOUNT CHAINS: Weighted-average wholesale selling prices of domestic and imported nonrubber footwear and average margins of underselling or overselling, by major footwear categories and by wholesale price brackets, 1984--Continued

Nonrubber footwear categories and wholesale price brackets	Domestic prices	Import prices	Average margins of under/(over) selling 1/
	Per pair		Percent
Women's footwear:--Continued			
Vinyl dress and casual shoes:			
Under \$9.01-----	\$5.20	\$5.10	2
\$9.01-\$14.00-----	9.92	10.04	(1)
\$14.01-\$24.00-----	3/	3/	4/
\$24.01-\$37.00-----	3/	3/	4/
Over \$37.00-----	3/	3/	4/
Average-----	6.60	5.17	22
Vinyl sandals:			
Under \$5.01-----	4.85	3.22	34
\$5.01-\$10.00-----	5.68	6.53	(15)
\$10.01-\$17.00-----	10.01	3/	4/
\$17.01-\$24.00-----	3/	3/	4/
Over \$24.00-----	3/	3/	4/
Average-----	5.98	3.43	43
Children's footwear:			
Under \$5.01-----	3.15	3.65	(16)
\$5.01-\$9.00-----	5.82	6.34	(9)
\$9.01-\$13.00-----	10.37	10.08	3
\$13.01-\$18.00-----	3/	16.12	4/
Over \$18.00-----	3/	23.50	4/
Average-----	3.34	5.13	(54)
Athletic footwear:			
Under \$6.01-----	3.95	4.56	(15)
\$6.01-\$10.00-----	3/	7.02	4/
\$10.01-\$17.00-----	3/	12.12	4/
\$17.01-\$24.00-----	3/	18.81	4/
Over \$24.00-----	40.00	31.14	22
Average-----	4.46	6.33	(42)

1/ Calculated as the percentage difference in the import price from the domestic price. Average margins resulting from domestic prices less than import prices are shown in parentheses ().

2/ Excludes cowboy boots.

3/ No sales data reported.

4/ Not available.

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

Note: The "Total" prices and margins of underselling shown for each nonrubber footwear category actually reflect unit values rather than prices and, as such, are not meaningful for price comparison purposes. These total figures do show, however, whether the quantities of imported footwear are concentrated in low or high wholesale price brackets compared with the quantities of domestic footwear. For instance, the total of 13 percent underselling by imports in the men's leather dress and casual footwear category suggests that a higher proportional volume of this imported footwear was sold in the low-price brackets compared with sales of domestic footwear.

Table J-4.--Nonrubber footwear sold to INDEPENDENT SHOE STORES AND DEPARTMENT STORES: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984

(In thousands of pairs)

Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Men's footwear:			
Leather dress and casual shoes:			
Under \$10.01-----	298	174	124
\$10.01-\$18.00-----	3,598	2,679	919
\$18.01-\$25.00-----	6,788	6,238	550
\$25.01-\$38.00-----	6,836	5,885	951
Over \$38.00-----	2,350	1,872	478
Total-----	19,870	16,848	3,022
Leather boots: 1/			
Under \$10.01-----	1	2/	1
\$10.01-\$18.00-----	502	194	308
\$18.01-\$25.00-----	744	689	55
\$25.01-\$38.00-----	3,459	3,371	88
Over \$38.00-----	2,023	2,010	13
Total-----	6,729	6,264	465
Vinyl dress and casual shoes:			
Under \$10.01-----	1,210	787	423
\$10.01-\$18.00-----	179	11	168
\$18.01-\$25.00-----	272	268	4
\$25.01-\$38.00-----	169	169	2/
Over \$38.00-----	2/	2/	2/
Total-----	1,830	1,235	595
Vinyl boots: 1/			
Under \$10.01-----	2/	2/	2/
\$10.01-\$18.00-----	47	2/	47
\$18.01-\$25.00-----	2/	2/	2/
\$25.01-\$38.00-----	4	4	2/
Over \$38.00-----	2/	2/	2/
Total-----	51	4	47
Women's footwear:			
Leather dress and casual shoes:			
Under \$9.01-----	2,080	528	1,552
\$9.01-\$14.00-----	6,110	2,420	3,690
\$14.01-\$24.00-----	46,054	19,094	26,960
\$24.01-\$37.00-----	7,660	1,072	6,588
Over \$37.00-----	2,295	814	1,481
Total-----	64,199	23,928	40,271
Leather sandals:			
Under \$5.01-----	47	2/	47
\$5.01-\$10.00-----	1,538	171	1,367
\$10.01-\$17.00-----	3,685	1,766	1,919
\$17.01-\$24.00-----	3,984	2,145	1,839
Over \$24.00-----	443	215	228
Total-----	9,697	4,297	5,400

Table J-4.--Nonrubber footwear sold to INDEPENDENT SHOE STORES AND DEPARTMENT STORES: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984--Continued

(In thousands of pairs)

Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Women's footwear:--Continued			
Vinyl dress and casual shoes:			
Under \$9.01-----	5,994	834	5,160
\$9.01-\$14.00-----	5,497	4,056	1,441
\$14.01-\$24.00-----	9,014	8,524	490
\$24.01-\$37.00-----	2	2	2/
Over \$37.00-----	2/	2/	2/
Total-----	20,507	13,416	7,091
Vinyl sandals:			
Under \$5.01-----	2,032	2/	2,032
\$5.01-\$10.00-----	893	1	892
\$10.01-\$17.00-----	2,664	1,395	1,269
\$17.01-\$24.00-----	350	350	2/
Over \$24.00-----	2/	2/	2/
Total-----	5,939	1,746	4,193
Children's footwear:			
Under \$5.01-----	924	865	59
\$5.01-\$9.00-----	1,485	1,131	354
\$9.01-\$13.00-----	1,482	1,428	54
\$13.01-\$18.00-----	2,484	2,474	10
Over \$18.00-----	4	2/	4
Total-----	6,379	5,898	481
Athletic footwear:			
Under \$6.01-----	1,621	629	992
\$6.01-\$10.00-----	8,332	139	8,193
\$10.01-\$17.00-----	21,861	1,055	20,806
\$17.01-\$24.00-----	11,484	784	10,700
Over \$24.00-----	9,348	3,029	6,319
Total-----	52,646	5,636	47,010

1/ Excludes cowboy boots.

2/ No sales data reported.

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

Table J-5.--Nonrubber footwear sold to CHAIN STORES: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984

(In thousands of pairs)			
Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Men's footwear:			
Leather dress and casual shoes:			
Under \$10.01-----	1,529	184	1,345
\$10.01-\$18.00-----	12,235	7,106	5,129
\$18.01-\$25.00-----	5,198	3,117	2,081
\$25.01-\$38.00-----	1,241	973	268
Over \$38.00-----	111	72	39
Total-----	20,314	11,452	8,862
Leather boots: 1/			
Under \$10.01-----	202	2/	202
\$10.01-\$18.00-----	1,304	57	1,247
\$18.01-\$25.00-----	1,170	542	628
\$25.01-\$38.00-----	1,522	793	729
Over \$38.00-----	249	196	53
Total-----	4,447	1,588	2,859
Vinyl dress and casual shoes:			
Under \$10.01-----	2,950	1,668	1,282
\$10.01-\$18.00-----	328	119	209
\$18.01-\$25.00-----	265	207	58
\$25.01-\$38.00-----	10	2/	10
Over \$38.00-----	5	2/	5
Total-----	3,558	1,994	1,564
Vinyl boots: 1/			
Under \$10.01-----	39	2/	39
\$10.01-\$18.00-----	16	2/	16
\$18.01-\$25.00-----	2/	2/	2/
\$25.01-\$38.00-----	2/	2/	2/
Over \$38.00-----	2/	2/	2/
Total-----	55	2/	55
Women's footwear:			
Leather dress and casual shoes:			
Under \$9.01-----	9,494	1,882	7,612
\$9.01-\$14.00-----	17,340	8,560	8,780
\$14.01-\$24.00-----	4,055	2,815	1,240
\$24.01-\$37.00-----	380	109	271
Over \$37.00-----	320	311	9
Total-----	31,589	13,677	17,912
Leather sandals:			
Under \$5.01-----	2,722	2/	2,722
\$5.01-\$10.00-----	4,489	569	3,920
\$10.01-\$17.00-----	307	121	186
\$17.01-\$24.00-----	712	188	524
Over \$24.00-----	28	2/	28
Total-----	8,258	878	7,380

Table J-5.--Nonrubber footwear sold to CHAIN STORES: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984--Continued

(In thousands of pairs)

Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Women's footwear:--Continued			
Vinyl dress and casual shoes:			
Under \$9.01-----	17,542	2,087	15,455
\$9.01-\$14.00-----	8,883	6,175	2,708
\$14.01-\$24.00-----	497	269	228
\$24.01-\$37.00-----	194	2/	194
Over \$37.00-----	37	2/	37
Total-----	27,153	8,531	18,622
Vinyl sandals:			
Under \$5.01-----	3,333	2/	3,333
\$5.01-\$10.00-----	1,237	525	712
\$10.01-\$17.00-----	664	289	375
\$17.01-\$24.00-----	84	2/	84
Over \$24.00-----	59	2/	59
Total-----	5,377	814	4,563
Children's footwear:			
Under \$5.01-----	2,149	922	1,227
\$5.01-\$9.00-----	3,219	1,977	1,242
\$9.01-\$13.00-----	1,573	823	750
\$13.01-\$18.00-----	198	106	92
Over \$18.00-----	5	2/	5
Total-----	7,144	3,828	3,316
Athletic footwear:			
Under \$6.01-----	5,550	864	4,686
\$6.01-\$10.00-----	13,594	13	13,581
\$10.01-\$17.00-----	8,155	20	8,135
\$17.01-\$24.00-----	773	332	441
Over \$24.00-----	1,424	90	1,334
Total-----	29,496	1,319	28,177

1/ Excludes cowboy boots.

2/ No sales data reported.

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

Table J-6.--Nonrubber footwear sold to SELF-SERVICE SHOE STORES AND DISCOUNT CHAINS: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984.

(In thousands of pairs)			
Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Men's footwear:			
Leather dress and casual shoes:			
Under \$10.01-----	2,221	385	1,836
\$10.01-\$18.00-----	2,134	889	1,245
\$18.01-\$25.00-----	148	105	43
\$25.01-\$38.00-----	57	20	37
Over \$38.00-----	2/	2/	2/
Total-----	4,560	1,399	3,161
Leather boots: 1/			
Under \$10.01-----	487	2/	487
\$10.01-\$18.00-----	1,720	37	1,683
\$18.01-\$25.00-----	584	126	458
\$25.01-\$38.00-----	174	141	33
Over \$38.00-----	2/	2/	2/
Total-----	2,965	304	2,661
Vinyl dress and casual shoes:			
Under \$10.01-----	7,166	1,222	5,944
\$10.01-\$18.00-----	118	2/	118
\$18.01-\$25.00-----	2/	2/	2/
\$25.01-\$38.00-----	2/	2/	2/
Over \$38.00-----	2/	2/	2/
Total-----	7,284	1,222	6,062
Vinyl boots: 1/			
Under \$10.01-----	1,500	787	713
\$10.01-\$18.00-----	215	2/	215
\$18.01-\$25.00-----	2/	2/	2/
\$25.01-\$38.00-----	2/	2/	2/
Over \$38.00-----	2/	2/	2/
Total-----	1,715	787	928
Women's footwear:			
Leather dress and casual shoes:			
Under \$9.01-----	4,051	1,287	2,764
\$9.01-\$14.00-----	2,018	1,270	748
\$14.01-\$24.00-----	119	32	87
\$24.01-\$37.00-----	35	2/	35
Over \$37.00-----	2/	2/	2/
Total-----	6,223	2,589	3,634
Leather sandals:			
Under \$5.01-----	1,613	2/	1,613
\$5.01-\$10.00-----	1,638	153	1,485
\$10.01-\$17.00-----	1,654	34	1,620
\$17.01-\$24.00-----	11	2/	11
Over \$24.00-----	2/	2/	2/
Total-----	4,916	187	4,729

Table J-6.—Nonrubber footwear sold to SELF-SERVICE SHOE STORES AND DISCOUNT CHAINS: Quantities of domestic and imported nonrubber footwear, by major footwear categories and by wholesale price brackets, 1984—Continued

(In thousands of pairs)

Nonrubber footwear categories and wholesale price brackets	Total quantities	Domestic quantities	Import quantities
Women's footwear:—Continued			
Vinyl dress and casual shoes:			
Under \$9.01-----	31,984	4,104	27,880
\$9.01-\$14.00-----	2,150	1,725	425
\$14.01-\$24.00-----	2/	2/	2/
\$24.01-\$37.00-----	2/	2/	2/
Over \$37.00-----	2/	2/	2/
Total-----	34,134	5,829	28,305
Vinyl sandals:			
Under \$5.01-----	8,567	1	8,566
\$5.01-\$10.00-----	955	378	577
\$10.01-\$17.00-----	29	29	2/
\$17.01-\$24.00-----	2/	2/	2/
Over \$24.00-----	2/	2/	2/
Total-----	9,551	408	9,143
Children's footwear:			
Under \$5.01-----	14,505	4,469	10,036
\$5.01-\$9.00-----	1,426	291	1,135
\$9.01-\$13.00-----	238	17	221
\$13.01-\$18.00-----	58	2/	58
Over \$18.00-----	639	2/	639
Total-----	16,866	4,777	12,089
Athletic footwear:			
Under \$6.01-----	10,380	1,665	8,715
\$6.01-\$10.00-----	9,020	2/	9,020
\$10.01-\$17.00-----	1,434	2/	1,434
\$17.01-\$24.00-----	30	2/	30
Over \$24.00-----	40	24	16
Total-----	20,904	1,689	19,215

1/ Excludes cowboy boots.

2/ No sales data reported.

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

APPENDIX K

A DISCUSSION OF EXCHANGE-RATE CHANGES AMONG THE TOP FOUR
FOREIGN COUNTRIES SUPPLYING NONRUBBER FOOTWEAR
TO THE U.S. MARKET

Unless offset by other factors, including differences in relative inflation rates, changes in the U.S. dollar value of foreign currencies can alter the competitiveness of imports in the United States. 1/ For example, a strong dollar and a relatively high rate of U.S. inflation can cause the foreign currencies to decrease in value (the U.S. dollar to increase in value), increasing the competitiveness of imports in the United States.

To determine if changes in exchange rates have been affected by changes in inflation rates, real exchange-rate indexes are often used. These indexes deflate changes in nominal exchange rates by changes in relative price levels. They show the change in competitiveness between the products of two countries since a base period. 2/ Real exchange rate indexes between the U.S. dollar and selected foreign currencies were calculated as follows: 3/

$$\text{Real exchange-rate index} = \frac{\text{Nominal exchange-rate index} \times \text{Foreign price index}}{\text{U.S. price index}}$$

If the real exchange-rate index equals 100, the real dollar value of the foreign currency has not changed since a base period. If the real exchange-rate index is less than 100, the dollar value of the foreign currency has decreased since a base period, and foreign products in general have become more competitive with U.S. products. The index would be less than 100 if either the foreign price level has fallen relative to the U.S. price level with no change in nominal exchange rates, or the dollar value of the foreign currency has decreased in foreign exchange markets with no offsetting movement in relative price levels. If the real exchange-rate index is greater than 100, the dollar value of the foreign currency has increased since a base period, and the foreign products in general have become less competitive with U.S. products.

Tables K-1 through K-4 present quarterly indexes of producer prices in the United States and in the top four foreign countries supplying nonrubber footwear to the U.S. market, from January-March 1981 (the base period) through October-December 1984. These tables also show, for the same period, quarterly indexes of the nominal and real exchange rates between the U.S. dollar and the

1/ A study by the U.S. International Trade Commission found that although changes in exchange rates influence trade, other factors including competitors' prices, product demand, and manufacturing costs are often equally important--The Effect of Changes in the Value of the U.S. Dollar on Trade in Selected Commodities, Report on Investigation No. 332-150 . . ., USITC Publication No. 1423 (September 1983).

2/ The price advantage from exchange-rate changes that foreign producers enjoy in the United States applies only to those imported products that use inputs that are priced in foreign currency. If the foreign producers pay U.S. dollars for all of their inputs, they gain no competitive advantage, vis-a-vis U.S. producers, from currency fluctuations. The price of some inputs must be denominated in the foreign currency for the foreign producer to gain some competitive advantage.

3/ The index of real exchange rates is based on nominal exchange rates expressed in U.S. dollars per unit of foreign currency.

currencies of these four countries. ^{1/} As shown in tables K-1, K-2, and K-4, the foreign currencies of Taiwan, Korea, and Italy depreciated in real terms against the U.S. dollar since January-March 1980, ranging from 15 to 37 percent and averaging (on an unweighted basis) approximately 23 percent. On an individual country basis, the Taiwan dollar depreciated in real terms against the U.S. dollar by approximately 15 percent, the Korean won depreciated by approximately 17 percent, and the Italian lira depreciated by approximately 37 percent.

As shown in table K-3, the Brazilian cruzeiro appreciated in real terms against the U.S. dollar since the base period, by approximately 4 percent. This appreciation occurred because of the much higher rate of inflation in Brazil than in the United States during this period--approximately 6,511 percent versus about 20 percent--which more than offset the large nominal depreciation of the Brazilian cruzeiro, of about 98 percent. Between January-March 1981 and October-December 1984, when much of the increase in imports from Brazil occurred, the cruzeiro depreciated in real terms against the U.S. dollar by approximately 19 percent.

^{1/} The indexes of producer prices and exchange rates were calculated from data reported by the International Monetary Fund, International Financial Statistics and by the Taiwan Government, Financial Statistics--The Republic of China (compiled in accordance with the IFS format).

Table K-1.--Indexes of producer prices in the United States and Taiwan and indexes of the nominal and real exchange rates between the U.S. dollar and the New Taiwan dollar, by quarters, January 1980-December 1984

(January-March 1980=100)

Period	United States producer price index	Taiwan producer price index	Nominal exchange-rate index <u>1/</u>	Real exchange-rate index <u>1/</u>
1980:				
January-March----	100.0	100.0	100.0	100.0
April-June-----	102.1	103.8	100.2	101.9
July-September---	105.4	106.6	100.4	101.5
October-December-	107.6	109.7	100.4	102.4
1981:				
January-March----	111.0	112.6	100.2	101.6
April-June-----	113.5	113.3	99.2	99.0
July-September---	114.2	113.1	97.2	96.3
October-December-	114.1	113.1	95.4	94.6
1982:				
January-March----	115.1	112.8	95.2	93.3
April-June-----	115.2	113.2	93.2	91.6
July-September---	115.8	112.9	91.0	88.7
October-December-	115.9	112.4	89.9	87.2
1983:				
January-March----	116.0	110.4	90.5	86.1
April-June-----	116.3	111.2	90.2	86.2
July-September---	117.4	111.6	90.0	85.6
October-December-	118.0	111.8	89.8	85.1
1984:				
January-March----	119.3	112.1	89.9	84.5
April-June-----	120.1	112.7	90.9	85.3
July-September---	119.8	112.0	92.1	86.1
October-December-	119.6	111.3	91.8	85.4

1/ Based on exchange rates expressed in U.S. dollars per New Taiwan dollar.

Source: The Taiwan Government, Financial Statistics--The Republic of China (compiled in accordance with the IFS format).

Table K-2.--Indexes of producer prices in the United States and Korea and indexes of the nominal and real exchange rates between the U.S. dollar and the Korean won, by quarters, January 1980-December 1984

(January-March 1980=100)

Period	United States producer price index	Korean producer price index	Nominal exchange rate index <u>1/</u>	Real exchange rate index <u>1/</u>
1980:				
January-March----	100.0	100.0	100.0	100.0
April-June-----	102.1	110.8	96.1	104.3
July-September---	105.4	114.9	93.1	101.5
October-December-	107.6	121.1	87.7	98.7
1981:				
January-March----	111.0	127.7	85.6	98.4
April-June-----	113.5	135.1	83.9	99.9
July-September---	114.2	138.3	83.3	100.8
October-December-	114.1	138.4	82.8	100.4
1982:				
January-March----	115.1	140.4	80.4	98.1
April-June-----	115.2	140.9	78.4	95.8
July-September---	115.8	141.4	77.0	94.1
October-December-	115.9	141.9	76.7	93.9
1983:				
January-March----	116.0	142.4	75.8	93.1
April-June-----	116.3	141.3	74.2	90.2
July-September---	117.4	140.9	72.7	87.2
October-December-	118.0	140.9	71.8	85.7
1984:				
January-March----	119.3	141.4	71.8	85.1
April-June-----	120.1	141.9	71.6	84.5
July-September---	119.8	143.1	70.5	84.2
October-December-	119.6	143.2	69.7	83.4

1/ Based on exchange rates expressed in U.S. dollars per Korean won.

Source: International Monetary Fund, International Financial Statistics.

Table K-3.--Indexes of producer prices in the United States and Brazil and indexes of the nominal and real exchange rates between the U.S. dollar and the Brazilian cruzeiro, by quarters, January 1980-December 1984

(January-March 1980=100)				
Period	United States producer price index	Brazilian producer price index	Nominal exchange-rate index <u>1/</u>	Real exchange-rate index <u>1/</u>
1980:				
January-March----	100.0	100.0	100.0	100.0
April-June-----	102.1	120.2	90.3	106.4
July-September---	105.4	149.1	82.3	116.4
October-December-	107.6	183.8	73.4	125.4
1981:				
January-March----	111.0	222.1	63.6	127.2
April-June-----	113.5	265.8	53.7	125.7
July-September---	114.2	307.1	45.1	121.3
October-December-	114.1	356.6	38.1	119.1
1982:				
January-March----	115.1	418.5	32.6	118.7
April-June-----	115.2	505.3	28.1	123.2
July-September---	115.8	597.6	23.7	122.5
October-December-	115.9	690.5	19.5	116.4
1983:				
January-March----	116.0	861.8	13.8	102.5
April-June-----	116.3	1,139.3	9.5	92.7
July-September---	117.4	1,632.1	7.1	98.0
October-December-	118.0	2,300.1	5.2	101.1
1984:				
January-March----	119.3	3,032.1	3.9	100.3
April-June-----	120.1	4,028.2	3.0	99.7
July-September---	119.8	5,374.8	2.2	100.7
October-December-	119.6	7,511.3	1.6	103.5

1/ Based on exchange rates expressed in U.S. dollars per Brazilian cruzeiro.

Source: International Monetary Fund, International Financial Statistics.

Table K-4.—Indexes of producer prices in the United States and Italy and indexes of the nominal and real exchange rates between the U.S. dollar and the Italian lira, by quarters, January 1980–December 1984

(January–March 1980=100)				
Period	United States producer price index	Italian producer price index	Nominal exchange-rate index <u>1/</u>	Real exchange-rate index <u>1/</u>
1980:				
January–March----	100.0	100.0	100.0	100.0
April–June-----	102.1	103.6	96.9	98.3
July–September---	105.4	105.9	97.8	98.2
October–December--	107.6	109.9	91.0	93.0
1981:				
January–March----	111.0	114.5	82.4	84.9
April–June-----	113.5	120.3	72.7	77.1
July–September---	114.2	124.6	67.9	74.1
October–December--	114.1	129.6	69.0	78.3
1982:				
January–March----	115.1	133.8	65.4	75.9
April–June-----	115.2	136.5	62.5	74.0
July–September---	115.8	140.9	59.2	72.0
October–December--	115.9	145.6	57.5	72.2
1983:				
January–March----	116.0	147.9	58.9	75.2
April–June-----	116.3	150.3	55.8	72.2
July–September---	117.4	153.8	52.4	68.6
October–December--	118.0	158.9	50.8	68.3
1984:				
January–March----	119.3	163.9	49.6	68.2
April–June-----	120.1	167.6	45.8	68.7
July–September---	119.8	169.7	45.8	64.9
October–December--	119.6	173.0	43.6	63.1

1/ Based on exchange rates expressed in U.S. dollars per Italian lira.

Source: International Monetary Fund, International Financial Statistics.

APPENDIX L

STAFF ANALYSIS OF CONSUMER COSTS AND EMPLOYMENT
EFFECTS OF PROPOSED REMEDIES

This paper summarizes calculations of the consumer costs and employment effects of the remedies proposed by the Commissioners in the Section 201 investigation of nonrubber footwear, and of the remedy proposed by the petitioners for the domestic nonrubber footwear industry. ^{1/} Additional discussion of remedy issues are contained in memoranda on remedy alternatives, 202(c) considerations, and analysis of the petitioners' remedy that were submitted to the Commission.

Chairwoman Stern and Commissioners Eckes, Lodwick, and Rohr recommend that the President impose quantitative restrictions for a 5-year period on such imported footwear valued by the U.S. Customs Service over the amount of \$2.50 per pair as follows--

<u>Year</u>	<u>Quantity</u> <u>(million pairs)</u>
First	474
Second	474
Third	488
Fourth	517
Fifth	564

With such footwear to be entered pursuant to import licenses sold by the Government through an auctioning system as provided for in 19 U.S.C. 2581. Commissioners Eckes, Lodwick, and Rohr recommend that quantitative restrictions should be imposed retroactive to June 1, 1985.

Chairwoman Stern and Commissioner Rohr recommend that the President administer the quota as follows--

<u>Year</u>	<u>Licenses for</u> <u>nonathletic footwear</u> <u>valued over \$2.50</u> <u>but not over \$5.00</u> <u>per pair</u> <u>(million pairs)</u>	<u>Licenses for</u> <u>nonathletic footwear</u> <u>valued over \$5.00</u> <u>per pair</u> <u>(million pairs)</u>	<u>Licenses for</u> <u>athletic footwear</u> <u>valued over \$2.50</u> <u>per pair</u> <u>(million pairs)</u>
First	150	214	110
Second	150	214	110
Third	155	220	113
Fourth	164	233	120
Fifth	179	254	131

^{1/} The consumer effects and employment effects were estimated from 1984 data based on the methodology developed by Donald Rousslang and John Suomela, "Calculating the Consumer and Net Welfare Costs of Import Relief." A copy of this study is enclosed with this memorandum. The following price elasticities for nonrubber footwear were used to calculate the consumer and employment effects: A domestic demand elasticity of -1.8, an import demand elasticity of -2, and a total demand elasticity of -.5; a domestic supply elasticity of 4.2 and an infinite foreign supply elasticity.

but licenses for athletic footwear shall be reserved only for athletic footwear; licenses for nonathletic footwear valued over \$2.50 but not over \$5.00 per pair may also be used for athletic footwear; and licenses for nonathletic footwear valued over \$5.00 may be used for any footwear subject to the quota. Commissioners Eckes and Lodwick recommend that it is not appropriate for the President to divide the quota into three segments.

The petitioners proposed a remedy limiting all imports of nonrubber footwear to 55.2 percent of the U.S. market.

Consumer costs 1/

A 474 million pair import restriction could increase prices of domestic nonrubber footwear by about 5 percent and prices of the imported footwear by about 15 percent in the first quota year. These price increases would thus impose a consumer cost of about \$832 million. If the quota were allocated by imported footwear categories, as suggested by two Commissioners, domestic prices might still rise by about 5 percent. 2/ Import prices, however, could rise by as much as 22 percent for imported nonathletic footwear with a customs value above \$5.00 per pair, 3/ about 8 percent for imported nonathletic footwear between \$2.50 and \$5.00 per pair, and about 6 percent for imported athletic footwear with a customs value greater than \$2.50 per pair. 4/ The costs to consumers of an allocated quota might be higher than with an unallocated quota because the allocated quota restriction is concentrated on a large category of higher priced footwear.

Assuming that the rents from the quota remained in the United States, and that the supply from each foreign market segment is infinitely elastic, then

1/ The estimated consumer costs were based on increased prices to U.S. residents at the wholesale level. If consumer costs were based on increased prices at the retail level, such costs likely would be greater.

2/ This calculation of the price of imports does not take into consideration the use of licenses in the above \$5.00 category for the \$2.50-\$5.00 category and for the athletic footwear, or the use of the licenses in the \$2.50-\$5.00 category for the athletic category. This flexibility would, however, reduce the effect of the restriction on import prices. Calculation of the price effect of an allocated quota is not possible because substitution between categories cannot be predicted in the model.

3/ The relatively large increase in prices of imported nonathletic footwear above \$5.00 per pair reflects the much greater restrictiveness of the suggested allocated quota in this imported footwear category compared to the other restricted categories. Based on 1984 import levels, the allocated quota would reduce imported nonathletic footwear above \$5.00 per pair by approximately 25 percent, imported nonathletic footwear between \$2.50 and \$5.00 per pair by about 13 percent, and imported athletic footwear above \$2.50 per pair by about 7 percent. The 13 and 7 percent figures assume that imports of 150 million pair and 110 million pair, respectively, would occur under the allocated quota. All dollar figures are customs values.

4/ See footnote 2, above.

United States net welfare cost for a segmented quota would be at least as high as that for an unsegmented quota. However, if foreign supply is not infinitely elastic for individual market segments, some of the net welfare cost would be borne by foreigners, and United States net welfare cost could be lower for some segmented quotas. In any of these cases, costs to United States consumers might be lower with some segmented quotas depending on consumer demand for particular categories of footwear. 1/ If the 474 million pair quota were not allocated, the consumer cost is estimated to be about \$832 million.

The 55.2 percent import market share quota proposed by the petitioners could result in first year consumer costs of about \$1.4 billion. 2/ All the above estimated consumer costs could fall in subsequent quota years if the quota is liberalized during the quota period, or if domestic producers reduce their costs and hold the line on prices, as argued by the petitioners.

Employment effects

To determine the positive employment effects in the nonrubber footwear industry, 3/ we need estimates of the responsiveness of domestic output to the increase in the price of footwear, typically measured by the price elasticity of supply. Although the petitioners assume that the price elasticity of domestic supply for nonrubber footwear is infinite, actual estimates of the domestic supply elasticity range from less than 2 to 10. Because of possible difficulties in substituting domestic production for imports and expanding domestic production in the short run, a finite elasticity may be more appropriate than an infinite elasticity. Under an unallocated import quota of 474 million pairs, domestic employment in the nonrubber footwear industry could rise by about 23,800 workers in the first quota year. Similar employment effects would result with the allocated quota provisions recommended by two of the Commissioners. 4/ The petitioners' proposed quota

1/ The consumer cost of the allocated quota without substitution between categories was estimated to be about \$858 million. The calculations of consumer cost did not take into account any cross-category substitution under an allocated quota. Chairwoman Stern and Commissioner Rohr note that based on the recent composition of imports, their recommended allocated quota was relatively less restrictive for lower-priced shoes than for higher-priced shoes. Thus, substitution of lower-priced for higher-priced shoes could make the total consumer cost of the allocated quota less than the cost of the non-allocated quota.

2/ Other single year calculations of consumer costs resulting from the petitioners' proposed import quota ranged from the Federal Trade Commission's estimate of \$655 million to the Taiwan Footwear Manufacturers Association estimate of \$1,153 million.

3/ The Commission did not analyze upstream and downstream employment effects of an import quota.

4/ The employment effects of an allocated quota could also vary depending upon cross-elasticities between categories that are not calculated in this memorandum.

could result in first year employment gains in the nonrubber footwear industry of about 38,000 workers. These employment gains, however, will largely be lost either to domestic producers' productivity improvements, as suggested by the petitioners, or in the absence of significant productivity gains to import competition after relief expires.

To measure the effect of import quotas on employment in upstream industries, such as the supplier industries, the petitioners cited Bureau of Labor Statistics that showed an historical employment multiplier between nonrubber footwear and related products to be about 1.63. ^{1/} This figure suggests that indirect job creation in supplying industries would be about 63 percent of the employment increase in the footwear industry. Using the 63 percent figure, the petitioners estimated that their import quota could increase employment in the supplying industries by about 23,000 workers.

^{1/} No figures were available relating the change in the number of nonrubber footwear workers to employment changes in downstream sectors, such as in distribution and retailing.

