

HEAVYWEIGHT MOTORCYCLES

Report to the President on
Investigation No. TA-203-17,
Under Section 203 of the
Trade Act of 1974

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United States International Trade Commission / Washington, DC 20436



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Note.--Information that would reveal the confidential operations of individual concerns may not be published and has been deleted from this report.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

REPORT TO THE PRESIDENT
INVESTIGATION NO. TA-203-17

U.S. International Trade Commission
June 19, 1987

To the President:

In accordance with section 203(i)(2) of the Trade Act of 1974 (19 U.S.C. 2253(i)(2)), the United States International Trade Commission herein reports the results of an investigation concerning heavyweight motorcycles.

Summary of advice of the Commission

Chairman Liebeler, Vice Chairman Brunsdale, and Commissioners Eckes, Lodwick, and Rohr advise, on the basis of information obtained in the investigation, that termination of the import relief program provided for in Presidential Proclamation 5050 would have no significant economic effect on the domestic industry producing heavyweight motorcycles.

Background

The Commission instituted this investigation on April 15, 1987, following receipt of a letter from the United States Trade Representative, requesting that the Commission institute an investigation in order that it might advise the President of its judgement as to the probable economic effect on the domestic heavyweight motorcycle industry of the termination of the import relief provided to the heavyweight motorcycle industry by Presidential Proclamation 5050. Public notice of the investigation and hearing was given by posting copies of the notice at the office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of April 22, 1987 (52 F.R. 13325). A public hearing was held in connection with this investigation on May 21, 1987, in Washington, DC. All interested persons were afforded an opportunity to be present, to present evidence, and to be heard.

The information in this report was obtained from field work, questionnaires sent to domestic producers and importers, the Commission's files, other government agencies, briefs filed by interested parties, and other sources.

ADVICE OF CHAIRMAN LIEBELER AND VICE CHAIRMAN BRUNSDALE

HEAVYWEIGHT MOTORCYCLES

Inv. No. 203-TA-17

June 19, 1987

On September 16, 1982 Harley-Davidson, Inc. ("Harley-Davidson") petitioned for import relief for the domestic heavyweight motorcycle industry under section 201 of the Trade Act of 1974 (the "Act").¹ On April 15, 1983 the President announced the imposition of import relief under section 203 of the Act² for domestic producers of motorcycles having engine displacement over 700 cubic centimeters.³ The relief is scheduled to terminate on April 16, 1988.

Harley-Davidson recently requested that the relief be

¹
19 U.S.C. §2251 (1982).

²
19 U.S.C. §2253 (1982).

³
Presidential Proclamation 5050, 48 Fed. Reg. 16639 (Apr. 15, 1983). The relief imposed was a tariff-rate quota, starting at 45 percent and phasing down to 10 percent over a five-year period.

terminated early.⁴ By request of the United States
 Trade Representative⁵ the Commission has conducted an
 investigation under section 203(i)(2)⁶ of the Act, to
 "advise the President of its judgment as to the probable
 economic effect on the industry concerned of the . . .
 termination of the import relief" In providing its
 advice,⁷ the Commission must take into account all
 economic factors that it considers relevant, including the
 considerations set forth in section 202(c)⁸ of the Act
 and the progress and specific efforts made by the industry
 to adjust to import competition.

The statute does not require Commissioners to advise
 the President whether to terminate import relief and
 ordinarily we would not do so. This case is unusual,
 however, in that the original petitioner for relief,
 Harley-Davidson, requested that import relief be

⁴
 Letter from Harley-Davidson to USITC (March 20,
 1987).

⁵
 Letter from United States Trade Representative to
 Chairman Liebelser (March 31, 1987).

⁶
 19 U.S.C. §2253(i)(2) (1982).

⁷
 19 U.S.C. §2253(i)(4) (1982).

⁸
 19 U.S.C. §2252(c) (1982).

terminated early and no interested party objected to early termination. We see no reason not to heed the wishes of the domestic industry. We thus advise the President that early and immediate termination of the import relief program with respect to heavyweight motorcycles would not have a significant adverse effect upon the domestic industry.

9

An analysis of the considerations set forth in section 202(c) of the Act is set forth in the Commission Report at pages A-51-55 and Appendix G. The progress and specific efforts made by the industry to adjust to import competition is covered at pages A-27-31 of the Report.

VIEWS OF COMMISSIONERS LODWICK AND ROHR

The purpose of this investigation is to advise the President of the probable economic effect of the immediate termination of the import relief program provided to the heavyweight motorcycle industry under Presidential Proclamation 5050 of April 15, 1983 (48 F.R. 16639). That Proclamation followed a section 201 investigation (Inv. No. TA-201-47 (1983)) in which the Commission determined that motorcycles having engine displacement over 700 cubic centimeters were 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 heavyweight motorcycles. The relief in question involved a declining tariff-rate quota over a five-year period which expires April 16, 1988. At this time, the relief remaining in effect consists of a 10 percent ad valorem tariff on over-quota imports.

The Commission instituted this investigation under section 203(i)(2) of the Trade Act of 1974 after receiving a request to do so from the U.S. Trade Representative (USTR). ^{1/} In providing our advice to the President, we have analyzed the current condition of the domestic industry, and the probable economic effects of terminating relief as directed in section 202(c) of the Trade Act of 1974.

^{1/} Report at A-2.

Current state of the domestic industry

The industry producing heavyweight motorcycles in the United States is composed of three firms, Harley-Davidson, Inc. (the petitioner in the Commission's original section 201 investigation (Inv. No. 201-TA-47)); Honda of America Manufacturing, Inc.; and Kawasaki Motors Manufacturing, Inc.

U.S. consumption of heavyweight motorcycles by quantity declined by 50.7 percent between 1982 and 1986, ^{2/} while U.S. consumption by value declined by 25 percent in the same period. ^{3/} Moreover, domestic consumption of heavyweight motorcycles in January-March 1987, measured in terms of both quantity and value, was down from the corresponding period in 1986, indicating a continued downward trend. ^{4/}

Total U.S. production of heavyweight motorcycles fluctuated between 1982 and 1986. For the industry as a whole, production rose 42.4 percent from 1982 to 1984 and then fell 33.5 percent in the next two years, for an overall

^{2/} Report at A-13.

^{3/} Report at A-13..

^{4/} Industry spokesmen identified several factors contributing to this decline in domestic consumption. See Report, at A-13-14. They allege that a primary factor has been price. Increased costs related to improved technology and research and development, as well as the imposition of tariffs on imports and the increased value of the yen, raised prices. Another factor was the rise in insurance rates. Gasoline prices have fallen, making the incentive for purchasing a motorcycle instead of an automobile less significant. Also, the U.S. population aged 20 to 30 years, who often become purchasers of more expensive, heavyweight motorcycles, has declined.

decline during 1982-86 of 5.3 percent.^{5/} The drop in production for the years 1984-86, however, appears to parallel a drop in consumption affecting both domestic and imported motorcycles. U.S. manufacturers' production capacity has remained substantially constant since 1982. Therefore, the industry's capacity utilization trends have tracked production trends, increasing by 42.5 percent from 1982 to a high of 66 percent in 1984, and then decreasing by one-third in the following two years to a level of 44 percent.^{6/}

In the first quarter of 1987, both the quantity and value of domestic shipments increased over the corresponding period in 1986.^{7/} The unit value of U.S. producers' domestic shipments rose 31 percent between 1984 and 1986,^{8/} with much of this gain concentrated in the upper end of the heavyweight market. Unit values of U.S. producers' domestic shipments of motorcycles over 970 cc (which reflect the majority of total shipments) rose 46 percent between the first quarter of 1984 and the end of 1986, whereas the unit value of domestic shipments of models sized between 790 cc and 970 cc fell.^{9/} The ratio of domestic shipments to consumption doubled between

^{5/} Report at A-15.

^{6/} Report at A-16.

^{7/} Report at A-17.

^{8/} Report at A-42.

^{9/} Report at A-43.

1982 and 1986, and the ratio of shipments to consumption for January-March 1987 increased by 21 percent over the corresponding period in 1986. ^{10/}

These trends suggest that the domestic industry has been successful in cutting into the domestic market for imported motorcycles.

Although employment figures for the industry show a 7.3 percent decline from 1982 to 1986, total and average hourly wages increased significantly. In addition, the reduction in employment may be attributed to increased productivity. ^{11/}

U.S. Imports and Market Penetration

During the past five years, five importers have accounted for virtually all U.S. imports of heavyweight motorcycles. ^{12/} Imports decreased in volume by 83 percent and in value by 68 percent between 1982 and 1986, ^{13/} and by 41 percent in quantity and 31 percent in value between first quarter 1986 and first quarter 1987. ^{14/}

^{10/} Report at A-19.

^{11/} In 1984 and 1985, productivity for the industry as a whole had increased by more than 25 percent over 1982-83 levels. Report at A-23. Although productivity declined in 1986, it remained above 1982 and 1983 levels. Report at A-23. Further, productivity in January-March 1987 increased by 5 percent compared with the corresponding period in 1986. Report at A-23.

^{12/} American Honda Motor Co., Inc., Gardena, CA; BMW of North America, Inc., Montvale, NJ; Kawasaki Motors Corp. U.S.A., Irvine, CA; U.S. Suzuki Motor Corp., Brea, CA; and Yamaha Motor Corp., U.S.A., Cypress, CA.

^{13/} Report at A-31.

^{14/} Data obtain from the Department of Commerce as to import levels since mid-1983 differ slightly from the data provided in response to the Commission's questionnaires, yet indicate similar trends. Report at A-31-32.

From 1982 to 1986, U.S. imports of heavyweight motorcycles declined both in absolute and relative terms. The ratio of the volume of imports to the volume of U.S. consumption decreased from 95 percent in 1982 to 20 percent in 1985 and then increased to 33 percent in 1986. ^{15/} And for the period January-March 1987, this ratio was 67 percent below its level for the corresponding period in 1986. ^{16/}

The ratios of U.S. imports to U.S. production show similar trends, declining from a high of 263 percent in 1982 to a low of 29.8 percent in 1985, then increasing to 48 percent in 1986. ^{17/} The ratio of imports to production for the period January-March 1987 was 48.2 percent, down from 76.7 percent in January-March 1986. ^{18/} Harley-Davidson has claimed that Japanese producers have been able to evade the import relief program on heavyweight motorcycles by downsizing their engines below 700 cc's. ^{19/}

U.S. importers' inventories, an important factor in the Commission's 1983 decision to recommend relief for the industry, also declined from 1982 through 1986. They peaked in 1982 and then fell steadily at an average annual rate of

^{15/} Report at A-34.

^{16/} Report at A-34.

^{17/} Report at A-34.

^{18/} Report at A-34.

^{19/} Report at A-27, fn. 2; A-40. However, Honda of America Manufacturing, Inc., Kawasaki Motors Manufacturing Corp., U.S.A., and Harley-Davidson do not currently produce motorcycles with engine displacements under 700 cc's.

40.6 percent, ^{20/} so that by December 1986, they were 87.5 percent below their December 1982 level. ^{21/} Similarly, dealers' inventories of imported motorcycles declined over the period of investigation by roughly two-thirds. ^{22/}

PROBABLE ECONOMIC EFFECT OF TERMINATION

Currently, import relief for the heavyweight motorcycle industry is scheduled to expire on April 16, 1988. In its request to the Commission, the USTR specifically sought our advice as to the probable economic effect of the early, immediate termination of the relief. In light of the above, we hereby advise that the immediate termination of the 10 percent ad valorem duty on over quota motorcycles would have no significant adverse economic effects on the industry.

CONSIDERATION OF SECTION 202(c) FACTORS

Section 203(i)(4) of the 1974 Act (19 U.S.C. § 2253(i)(4)) provides that in advising the President as to the probable economic effect on the industry concerned of terminating relief, the Commission shall take into account all economic factors which it considers relevant, including the considerations set

^{20/} Report at A-48.

^{21/} Report at A-48. Because of a decline in import shipments, the ratio of importers' inventories to importers' shipments declined by a lesser amount, but still fell by over 50 percent from 1982 to 1986. See Report at table 24, A-49, and table 14, A-35.

^{22/} Report at A-48.

forth in § 202(c) (19 U.S.C. § 2252(c)). Following is our discussion of those considerations under § 202(c) that we deem relevant.

We have examined the extent to which workers and firms in the industry "have applied for, are receiving, or are likely to receive adjustment assistance." ^{23/} The Department of Labor certified 1,787 workers in the heavyweight motorcycle industry as being eligible for adjustment assistance. ^{24/} In 1984, the Department of Commerce found that Harley Davidson was qualified for adjustment assistance and authorized \$4 million in loans and loan guarantees to Harley. ^{25/} However, Harley resorted to the capital markets to raise larger amounts of money and did not use these funds. ^{26/}

Harley-Davidson has made noteworthy efforts during the period of relief to adjust to import competition. It has introduced technological advances, limited production costs, and improved product quality. ^{27/} It has also

^{23/} 19 U.S.C. 2252(c)(1), (2).

^{24/} Report at A-52.

^{25/} Report at A-52.

^{26/} Report at A-52. Harley did receive \$9,725 in indirect benefits from the Department of Commerce, a negligible sum. Id.

^{27/} Harley introduced the first all-computer ignition system, and advanced power train vibration-isolation system, a unique anti-drive front suspension system, and the "Evolution" engine. The "Evolution" is a more powerful, fuel efficient and reliable V-twin engine with lowered emission and noise levels. One of the reasons for these improvements has been the introduction of a computer-aided design system by Harley. See Report at A-27-29.

achieved significant improvements in manufacturing methods and productivity through the introduction of systems to reduce excess inventory, improve the quality control of outputs, and increase worker productivity. ^{28/} Finally, it has improved its marketing and created two national credit finance programs, both of which have increased sales. ^{29/ 30/}

On the financial side, Harley has taken steps to improve its liquidity. In 1985 it restructured its debt in 1985, and in 1986 made a successful public offering of 2 million shares of common stock and issued \$70 million in

28/ Harley has introduced just-in-time inventory methods, a new statistical quality control program, new methods of production on the assembly line, and more efficient assembly line machines. See Report at A-28-29. As a result of these improvements, Harley has increased quality to the point that 99 percent of its products now come off the assembly line defect-free, as opposed to 50 percent in 1981. Reducing the number of defects has reduced Harley's costs as well.

29/ Notwithstanding Harley-Davidson's cost reductions and improved productivity, Harley-Davidson's motorcycles continue to be priced significantly higher than equivalent models produced by its domestic and import competitors. Report at A-40. See also USITC Publication No. 1342, at 19 (1983). Harley-Davidson believes that improvements in product quality, marketing innovations, and the "pride of owning a Harley-Davidson," Report at A-40, make customers willing to pay more for its motorcycles. Harley has received orders for "substantially all" of its planned production of heavyweight motorcycles for the model year ending July 31, 1987, and its market share and the profitability of its motorcycle operations will continue to improve for the balance of 1987. Report at A-26.

30/ In the area of marketing, Harley introduced a demonstration ride program. Harley also started a national credit finance program (effective January 1984) with Ford Motor Credit providing financing through Harley's dealer networks. Report at A-29. Within the past year, Harley has also introduced a second program, though Lyons Capital Resources, Inc., to facilitate retail financing. Report at A-29.

ten-year subordinated notes. This year it successfully offered an additional 2 million shares of stock. The firm has also increased revenues from other sources. ^{31/}

Honda of America Manufacturing, Inc. and Kawasaki Motors Manufacturing Corp., U.S.A., have not commented on the effect of the import relief program on their performance. ^{32/} However, Honda has reported on its recent initiatives to improve its competitiveness. In 1986 Honda invested \$10 million to expand its highly automated production facility in Marysville, Ohio. ^{33/} In July 1985, it opened a plant in Anna, Ohio for the production of motorcycle and automobile engines, and in January 1987, the company announced plans to invest an additional \$450 million in expanding the plant. ^{34/}

^{31/} In December 1986, Harley acquired Holiday Rambler Corp., which is expected to contribute to Harley's overall profitability by broadening its revenue base. Report at A-30. Holiday Rambler was the nation's largest independent producer of recreational vehicles and a major supplier of specialized commercial vehicles. Harley has been profitable in its overall operations since 1983. Report at A-26.

^{32/} Report at A-52.

^{33/} Report at A-30.

^{34/} The expansion will include the construction of a new iron casting facility which will enable Honda to manufacture or source in the United States a wide range of motorcycle engine parts. Report at A-11.

We also have considered the effect of termination on consumers, as well as the potential social and economic costs on communities containing domestic producers. ^{35/} We determine that terminating import relief will not significantly effect either consumers or the communities in which domestic motorcycles are produced.

Finally, we looked at third-country restraints which might affect the U.S. market unfavorably were import restraints to be removed. ^{36/} If the President removes the tariff-rate quota, the United States will have a lower tariff rate than Canada or Western Europe, two other major markets. In addition, Canada and Western Europe both have some form of import restraints. ^{37/} Despite this, the Commission found no evidence that the importers will significantly increase shipments to the United States or that reducing tariffs would significantly divert imports from Canada and Western Europe to the United States. ^{38/}

CONCLUSION

With import relief in effect from April 1983 to date, the level of imported heavyweight motorcycles has declined substantially and the overhang

^{35/} See 19 U.S.C. 2252(c)(4), (9).

^{36/} 19 U.S.C. 2252(c)(8).

^{37/} Report at A-54-55.

^{38/} Report at A-54-55.

of import inventories has diminished. Meanwhile Harley-Davidson, Inc., the only producer in the domestic industry to comment on the impact of the relief upon its performance, has asserted that the relief was effective in enabling it to improve its productivity, product quality, and financial structure. ^{39/} Further, Harley-Davidson has specifically requested the early and immediate termination of the import relief as being no longer needed to enable Harley to return to a position of competitive strength. ^{40/}

We see no reason not to respect the industry's wishes. In addition, removal of the tariff-rate quota will benefit consumers, will have a minimal effect on communities and workers involved in the domestic industry, and should not make U.S. problems vulnerable to third-country restraints. Accordingly, the Commission advises the President that the termination of the import relief program with respect to heavyweight motorcycles would have no significant adverse economic effect upon the domestic industry concerned.

^{39/} Report at A-52.

^{40/} Report at A-1-2.

Views of Commissioner Eckes

Among my colleagues, I am the only member of the present Commission who participated in the sec. 201 investigation which resulted in the import relief under review. For this reason, and also because some have pointed to this investigation as a successful example of escape-clause relief, it is appropriate to offer some separate views.

At the beginning, I should emphasize that where a domestic industry no longer wants import relief, it makes little sense for trade law administrators to continue such remedies. Consequently, although I have some misgivings about the extent and sufficiency of the adjustment achieved, I join with my colleagues in recommending that the President lift remaining duties.

It is apparent to me that the emergency circumstances that dictated escape clause relief in 1983 no longer exist. However, I have lingering concerns about durability of short-term gains. Importers' and dealers' inventories of imported heavyweight motorcycles have declined considerably. Yet import market share has shown some recovery as the sec. 201 relief phased down, registering a 13 percentage point increase in share of apparent U.S. consumption from 1985 to 1986. Imports accounted for one-third of U.S consumption in 1986. Furthermore, these data may understate the actual magnitude

of competing imports, because importers have downsized their heavyweight motorcycles slightly to avoid temporary duties. And, while the sec. 201 petitioner -- Harley Davidson -- has done much to cut costs, improve product quality, and diversify into other product areas, it continues to carry a heavy debt. Harley has not added the robotics and other advanced production technology which may prove necessary for sustained competitiveness during any future cyclical decline. Industry-wide profitability data on motorcycle production alone (not including related products) has returned to 1982 operating loss levels. 1/

Perhaps some of my concerns would have been allayed had domestic heavyweight motorcycle producers taken a more active role in this review investigation. Although the Commission scheduled and was available for a public hearing, domestic producers made no appearances. Thus, my conclusions in this investigation are based on written submissions, questionnaire responses, the Commission report, press accounts, and my own field trips to visit the production facilities of Harley-Davidson in York, Pennsylvania, and Honda in Marysville, Ohio. While plant tours and informal discussions with managers and workers helped this Commissioner understand existing competitive conditions, they were no substitute for a formal hearing where the entire Commission could discuss such circumstances and learn from the process. In my view, a hearing is particularly valuable when the task is to evaluate

1/ Profit-and-loss information on individual producer's motorcycle production operations alone is business confidential.

industry adjustment, scrutinize conditions of trade, and assess the probable effect of terminating relief.

There is another compelling reason for a public hearing in such review investigations. For nearly five years, as a consequence of the Commission's affirmative determination in 1983 and the President's concurrence, the public has shouldered the expense of providing import relief to domestic producers of heavyweight motorcycles. It seems reasonable that the public, other industries facing import problems, and those public officials charged with administering these trade laws should have a subsequent opportunity to learn first hand and in public session about the effectiveness of the relief provided.

Procedural Background

The Commission conducted the sec. 201 investigation in response to a petition for import relief filed by Harley Davidson Motor Co., Inc., and Harley-Davidson York, Inc., (Harley-Davidson). A majority of the Commission--Commissioner Haggart and I--concluded that motorcycles having engines with total piston displacement over 700 cubic centimeters(cc) provided for in item 692.50 of the Tariff Schedules of the United States were 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. 1/ To prevent serious injury to the domestic

1/ The same majority found in the negative regarding imports of engines and power train subassemblies. Therefore, there was no recommendation or imposition of relief on those articles.

industry, which the Commission defined to include Honda and Kawasaki assembly facilities as well as the petitioner Harley-Davidson, the Commission determined that it was necessary to impose additional rates of duties for a five-year period with respect to these motorcycles. Except for differences in the staging of additional duties during the period of relief, the remedy recommended by the Commission is essentially that which the domestic industry sought.

Responding to the Commission's findings and recommendations, the President imposed a modified remedy consisting of temporary duty increases in the form of tariff-rate quotas for a five-year period. The additional duties on imports in excess of the quota amounts were to be staged downward from 45 percent ad valorem in the first year to 10 percent during the last year (from April 16, 1987 through April 15, 1988).

In this sec. 203 investigation, the USTR requested the Commission to advise the President as to "the probable economic effect on the industry concerned of immediate termination of the increased duty provided for in item 924.20 of the Tariff Schedules of the United States and applicable to motorcycles having engines with total piston displacement over 700 cubic centimeters." 1/

1/ The USTR's request for advice is sought under section 203(i)(2) of the Trade Act of 1974, which directs the Commission, either upon its own motion or upon the request of the President, to "advise the President of its judgment as to the probable economic effect on the industry concerned of the extension, reduction, or termination of the import relief provided pursuant to the section." 19 USC sec. 2253(i)(2).

It is unclear whether recommending termination based only upon the request by the beneficiaries of relief comports with the request of USTR and the mandate of the statute.

Petitioner Harley-Davidson is not alone in seeking the early termination of import relief. Spokesmen for unions representing Harley-Davidson employees publicly supported this request. One of the remaining two domestic producers, Honda, supports early termination; the remaining producer, Kawasaki, takes no position.

Review of sec. 201 Findings

In addressing now the question of whether the remaining Section 201 duties should be removed ahead of schedule, it is appropriate to review briefly the basis of my affirmative determination in 1983. The focus of my threat determination was an inventory build-up of imported motorcycles and the prospect of continued heavy imports. I wrote: "A one-year supply of motorcycles overhangs the domestic market. This huge inventory, which has accumulated largely in the hands of importers and dealers, has already depressed prices, discouraged domestic production, and hampered efforts of the U.S. industry to adjust to increasing foreign competition. My recommendation to the President for relief to the domestic motorcycle industry is based on the threat of serious injury posed by this huge inventory and continued imports." 1/

As I noted in the discussion of the condition of the domestic industry at that time, the domestic motorcycle industry ". . . shows signs of health and vitality, especially

1/ Domestic producers, importers, and dealers held enough heavyweight motorcycles to meet total consumption of imported and domestic motorcycles for approximately one year.

with the addition of Japanese firms late in the 1970s. They established new facilities for the assembly and marketing of motorcycles built with domestic and imported materials." Yet, there were important, disturbing changes in the pattern of the industry's performance. In 1982, performance indicators, such as consumption, domestic shipments, employment, turned downward; at the same time, profitability also showed declines. The industry, which had exhibited a reasonably healthy profit-and-loss situation through 1980, had become increasingly vulnerable to injury from imports.

Nor was there any indication that Japanese imports would decline in the near future. In 1981, Japanese producers exported more than 90 percent of production; motorcycles of more than 750cc could not be sold in Japan. Finally, the Japanese Automobile Manufacturer's Association provided estimates that imports for 1982 and 1983 would average higher than historical levels.

Thus, I concluded that the inventory of motorcycles coupled with anticipated future imports constituted a threat of serious injury to the industry in the months ahead.

CURRENT CONDITION OF DOMESTIC INDUSTRY

As the Commission majority observed in the most recent sec. 203 investigation: "The Commission's assessment of the condition of the industry establishes the framework for the analysis of the impact of removal of relief and is integral to

an objective evaluation of industry adjustment." 1/ In the 1983 investigation the Commission made a decision critical to analysis of the domestic industry, deciding that the domestic industry consisted of three motorcycle producers (Harley-Davidson, Honda and Kawasaki). In rejecting the claim of petitioner Harley Davidson that it was the sole domestic producer, I concluded that the intent of sec. 201 -- to protect domestic productive resources -- was best served by including all three producers' facilities producing heavyweight motorcycles. 2/ Consequently, in this review investigation, as in the 1983 sec. 201, I define the domestic industry to include Harley Davidson and two Japanese-owned companies that assemble motorcycles in the U.S. from imported and domestically produced parts.

A review of data presented in the Commission report suggests that the domestic industry is continuing to experience problems. For one thing, apparent U.S. consumption of heavyweight motorcycles decreased 51 percent between 1982 and 1986; indeed, consumption declined each year during the period, with the largest decrease occurring during 1986. Apparently, there are several explanations for this downturn. One factor may be the upward push on prices resulting from the additional costs of implementing new technology and insuring against product liability. Also, higher tariffs and the depreciation

1/ Stainless Steel and Alloy Tool Steel, Inv. No. TA-203-16, USITC Pub. 1975, May 1987 at p. 6.

2/ For the considerations leading to this conclusion refer to pp. 9-10 of my views in the sec. 201 investigation.

of the dollar relative to the yen, may have contributed to higher consumer prices.

Along with a price explanation, there is an important demographic change as well. There are now fewer 20 to 30 year-olds, and thus fewer potential future purchasers of heavyweight motorcycles. Finally, for those who view a motorcycle primarily as a means of transportation, not a life style, lower gasoline prices reduced the incentive to consider motorcycles as an alternate mode of transportation.

Data in the report also point to another emerging consumption trend: the shift from under 970cc motorcycles to over 970cc motorcycles. In 1983, motorcycles with engines over 970cc were only 58 percent of apparent U.S. consumption of motorcycles over 700cc; by 1986, 71 percent of all units consumed were of the larger size; for the first quarter 1987, 79 percent of consumption was accounted for by motorcycles of this size.

What do these shifts in consumption trends mean to the competitive position of the domestic industry? One of the domestic producers (Honda) makes only this larger size motorcycle; and for the other two producers three-fourths of their production are in that size range as well. Thus, considerable productive resources are devoted to the domestic production of heavyweight motorcycles. This fact warrants particular consideration in any analysis of the condition of the industry as a whole, and in any evaluation of the effect of imports on the competitive position of domestic producers.

Total U.S. production fluctuated between 1982 and 1986, with an overall decline of 5.3 percent during the period. This trend masks significant increases from 1982 to 1984 of 42 percent, and then subsequent offsetting declines of 33.5 percent from 1984 to 1986. Between 1984 and 1986, domestic production of heavyweight motorcycles over 970cc declined about one-third.

Capacity for the industry remained relatively constant during the period with utilization figures following production trends. Capacity utilization was 46 percent in 1982, increased to 66 percent in 1984, dropped to 57 percent in 1985, and then to 44 percent in 1986. Shipment data reflect the same uneven movements as production and capacity utilization. During the period, exports by domestic producers declined. 1/

U.S. producers' end-of-period inventories increased for each year from 1982 through 1985, before declining slightly in 1986. Nonetheless, producers' inventories in 1986 were more than triple the 1982 levels. Inventory levels for 1985 and 1986 were higher in relation to domestic shipments than in 1984. 2/

From 1983 to 1986, producers' inventories of 970cc and larger motorcycles increased and were a larger share of total producers' inventories in 1986 than in 1985. Producers were

1/ One of the anticipated results of the imposition of import relief was an increase in export shipments. Export data indicate that this expected development did not occur. However, the fallen dollar may have contributed to some small increase in export sales in the most recent period.

2/ Dealers' inventories for 1986 were at about the 1982 level.

carrying inventories of these larger motorcycles equal to a larger share of 1986 shipments, compared with 1985.

The total number of persons employed by the three U.S. producers declined by 7.3 percent during 1982-86. Employment of production and related workers also dropped.

Analysis of the industry's profitability must necessarily concentrate on the operations of domestic heavyweight motorcycle producers. Income-and-loss data indicate that 1984 was the most favorable year of performance for the industry on its operations producing heavyweight motorcycles. Subsequent operating results declined to 1982 levels. Net sales in 1986 were only slightly higher than 1982 levels, and operating losses for the industry were greater. The industry's losses on just motorcycle operations are not due to any one producer's adverse performance.

Pricing information is not as helpful in this investigation as in other investigations. It is difficult to compare motorcycles on a price basis for a variety of reasons. Models vary, motorcycles have different modifications and options. In addition, incentive pricing programs complicate price comparison. However, unit value data compiled from questionnaire responses do suggest generally increasing domestic prices through the period 1984-1986. Comparable unit value data based on shipments of imports also show rising trends, but import prices appear to range consistently below domestic unit values during the period. One factor accounting for the upward price trend is the shift in consumer demand

toward larger and more expensive 970cc and over heavyweight motorcycles. Thus, the rise in unit values reflects far more than improved domestic operating results.

Efforts to U.S. Producers to Adjust to Import Competition

During the past four years, Harley-Davidson made five different types of adjustments: (1) new technology and product development; (2) improved manufacturing methods, productivity, and quality, (3) employee involvement; (4) marketing; and (5) finance.

Harley-Davidson's principal advance in new technology and product development was the development of its "Evolution" engine, which has increased power, improved fuel economy and reliability, and lowered emission and noise levels. However, much of the development of the engine predates the imposition of import relief. The "Evolution" engine became fully operational and was installed in all of Harley-Davidson's motorcycles during the past four years. The technological advances were aided by the installation of a CAD/CAM system in 1983.

Harley implemented its Materials-As-Needed program in all of its operations. The program assures that production materials are obtained only when needed, thus reducing inventory of parts and inventory carrying costs. Another change has machine operators checking their work using statistical techniques to ensure output meets specifications, eliminate scrappage, and increase productivity. Also, Harley implemented a "jelly bean" assembly line system in which

different models of motorcycles are assembled in random order. This move permitted all workers to gain experience assembling each model, and so contributed to improved quality and productivity, according to Harley.

Increased employee involvement improved worker productivity and output quality; Harley workers are encouraged to exchange ideas, combine functions, and solve problems in production areas. Thus, this producer claims to have made substantial progress since 1981 in decreasing the number of defects per motorcycle; ninety-nine percent of the motorcycles coming off Harley-Davidson's assembly line are reported defect-free, compared with about 50 percent in 1981. Employees also have accepted wage and cost of living restraints, as well as fringe benefit concessions.

Marketing initiatives in the form of a demonstration ride program and national finance programs bolstered sales efforts. The formation of owner clubs and the marketing of apparel and accessories were important developments contributing to Harley's improved over-all financial condition.

Finally, this producer restructured its debt, which involved a \$10 million asset-based term loan from the State of Wisconsin Investment Board and financing from four private financial institutions. The proceeds of a subsequent public offering of common stock and subordinated notes were used to eliminate the asset-based loans, and to fund capital expenditures and working capital needs. A request for a common stock offering of 2 million additional shares was filed in May with the Securities and Exchange Commission. The acquisition

of a recreational and specialized commercial vehicle producer in late 1986, provided the opportunity to diversify production operations.

It is less clear how Honda utilized the period of import relief. Its adjustment efforts predate the imposition of import relief and were not initiated in response to the import relief program. However, in 1986, this producer invested \$10 million in its plant facilities to improve the paint department (updated control and added robotics), the assembly area, and in material services and loading.

Kawasaki, the remaining domestic producer, provided only confidential information on its response to import relief. Such efforts to the extent they can be characterized publicly are not of the same magnitude as other producers.

In general, domestic producers appear to have been successful in producing a higher quality product, at the same time decreasing production costs. Yet, there have been no corresponding improvements in operating results. Improved management techniques may not be reflected immediately in improved productivity or returns. Perhaps the most important adjustment during the period was Harley's debt restructuring which seems to have resulted from improved creditor confidence during the period of protection.

Importers' Response to Import Relief

The program of import relief treated three import categories differently: West Germany, Japan, and all other foreign countries. According to the data, heavyweight motorcycle imports from the latter two categories -- West Germany and all other foreign sources -- sources did not exceed the quota amount which would have triggered the imposition of additional duties.

But, Japanese imports substantially exceeded the quota allocation during each year of import relief. For the most recent relief year ending April 15, 1987, imports from Japan were almost three times the quota amount.

Total imports declined during the period 1982 through 1985, then rose slightly in 1986. Thus, for the period 1982-1986, imports dropped 82.7 percent in terms of volume. Based on the number of units, imports accounted for 95 percent of apparent U.S. consumption of motorcycles over 700cc in 1982. This share declined to 45 percent in 1984, and dropped further in 1984 to 21 percent and 20 percent in 1985. However, in 1986, the penetration increased to 33 percent. Looking at trends for motorcycles over 970cc, the imports' share of consumption increased almost 10 percentage points from 1985 to 1986.

Although at first glance it might seem that Japanese producers lost substantial sales, a closer look at the information shows how they, too, adjusted. The Japanese imports successfully circumvented the extra tariff by downsizing their engines to 699cc or under, immediately below the 700cc threshold. During the last nine months of 1983,

Japan imports in the range of 490cc to 700cc were 69,811. During 1984, these increased to 138,524, and further increased in 1985 to 170,014. In 1986, imports of motorcycles with engines within this smaller size range declined to 116,157 at the same time imports of motorcycles over 700cc turned upward. There is also an allegation that there were increased imports of subassemblies during the period of relief as a means of circumventing the program of relief.

Exports from Japan of heavyweight motorcycles to all markets declined during the period from 324,000 in 1982 to 126,000 in 1985, and then increased to 147,000 in 1986. However, the share of these exports coming to the United States declined from about 26 percent in 1985 to about 21 percent in 1986. Further, end-of-period inventories in Japan declined from 1985 to 1986.

Importers' and dealers' inventories of imported motorcycles were massive in the period covered by the sec. 201 investigation. Since 1982, these inventory levels have diminished, falling from a combined total of 228,029 units in 1982 to 48,103 units in 1986. Further, the declines exceeded the decline in apparent U.S. consumption through the period, so that inventories represent a decreasing share of consumption. However, when motorcycles over 970cc are viewed separately, a somewhat different pattern emerges. These represent an increasing share of total inventories, growing from about one-third of importers' and dealers' inventories in 1984 to about two-thirds of those inventories in 1986. As a share of consumption of this size motorcycle, these imports have increased about five percentage points since 1984.

PROBABLE ECONOMIC EFFECT OF REMOVAL OF IMPORT RELIEF

The purpose of import relief under section 203(a) is "to prevent or remedy serious injury or the threat thereof to the industry in question and to facilitate the orderly adjustment to new competitive conditions by the industry in question." ^{1/} As I noted in my views in the sec. 201 investigation, "The domestic motorcycle industry does not require permanent protection for its survival."

Current data on import inventories show the concerns giving rise to the sec. 201 relief are no longer justified. Likewise, import penetration trends, although turning upward in 1986, are well below 1982 levels.

In the prehearing briefs filed in the 1982 sec. 201 investigation, the petitioner stated at p.22 that ". . . import restraints must be sufficient to accomplish two objectives. First, they must allow Harley-Davidson the opportunity to become a profitable business again. Second, the import relief, during the first three years in particular, must be sufficient to allow Harley-Davidson to generate the cash income needed to support its adjustment program." The brief continues: "At a minimum, this implies that Harley-Davidson must be able to (1) produce and sell approximately 40,000 heavyweight motorcycles per year and (2) earn a rate of gross profit comparable to that which it earned during the 1977-79 period." These objectives have not been met during the period of import relief, and so from this perspective it is difficult to understand Harley's request to terminate relief.

^{1/} 19 U.S.C. sec. 2253(a).

The data on the condition of the whole industry show that its recovery during the period of relief has been less than complete. Most performance trends have fluctuated widely during the period and are again at 1982 levels. The industry's profitability also corresponds to results in 1982 when relief was granted. But, now the domestic industry is carrying substantial debt, and an inventory of motorcycles triple that held in 1982.

Conclusion

In balance, I am disposed to concur with the petitioner's request that import relief be ended. It is clear from the record of this investigation that the beneficiaries of import relief -- domestic producers and workers -- no longer want temporary protection and believe they can compete in the open market. It is apparent that Harley-Davidson, the original petitioner, has made substantial strides during the period under review: it has improved product quality and commercialized new products; it has improved market share; it has diversified beyond the production of heavyweight motorcycles; and it has gained more managerial flexibility from restructuring its debt. Furthermore, Harley officials and workers clearly believe that they have turned the corner.

Based on my review of the data, it is plain that lifting the remaining few months of temporary duties will not deny Harley or the industry the benefits of efforts to adjust, nor does it appear that the industry will be seriously injured or threatened with serious injury if relief is terminated.

However, a candid assessment cannot ignore several disturbing trends: consumption is declining, and consumption is shifting to higher-value motorcycles, where domestic production and market share are declining. In light of these ominous longer-term trends, it is questionable whether Harley, and the other domestic producers, have recovered sufficiently to withstand intense import competition in the next cyclical economic decline.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On February 1, 1983, the Commission determined, 1/ pursuant to investigation No. TA-201-47 under section 201(b)(1) of the Trade Act of 1974, that motorcycles having engines with total piston displacement over 700 cubic centimeters (cc), 2/ provided for in item 692.50 of the Tariff Schedules of the United States (TSUS), were 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. 3/ The Commission reported the results of its investigation to the President in accordance with section 201(d)(1) of the act, and recommended that in order to prevent serious injury to the domestic industry, 4/ it was necessary to impose specified rates of duty, in addition to the existing rate, for a 5-year period on the subject motorcycles. 5/ The Commission's investigation had been instituted following receipt of a petition from Harley-Davidson Motor Co., Inc., and Harley-Davidson York, Inc., requesting that the Commission conduct an investigation under the act and that the rate of duty be increased on imports of heavyweight motorcycles and engines and power train subassemblies therefor for a period of 5 years.

On April 1, 1983, after taking into account the considerations specified in section 202(c) of the act, the President determined to impose the additional duties recommended by the Commission but to do so in the form of tariff-rate quotas. The tariff-rate quotas and the temporary duty increase on the subject motorcycles were provided for in Presidential Proclamation 5050 of April 15, 1983 (48 F.R. 16639), and are set forth in item 924.20 of the appendix to the TSUS. 6/ The import relief is scheduled to terminate on April 16, 1988.

On March 20, 1987, the Commission received a petition from Harley-Davidson, Inc., Milwaukee, WI, asserting that in view of recent trends and of the achievements of Harley-Davidson's comprehensive adjustment program during the relief period, the final and fifth year of import relief ordered by the

1/ Commissioner Stern dissenting.

2/ The Commission specified that the term "motorcycles having engines with total piston displacement over 700 cubic centimeters" is intended to include such motorcycles, whether assembled or not assembled, and whether finished or not finished, and thus would include, as unfinished motorcycles, wholly or partly assembled motorcycle frames with engines mounted thereon.

3/ The Commission also determined (Commissioner Haggart dissenting) that engines and power train subassemblies for such motorcycles (whether imported separately or in combination), and parts of such engines and subassemblies, all the foregoing provided for in TSUS items 660.56, 660.67, and 692.55, were 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.

4/ Commissioner Stern recommended no import relief.

5/ Heavyweight Motorcycles, and Engines and Power Train Subassemblies Therefor: Report to the President in Investigation No. TA-201-47 Under Section 201 of the Trade Act of 1974, USITC Publication 1342, February 1983.

6/ A copy of Presidential Proclamation 5050 is presented in app. A.

President is no longer necessary. 1/ Harley-Davidson's petition requested the early and immediate termination of the import relief imposed by the President on the subject motorcycles, and requested the Commission to initiate an investigation under section 203 of the act and advise the President as to the economic impact on the domestic heavyweight motorcycle industry if relief were terminated immediately.

On April 9, 1987, the Commission received a letter from the United States Trade Representative (USTR) requesting, under authority delegated by section 5(a) of Executive Order 11846, that the Commission conduct an expedited investigation under section 203(i)(2) of the Trade Act of 1974 on heavyweight motorcycles. 2/

Effective April 15, 1987, pursuant to the request from the USTR, the Commission instituted investigation No. TA-203-17 under section 203(i)(2) of the Trade Act of 1974 for the purpose of gathering information in order that it might advise the President of its judgment as to the probable economic effect on the domestic industry concerned of the termination of import relief presently in effect with respect to motorcycles having engines with total piston displacement over 700 cc, provided for in item 692.52 of the TSUS. Public notice of the investigation and hearing was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of April 22, 1987 (52 F.R. 13325). 3/ The public hearing was held by the Commission on May 21, 1987, in the Commission's Hearing Room in Washington, DC; however, no witnesses appeared to offer testimony. The administrative deadline for reporting its advice to the President was June 19, 1987.

Previous Commission Investigations

The Commission has conducted three prior investigations on motorcycles: (1) an investigation on motorcycles and parts under the Trade Agreements Extension Act of 1951, conducted in 1952; (2) an antidumping investigation on motorcycles conducted in 1978; and (3) an investigation on heavyweight motorcycles and engines and power train subassemblies therefor under the Trade Act of 1974, conducted in 1982-83.

On June 29, 1951, pursuant to an application filed on May 21, 1951, by the Harley-Davidson Motor Co., Milwaukee, WI, the Commission instituted an investigation under the Trade Agreements Extension Act of 1951 to determine

1/ However, in a brief to the Office of the United States Trade Representative dated May 21, 1986, Harley-Davidson stated that "In order to achieve the full benefits intended by the relief, the full five-year period of relief provided by the President is necessary. Moreover, because the relief has been diluted by the blatant evasion of the tariffs and unfair pricing practices of the Japanese producers, the remaining two years of relief are particularly necessary . . . While Harley-Davidson has made enormous progress in its adjustment program, substantial work remains to be completed and thus the full five years of relief are necessary."

2/ A copy of the letter received by the Commission from the USTR appears in app. B.

3/ A copy of the Commission's notice of investigation and hearing is presented in app. C.

whether or not motorcycles and parts for motorcycles, provided for in subparagraphs (b) and (c), respectively, of paragraph 369 of the Tariff Act of 1930, were, as a result, in whole or in part, of the duty or other customs treatment reflecting concessions granted under the General Agreement on Tariffs and Trade, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products. On June 16, 1952, the Commission made a negative determination. 1/

On August 3, 1978, the Commission received advice from the Department of the Treasury that motorcycles from Japan, with the exception of those produced by Suzuki Motor Co., Ltd., were being, or were likely to be, sold in the United States at less than fair value (LTFV). The complaint that led to Treasury's determination of sales at LTFV was filed by the Harley-Davidson Motor Co., Inc., at that time a subsidiary of AMF, Inc. On August 11, 1978, the Commission instituted investigation No. AA1921-187 to determine whether or not an industry in the United States was being, or was likely to be, injured or was prevented from being established, by reason of the importation of such merchandise into the United States. On November 3, 1978, the Commission reported to the Secretary of the Treasury that it had unanimously made a negative determination. 2/

On September 16, 1982, following the receipt of a petition filed on September 1, 1982, by Harley-Davidson Motor Co., Inc., and Harley-Davidson York, Inc., the Commission instituted investigation No. TA-201-47 under section 201(b) of the Trade Act of 1974 to determine whether or not motorcycles having engines with total piston displacement over 700cc and engines and power train subassemblies therefor (whether imported separately or in combination), and parts of such engines and subassemblies, all the foregoing provided for in items 692.50, 660.56, 660.67, and 692.55 of the TSUS, were 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. On February 1, 1983, the Commission made an affirmative determination with regard to the subject motorcycles and a negative determination with regard to the engines and power train subassemblies therefor (whether imported separately or in combination) and parts of such engines and subassemblies, and reported the results of its investigation to the President, recommending the imposition of specified rates of duty, in addition to the existing rate, for a 5-year period on the subject motorcycles.

The Product

Description and uses

Motorcycles are two-wheeled motorized vehicles powered by internal-combustion engines having piston displacements greater than 90cc. Motorized

1/ Motorcycles and Parts: Report on the Escape-Clause Investigation, United States Tariff Commission Report No. C-10, 1952.

2/ Motorcycles from Japan: Determination of No Injury in Investigation No. AA1921-187 Under the Antidumping Act, 1921, as Amended, Together With the Information Obtained in the Investigation, USITC Publication 923, November 1978.

two-wheeled vehicles with piston displacements of 90cc or less consist primarily of motor/pedal bicycles (mopeds), minibikes and cycles, and scooters.

Motorcycles are used for a variety of purposes that include commuting to and from work, touring, recreation, and on- and off-road racing. Within the general category of motorcycles, there are numerous variations, based largely upon the principal intended use. The difference in use dictates the characteristics of the motorcycle.

The scope of this investigation includes only heavyweight motorcycles, which are defined as motorcycles having engines with total piston displacement of more than 700cc. ^{1/} Although a motorcycle having an engine with total piston displacement of less than 700cc could be heavier than a motorcycle with a larger engine, total piston displacement is a relatively good indication of a motorcycle's total weight. In addition to the larger engine, heavyweight motorcycles normally have a much stronger frame, larger wheels and tires, can usually carry more than one rider, and use heavier components (e.g., forks, sprockets, and shocks) than do other motorcycles.

For marketing purposes, the motorcycle industry divides heavyweight motorcycles into three basic classes: touring, sport, and cruiser or custom. It should be noted, however, that these classes tend to overlap. Any heavyweight motorcycle can be used for touring; the distinction between some sport and custom motorcycles can be vague. Most representatives from the industry agree that heavyweight motorcycles are designed and marketed so that they fall into one of the three categories, although a consumer may purchase a motorcycle for more than one reason.

A touring motorcycle is designed to be used principally for on-highway, cross-country driving. It will usually have a windshield, fairing, ^{2/} saddlebags, and a large storage compartment. A model such as this is generally referred to as a "full dresser" because of the manner in which it is equipped. A touring bike has a much more comfortable seat than a sport or custom motorcycle and will almost always have a seat designed specifically for a passenger. The riding position is fairly upright, and the suspension can be adjusted for long-distance, comfortable riding.

A sport model is purchased by a buyer who is primarily interested in performance and handling. The riding position will be more forward, and there will usually be no windshield. If there is a windshield, it will be relatively small, and the fairing will be much smaller and more aerodynamically shaped than that of a touring bike. The sport bike will almost always be chain driven and be harsher riding than a touring or custom motorcycle.

The third type of heavyweight motorcycle, the custom or cruiser model, is designed for the consumer who is more interested in image and styling than

^{1/} Motorcycles having engines with total piston displacement of less than 250cc are sometimes referred to as lightweight motorcycles, and motorcycles having engines with total piston displacement of 250cc to 700cc as mediumweight motorcycles; however, there is no generally accepted industry standard for classifying motorcycle types by weight.

^{2/} A fairing is a fiberglass structure attached to the front of the motorcycle. Its primary function is to reduce air resistance.

high performance or cross-country riding. It will often have extended front forks, more chrome than the touring or sport models, lower seat height, and no windshield or fairing. This type of motorcycle is driven mostly for short distances at moderate speeds, although many are capable of being driven at well over 100 miles per hour. An owner may frequently drive the custom model in urban traffic and to and from work.

All three of the above classes of heavyweight motorcycles are equipped with engines having total piston displacement ranging from about 700cc to 1,470cc. The performance of a motorcycle may usually be equated with the engine displacement size, although some engine developments, such as double-overhead cams, four valves per cylinder, high revolutions per minute, and liquid-cooled engines, continue to be refined in order to make it possible for smaller engine motorcycles to outperform their larger competitors.

Manufacturing process

Motorcycle engines and transmissions are produced at engine plants, and then are delivered to the motorcycle assembly operations where they are matched to designated vehicles on the assembly line. Heavyweight motorcycles are equipped with engines having two, four, or six cylinders, with two and four cylinder engines being predominant. Engines are manufactured in three basic cylinder configurations: in-line, opposed, and V-type. Each of these refers to the position of one bank of cylinders in relation to the other. Engines may be manufactured with variances in other design characteristics, including the number of carburetors; engines may be air cooled or water cooled.

The drive assembly components (belt, chain, or shaft), which transmit the power from the transmission to the rear wheel, are added to the frame during the assembly process. At the assembly plant, machining and stamping operations may be performed to produce various parts and components. Workers bend the tubing for the frame and then the pieces are welded to complete the frame. Parts are painted before moving to final assembly. At the final stage of assembly, the engine, transmission, and other components are built onto the frame. After completion, the motorcycles are inspected, tested, and covered with a thin oil-based protective coating before being packed and shipped to dealers.

U.S. tariff treatment

Imports of motorcycles having engines with total piston displacement of more than 700cc are classified in item 692.52 of the TSUS. ^{1/} The current column 1 rate of duty ^{2/} of 3.7 percent ad valorem is the final staged duty

^{1/} The portions of the TSUS that pertain to motorcycles and to the President's temporary duty increases in the form of tariff-rate quotas on heavyweight motorcycles are presented in app. D.

^{2/} The rates of duty in column 1 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(d) of the Tariff Schedule of the United States Annotated (TSUSA). However, the MFN rates do not apply
(Footnote continued on the next page)

reduction negotiated in the Tokyo Round of the Multilateral Trade Negotiations (MTN), 1/ and the column 2 rate of duty 2/ of 10 percent ad valorem is applicable to imports from non-most-favored nations. 3/

Presidential Proclamation 5050 (Apr. 15, 1983) created a separate tariff item in the TSUS covering motorcycles having engines with total piston displacement over 700cc (item 692.52). The rate of duty for imports under this tariff item was temporarily modified as set forth in TSUS item 924.20 to provide for additional duties on or after April 16, 1983, in the form of a tariff-rate quota on a yearly basis beginning on that date, as shown in appendix D and as discussed in the following section entitled "Nature and Extent of Current Import Relief."

Presidential Proclamation 5050 also suspended, pursuant to section 503(c)(2) of the act, the preferential tariff treatment accorded to heavyweight motorcycles under the GSP. Accordingly, no preferential tariff treatment is currently afforded to heavyweight motorcycles of countries other than Israel (duty-free entry granted under the U.S.-Israel Free Trade Area Implementation Act) and designated beneficiaries of the Caribbean Basin Economic Recovery Act (see TSUS general headnote 3(e)(vii)), whose products also enter free of duty.

Two U.S. producers of heavyweight motorcycles (Honda of America Manufacturing, Inc., Marysville, OH, and Kawasaki Motors Manufacturing Corp., U.S.A., Lincoln, NE) currently produce motorcycles in areas designated as foreign-trade zones or subzones (FTZs). 4/ Since FTZs are outside the U.S.

(Footnote continued from previous page)

if preferential tariff treatment is sought and granted to products of developing countries under the Generalized System of Preferences (GSP) or the Caribbean Basin Economic Recovery Act (CBERA), or to products of Israel or of least developed developing countries (LDDC'S), as provided under the Special rates of duty column.

1/ Rate effective Jan. 1, 1987.

2/ The rates of duty in column 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(d) of the TSUS.

3/ In addition, pursuant to the Omnibus Budget Reconciliation Act of 1986, a user fee of 0.22 percent ad valorem on most U.S. imports took effect on Dec. 1, 1986.

4/ A FTZ or subzone is a site within the United States where foreign and domestic merchandise are considered by the U.S. Government, generally, as not being within the U.S. customs territory but in international commerce. Foreign or domestic merchandise may be brought into these enclaves without a formal customs entry or the payment of customs duties or Government excise taxes, and without a thorough examination. Merchandise brought into a zone or subzone may be stored, tested, relabeled or repackaged, displayed, manipulated in some manner, mixed with domestic and/or foreign materials, and used in an assembly or manufacturing process. If the final product is exported from the zone or subzone, no U.S. customs duty or excise tax is levied. If the final product is imported into the United States, U.S. customs duties and excise taxes are due only at the time of its physical removal from the zone or subzone and formal entry into the United States on the product itself or its imported parts, generally whichever is lower.

customs territory, foreign parts entering a FTZ to be used in the assembly of a completed product (e.g., motorcycles) are not assessed U.S. duties until the product is imported. A FTZ user can elect to pay duties based on the rate applicable either to the parts (by declaring the merchandise to be "privileged" prior to manufacture) or to the completed product when it is imported from the FTZ. 1/ When the duty applicable to the completed product is lower than the duty applicable to the parts, a FTZ user may realize certain savings by not electing to declare its foreign parts as "privileged" (with the declaration of "privileged" status, the FTZ user would pay the higher rate applicable to the parts), but to let the parts remain "nonprivileged," use them in the manufacture of a completed product, and then "import" the completed product and pay the relatively low duty rate applicable to that product. * * * because the U.S. Customs Service, at the direction of the USTR, has considered the motorcycles produced in FTZs to be subject to the higher tariff-rate quota duty rates on completed motorcycles. 2/ Owing to the position taken by Customs and the USTR, * * *

Nature and Extent of Import Relief

On April 15, 1983, the President of the United States, by Proclamation 5050, imposed temporary duty increases in the form of tariff-rate quotas, and suspended GSP treatment, on the importation into the United States of certain

1/ Foreign merchandise (goods of foreign origin that have not been released from Customs custody within the customs territory) in an FTZ may have either "privileged" or "nonprivileged" status. If such articles have not been manipulated or manufactured so as to effect a change in tariff classification (19 CFR 146.21), an application may be made to the district director of Customs to treat the goods as privileged. If the application is accepted, the goods are classified and appraised according to their condition and quantity on the date of filing, though the duties need not be paid until entry into the customs territory. Other foreign merchandise is afforded nonprivileged status and duties are payable at entry into the customs territory in the condition and quantity imported. The choice of declaring privilege can result in a significant difference in applicable customs duties, particularly if duty rates are about to change or if duty rates for parts are significantly different from those on finished articles. Bookkeeping and other administrative costs would be included in the analysis of whether or not to make such a declaration. None of these concerns would be relevant to parts or articles intended to be exported outside the FTZ and not entered into the customs territory.

2/ A copy of the USTR letter directing the Customs Service to consider the motorcycles produced in FTZs to be subject to the higher tariff-rate quota duty rates on completed motorcycles is presented in app. E. Customs' regulations ordinarily require the imposition of the higher tariff-rate quota duty (see 19 CFR 146.21(c)(3)(iv)) on merchandise subject to tariff-rate quotas.

heavyweight motorcycles. ^{1/} The imposition of these measures followed an affirmative finding by the Commission in investigation No. TA-201-47. The Presidential proclamation provided that the additional duties on heavyweight motorcycles shall be assessed on each heavyweight motorcycle imported in excess of the number of heavyweight motorcycles provided for in each of the following countries in any year from April 16 to April 15, inclusive, as set forth in headnote 9, part 2A of the appendix to the TSUS and in the following tabulation:

<u>Restraint period</u>	<u>West Germany</u>		<u>Japan</u>		<u>All other foreign countries</u>	
	<u>Tariff-rate quota</u>	<u>Actual imports</u>	<u>Tariff-rate quota</u>	<u>Actual imports</u>	<u>Tariff-rate quota</u>	<u>Actual imports</u>
Apr. 16, 1983, through Apr. 15, 1984.....	5,000	^{1/} 3,658	6,000	^{1/} 15,145	4,000	^{1/} 771
Apr. 16, 1984, through Apr. 15, 1985.....	6,000	^{1/} 5,803	7,000	^{2/} 30,265	5,000	^{1/} 627
Apr. 16, 1985, through Apr. 15, 1986.....	7,000	^{2/} 5,603	8,000	^{1/} 36,304	6,000	^{1/} 2,535
Apr. 16, 1986, through Apr. 15, 1987.....	8,500	^{1/} 3,959	9,000	^{1/} 26,051	7,000	^{1/} 374
Apr. 16, 1987, through Apr. 15, 1988.....	10,000	^{3/} 10,000		^{3/} 8,000		^{3/}

^{1/} Data provided by the U.S. Customs Service.

^{2/} Estimated by the U.S. International Trade Commission.

^{3/} Not applicable.

The proclamation provided further that the additional duties to be assessed on each heavyweight motorcycle imported in excess of the number of heavyweight motorcycles provided for in the quotas would be 45 percent ad valorem as of April 16, 1983; 35 percent ad valorem as of April 16, 1984; 20 percent ad valorem as of April 16, 1985; 15 percent ad valorem as of April 16, 1986; and 10 percent ad valorem from April 16, 1987, through April 15, 1988.

The Domestic Market

U.S. producers

There are currently three firms that produce heavyweight motorcycles in the United States: Harley-Davidson, Inc., Milwaukee, WI; Honda of America Manufacturing, Inc., Marysville, OH; and Kawasaki Motors Manufacturing Corp., U.S.A., Lincoln, NE. Each of the three firms produces only heavyweight

^{1/} A copy of Presidential Proclamation 5050 is presented in app. A.

motorcycles. The last U.S.-owned heavyweight motorcycle producer to cease production in the United States was Indian Motorcycle Co. in the early 1950's. The current three producers' shares of domestic production of heavyweight motorcycles during the period covered by the investigation are presented in the following tabulation (in percent):

* * * * *

Harley-Davidson, Inc. -- From 1903 to 1969, Harley-Davidson Motor Co. was an independent company operated principally by its founders and their families. In 1969, Harley-Davidson merged with AMF, Inc., a large corporation involved in energy services and products, specialty materials, electronic controls and systems, and a wide range of leisure products. The merger with AMF provided additional capital to Harley-Davidson that was utilized for additional growth and research and development (R&D). In February 1981, a group of Harley-Davidson and AMF executives signed a letter of intent to purchase the Harley-Davidson operations from AMF. Harley-Davidson, Inc., was incorporated in Delaware in April 1981, and the management buy out occurred in June 1981, returning the company to private ownership.

In July 1986, Harley-Davidson made an initial public offering of 2 million shares of common stock and a concurrent offering of \$70 million (principal amount) of subordinated notes due in 1996. Harley-Davidson stated in its March 20, 1987, petition to the Commission that proceeds of the July 1986 offerings, among other things, enabled it to eliminate its fixed asset-based debt structure in existence since 1981; gave it significantly more flexibility in its business decisions; and permitted it to fund capital expenditures and working needs. In May 1987, Harley-Davidson filed with the Securities and Exchange Commission for a public offering of 2 million additional shares of common stock.

In December 1986, Harley-Davidson acquired Holiday Rambler Corp., a major producer of recreational vehicles and specialized commercial vehicles. In its petition, Harley-Davidson stated that this acquisition nearly doubled Harley-Davidson's revenues, greatly diversifying its earnings base, and will allow it to ensure the further strengthening of its competitive position in the motorcycle marketplace.

Harley-Davidson has three production facilities located in Milwaukee, WI; Tomahawk, WI; and York, PA. In addition to its production facilities, Harley-Davidson has a parts distribution center and headquarters in Milwaukee and an international division located in Danbury, CT.

The Tomahawk facility produces such fiberglass parts as fairings, luggage compartments, sidecar bodies, and saddlebags, as well as some other minor parts used in the assembly of motorcycles. Most of the major fiberglass parts produced at the Tomahawk plant are used on Harley-Davidson's FL series and on its touring models in the FX series.

The Milwaukee engine plant is basically a machine shop and engine/transmission assembly facility. Harley-Davidson purchases castings and forgings, which are then machined at the Milwaukee plant for assembly into the engine and transmission. In addition, some finished parts are purchased from outside suppliers, * * *. Both a four-speed and five-speed transmission are produced at this facility, and three production engines (883cc, 1,100cc, and 1,340cc) are produced in this plant.

The assembled engines and transmissions are shipped to the York plant, where they are incorporated into the various Harley-Davidson models. Assembly of the completed motorcycles is performed in the York facility. The gas tanks for the motorcycle are stamped and welded at York, and virtually all the painting is done there. Currently, there are no robots in use at York, * * *. 1/ On the assembly line, the models are mixed as they are assembled; that is, a police motorcycle may be first, a "dresser" next, and a custom motorcycle may follow.

Harley-Davidson has implemented a comprehensive adjustment program, focusing on new product development, improved productivity, cost reductions, innovative marketing techniques, and improvement of product quality.

Harley-Davidson imports certain motorcycle parts, such as * * *, because of price and because U.S. producers are not willing to produce these parts owing to limited production runs.

In addition to heavyweight motorcycles, Harley-Davidson manufactures products for the defense industry, i.e., 500-pound-practice-bomb casings and computer wiring harnesses at the York facility and liquid fuel rocket engines for target drone aircraft at the Milwaukee facility. 2/ * * *.

Honda of America Manufacturing, Inc. -- Honda of America Manufacturing, Inc. (Honda), Marysville, OH, a wholly owned subsidiary of Honda Motor Co., Ltd., Tokyo, Japan, began U.S. production of motorcycles in 1979 in its new motorcycle plant in Marysville. Approximately \$45 million has been invested in the Marysville plant to date, including a \$10 million investment in 1986. Operations performed in the plant include frame manufacture, welding (including robotic welding), plastic injection molding, painting, assembly, testing, quality assurance, packing, and shipping. Among the specific operations performed in Marysville are (1) the manufacture of motorcycle frames from raw pipe sections, extensive welding operations (utilizing both robotic welding machines and hand and machine welding), and machining on fine boring machines; (2) production of metal parts, including rear forks, muffler assemblies, and fuel tanks; (3) production of all major plastic parts on a large 2,200 ton plastic injection molding machine; (4) a sophisticated paint shop operation

1/ However, a Harley-Davidson official stated to two members of the Commission staff on Apr. 24, 1987, that a * * *.

2/ Harley-Davidson also produced complete golf carts and engines for golf carts until 1982, when its golf cart business was sold.

for metal parts and plastic parts; and (5) extensive subassembly operations to produce such items as wheel subassemblies and rear fork subassemblies.

Honda has also constructed a new plant in Anna, OH (about 40 miles from Marysville), for the production of motorcycle and automobile engines. Production of motorcycle engines, all for Honda's top-of-the-line Gold Wing motorcycle, commenced in July 1985. In January 1987, Honda announced a further \$450 million investment to expand its engine plant to include full-scale production of motorcycle and automobile engines and related components. The existing facility will be expanded in phases from the current 242,000 square feet to an estimated 570,000 square feet. A new iron casting facility will be constructed to house casting and forging operations. The expansion will reportedly permit Honda to manufacture or source in the United States a range of motorcycle and automobile engine parts, including the engine block and cylinder head, the crankshaft, the camshaft, and the transmission.

Honda's Mexican subsidiary has constructed a new facility for the production of motorcycles in the State of Jalisco, near Guadalajara. The plant is scheduled to produce large motorcycles for the Mexican market beginning in 1987, and smaller motorcycles will reportedly be produced in subsequent years.

Kawasaki Motors Manufacturing Corp., U.S.A. -- Kawasaki Motors Manufacturing Corp., U.S.A. (Kawasaki), a wholly owned subsidiary of Kawasaki Heavy Industries, Ltd. (based in Japan), began U.S. production of motorcycles in 1975 in Lincoln, NE. Kawasaki's motorcycles are distributed/sold by a separate organization, Kawasaki Motors Corp., U.S.A.

The Kawasaki plant in Lincoln produces jet skis and four-wheel all-terrain vehicles (ATVs) as well as heavyweight motorcycles, but on different assembly lines than that for motorcycles. Increasing demand for jet skis and ATVs has led to * * * of the plant's output. On heavyweight motorcycles, the plant performs welding, painting, and final assembly operations.

All of the heavyweight motorcycles produced in the United States use both U.S.-manufactured parts and parts manufactured abroad. The precise percentage of U.S. content differs from model to model, and even the same model of heavyweight motorcycle produced in the United States may have a different percentage of U.S. content, depending upon each production run. In order to develop comparative information on U.S. content, the Commission requested Harley-Davidson, Honda, and Kawasaki to provide information on their purchases of U.S.-made and imported raw materials and supplies used in the production of motorcycles in the United States, on direct labor compensation, and on other costs incurred in such production.

Data obtained in the section 201 investigation on heavyweight motorcycles 4 years ago indicated that the production of a Harley-Davidson motorcycle utilized a greater percentage of U.S.-made components and U.S. labor than either Honda or Kawasaki. U.S. content represented over *** percent of Harley-Davidson's cost of producing motorcycles during January-September 1982, but only *** and *** percent of Honda's and Kawasaki's respective costs.

In the current investigation, Harley-Davidson provided information indicating that the U.S. content of its production of heavyweight motorcycles in 1986 was *** percent, as shown in the following tabulation:

* * * * *

Harley-Davidson also indicated that the types of articles imported and the percentage of U.S. content * * *.

Data provided by Honda and Kawasaki in the current investigation are presented in table 1. Honda's U.S. content * * *. Honda has stated that it is pursuing a commitment to sourcing of parts and raw material in the United States, and it is continuing its efforts to develop long-term relationships with U.S. suppliers, while encouraging suppliers to develop manufacturing technology and improved quality. Honda officials stated their intent to achieve approximately *** percent U.S. content in their motorcycle production by ***. For its 1988 Gold Wing model, Honda is adding more than 100 domestically-sourced new parts. One problem that Honda has reportedly faced has been that the tooling costs for vendors are high, given the small volume of motorcycles produced; however, vendors providing parts for Honda's motorcycles may also be able to provide parts for Honda's automobiles produced in Marysville, and vice versa. Another problem is that many U.S. suppliers still do not produce parts on the metric system. The principal parts and components imported by Honda in 1986 were * * *. Since 1985, Honda has produced motorcycle engines in the United States.

Table 1
Heavyweight motorcycles: Honda's and Kawasaki's U.S. and foreign content of the cost of motorcycles manufactured in the United States, 1982-86

* * * * *

Kawasaki's U.S. content * * *. Kawasaki stated that the degree of subassembly work done in Japan will * * *. * * * its U.S. purchases of parts and components, * * *, but the high tooling costs for vendors (given the limited production runs for motorcycles) often make such purchases difficult.

Another measure of U.S. content is one based on the total sales value of a motorcycle rather than production costs. Such a measure would include profit as well as marketing and overhead costs incurred in selling the motorcycles to a dealer. Data gathered 4 years ago on the U.S. content of motorcycles produced in the United States as a percentage of total sales value was significantly higher for Honda and Kawasaki than U.S. content measured on the basis of the cost of goods manufactured.

U.S. importers

Five U.S. importers accounted for virtually all the heavyweight motorcycles imported into the United States during the period covered by this

investigation, based on information provided by the U.S. Customs Service. The five importers, the country of origin of the imported motorcycles, and each importer's share of the quantity of heavyweight motorcycles imported into the United States, based on data submitted in response to Commission questionnaires, are presented in the following tabulation (in percent):

* * * * * * *

Following the imposition of the tariff-rate quotas in 1983, Honda and Kawasaki * * *. This development is reflected in the * * *.

Channels of distribution

Harley-Davidson ships its completed motorcycles from its York, PA, production plant directly to dealers, whereas Honda and Kawasaki motorcycles are distributed through sales organizations which are subsidiaries of their Japanese parent firms. ^{1/} U.S. production is shipped to regional warehouses by both Honda and Kawasaki. All Japanese-built motorcycles are imported by subsidiaries of the parent firms, then shipped to regional warehouses for distribution. BMW (West Germany) imports its motorcycles through its U.S. subsidiary.

Apparent U.S. consumption

The data on apparent U.S. consumption of heavyweight motorcycles presented in table 2 are composed of reported U.S. producers' domestic shipments plus reported U.S. importers' shipments of heavyweight motorcycles. On the basis of the data appearing in table 2, the quantity of apparent U.S. consumption of heavyweight motorcycles decreased by 11.2 percent in 1983, by 13.2 percent in 1984, by 16.0 percent in 1985, and by 23.8 percent in 1986; the decrease between 1982 and 1986 was 50.7 percent. The quantity of apparent consumption during January-March 1987 was 13.1 percent below the quantity of apparent U.S. consumption in the corresponding period of 1986. The value of apparent U.S. consumption of heavyweight motorcycles decreased by 1.2 percent in 1983, by 5.1 percent in 1984, by 13.3 percent in 1985, and by 8.1 percent in 1986; the decrease between 1982 and 1986 was 25.3 percent. The value of apparent consumption during January-March 1987 was 6.9 percent below the value of apparent U.S. consumption in the corresponding period of 1986.

A number of factors have contributed to the significant decline in consumption of heavyweight motorcycles during 1982-86. According to officials at the Motorcycle Industry Council, Inc., and Honda of America Mfg., Inc., R&D costs incurred by manufacturers in an effort to attract new customers with state-of-the-art technology, the tariffs imposed on motorcycles over 700cc beginning in 1983, and the depreciation of the dollar relative to the yen have increased the price of heavyweight motorcycles. In addition, insurance rates have become more expensive since 1983. By raising the cost to consumers to levels that are on par with some automobiles, these developments have

^{1/} Kawasaki also has one independent distributor located in the Rocky Mountain area.

Table 2

Heavyweight motorcycles: Apparent U.S. consumption, by engine sizes, 1982-86, January-March 1986, and January-March 1987

Engine size	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
Quantity (units)							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	120,819	131,215	96,852	82,463	29,074	28,622
Total.....	235,734	209,305	181,632	152,610	116,301	41,591	36,128
Value (1,000 dollars)							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	475,964	543,679	450,171	425,169	140,274	140,273
Total.....	710,386	701,736	665,834	577,397	530,470	180,052	167,642

1/ Data for 1982 not available by engine size.

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

diminished much of the price advantage that motorcycles once held over automobiles. The purchase of a heavyweight motorcycle has thus become a serious investment, available to an older, wealthier, and thus more limited market. At the same time, the decreasing population of 20- to 30- year-olds has begun to limit the general pool of motorcycle owners that often develop into purchasers of the more expensive, heavyweight products. Finally, the fall in the price of gasoline has lessened what was once an incentive to choose motorcycle over 4-wheel vehicle transportation.

Condition of the U.S. Industry

The data presented in this section for calendar years 1983-86 and for January-March of 1986 and 1987 have been obtained in response to the Commission's quarterly and annual questionnaires sent to the three domestic producers of heavyweight motorcycles as part of the Commission's monitoring of the domestic industry pursuant to Presidential Proclamation 5050 of April 15, 1983. The data for calendar year 1982 were obtained from Commission questionnaires and from the report to the Commission on investigation No. TA-201-47, Heavyweight Motorcycles and Engines and Power Train Subassemblies Therefor. The data presented in this section represent 100-percent coverage of the U.S. industry producing heavyweight motorcycles.

U.S. production

Total U.S. production of heavyweight motorcycles fluctuated between 1982 and 1986, rising 42.4 percent from 1982 to 1984, then falling 33.5 percent in the subsequent 2 years for an overall decline during 1982-86 of 5.3 percent (table 3). Production during January-March 1987 decreased by 6.2 percent compared with the level of production in the corresponding period of 1986.

Honda * * *. In 1986, Honda * * * and Harley-Davidson * * *.

Table 3

Heavyweight motorcycles: U.S. production, by firms and by engine sizes, 1982-86, January-March 1986, and January-March 1987

Item	(In units)					Jan.-Mar--	
	1982	1983	1984	1985	1986	1986	1987
Harley-Davidson:							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Honda:							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Total:							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	85,125	83,810	121,189	104,250	80,572	23,627	22,153

1/ Data for 1982 not available by engine size.

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

Heavyweight motorcycles with an engine displacement of over 970cc accounted for *** percent of all production of heavyweight motorcycles in 1986 and Harley-Davidson and Honda accounted for over *** percent of all output in this size category. Between 1983 and 1986, production of heavyweight motorcycles over 970cc declined a total of *** percent. * * *.

U.S. capacity and capacity utilization

U.S. capacity to produce heavyweight motorcycles remained fairly constant between 1982 and 1986, decreasing by only 750 units (table 4). This decrease can be attributed to * * *. 1/ * * *.

Table 4

Heavyweight motorcycles: U.S. production, production capacity, and capacity utilization, by firms, 1982-86 1/

Firm	1982	1983	1984	1985	1986
	<u>Production (units)</u>				
Harley-Davidson.....	***	***	***	***	***
Honda.....	***	***	***	***	***
Kawasaki.....	***	***	***	***	***
Total.....	85,125	83,810	121,189	104,250	80,572
	<u>Capacity (units)</u>				
Harley-Davidson.....	***	***	***	***	***
Honda.....	***	***	***	***	***
Kawasaki.....	***	***	***	***	***
Total.....	184,000	183,750	183,750	183,000	183,250
	<u>Capacity utilization (percent)</u>				
Harley-Davidson.....	***	***	***	***	***
Honda.....	***	***	***	***	***
Kawasaki.....	***	***	***	***	***
Average.....	46.3	45.6	66.0	57.0	44.0

1/ Capacity data were not collected on a quarterly basis.

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

Because capacity remained relatively constant at each of the three U.S. producers, industry-wide capacity utilization figures followed production trends, reaching a high in 1984 and then decreasing by one-third between 1984 and 1986. Honda * * *. Harley-Davidson's capacity utilization * * *.

1/ * * *.

U.S. producers' domestic shipments

U.S. producers' domestic shipments of heavyweight motorcycles reached a peak in 1984 (table 5). By 1986, they fell back to 1982-83 levels for a total 1982-86 increase of 1.8 percent in volume and 38.0 percent in value. U.S. producers' domestic shipments during January-March 1987 increased by 5.4 percent in quantity and by 4.5 percent in value compared with the levels of shipments in the corresponding period of 1986.

Table 5

Heavyweight motorcycles: U.S. producers' domestic shipments, by firms and by engine sizes, 1982-86, January-March 1986, and January-March 1987

Item	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
<u>Quantity (units)</u>							
Harley-Davidson:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Honda:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Total, all producers:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Grand total.....	71,682	70,680	102,140	80,965	72,995	20,902	22,029

See footnote at end of table.

Table 5
 Heavyweight motorcycles: U.S. producers' domestic shipments, by firms and by engine sizes, 1982-86, January-March 1986, and January-March 1987--Continued

Item	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
	Value (1,000 dollars)						
Harley-Davidson:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Honda:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Total, all producers:							
Over 700cc but not over 790cc.....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Grand total.....	257,990	292,039	423,756	348,620	356,135	95,780	100,058

See footnote at end of table.

Table 5
Heavyweight motorcycles: U.S. producers' domestic shipments, by firms and by engine sizes, 1982-86, January-March 1986, and January-March 1987--Continued

Item	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
	Unit value						
Harley-Davidson:							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	***	***	***	***	***	***	***
Honda:							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	***	***	***	***	***	***	***
Total, all producers:							
Over 700cc but not over 790cc.....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc.....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	3,599	4,132	4,149	4,306	4,879	4,582	4,542

1/ Data for 1982 not available by engine size.

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

As with production, * * *. In 1986, Harley-Davidson * * *.

The ratio of total domestic shipments to consumption doubled between 1982 and 1986 (table 6). Although all three domestic producers * * *. In 1986, * * *. In January-March 1987, the ratio of shipments to consumption increased by 21.3 percent over the corresponding period in 1986.

Table 6

Heavyweight motorcycles: U.S. producers' domestic shipments, by firms, 1982-86, January-March 1986, and January-March 1987.

Firm	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
U.S. producers' domestic shipments (units)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	71,682	70,680	102,140	80,965	72,995	20,902	22,029
Ratio of U.S. producers' domestic shipments to consumption (percent)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	30.4	33.8	56.2	53.1	62.8	50.3	61.0

Note.--Because of rounding, figures may not add to the totals shown.

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

U.S. exports

U.S. exports of heavyweight motorcycles * * * from 1982 to 1986 (table 7). U.S. exports of heavyweight motorcycles in January-March 1987 * * * compared with the level of exports in the corresponding period of 1986. Principal export markets for the U.S. producers include * * *. During the period covered by the investigation, most of the exports were of motorcycles with an engine displacement over 970cc.

U.S. producers' inventories

U.S. producers' inventories as of December 31, 1986, * * * from the level of inventories as of December 31, 1982 (table 8). U.S. producers' inventories as of March 31, 1987, decreased by 23.2 percent from the level of inventories on March 31, 1986. * * *.

Inventories at the dealer level * * * (table 9). * * *. * * *.

Table 7

Heavyweight motorcycles: U.S. exports, by firms, 1982-86, January-March 1986, and January-March 1987

Item	1982	1983	1984	1985	1986	January-March--	
						1986	1987
Quantity (units)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Value (1,000 dollars)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Unit value							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Average.....	3,448	4,048	4,271	4,483	5,108	4,615	5,220

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

Table 8

Heavyweight motorcycles: U.S. producers' end-of-period inventories, by firms and by engine sizes, Dec. 31 of 1982-86, Mar. 31 of 1986, and Mar. 31 of 1987

* * * * *

Table 9

Heavyweight motorcycles: Dealers' end-of-period inventories of U.S.-produced motorcycles, by brands and by engine sizes, Dec. 31 of 1982-86, Mar. 31 of 1986, and Mar. 31 of 1987

* * * * *

U.S. employment

The total number of persons employed by the three U.S. producers declined by 7.3 percent during 1982-86 (table 10). Employment of production and related workers dropped by *** percent during the same period. Total employment and employment of production and related workers during January-March 1987 decreased by *** percent and *** percent, respectively, from the level of production in the corresponding period of 1986.

The total hours worked by production workers decreased by *** percent over the 5-year period. Hours worked during January-March 1987 decreased by *** percent from the number of hours worked in the corresponding period of 1986.

Total wages and average hourly wages paid to U.S. production and related workers fluctuated between 1982 and 1986, increasing a total of *** percent and *** percent, respectively, during 1982-86. Wages paid during January-March 1987 decreased by *** percent from those in the corresponding period of 1986. The average hourly wages increased by *** percent from January-March 1986 to January-March 1987. 1/

Productivity (output in units per 1,000 hours worked) of production and related workers producing heavyweight motorcycles fluctuated between a low of 19.7 units in 1983 to a high of 26.0 units in 1984. Productivity in 1986 was below the 1984 and 1985 levels, but above 1982 and 1983 levels. Productivity during January-March 1987 increased by 5.0 percent compared with the level in the corresponding period of 1986. The productivity of Honda and Kawasaki is * * *. Harley-Davidson's productivity * * *.

Harley-Davidson's production and related workers belong to the Allied Industrial Workers and the International Association of Machinists unions. Honda's and Kawasaki's production and related workers are not unionized.

1/ * * *.

Table 10

Heavyweight motorcycles: Average number of employees in the reporting establishments, average number of production and related workers producing heavyweight motorcycles, hours worked by, wages paid to, average hourly wages of, and output per 1,000 hours worked by such production and related workers, by firms, 1982-86, January-March 1986, and January-March 1987

Item	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
All persons							
Harley-Davidson.....	1/	***	***	***	***	***	***
Honda.....	1/	***	***	***	***	***	***
Kawasaki.....	1/	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Production and related workers							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Hours worked (1,000 hours)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Wages paid (1,000 dollars)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	2/***
Kawasaki.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Average hourly wages							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	2/***
Kawasaki.....	***	***	***	***	***	***	***
Average.....	11.28	12.37	11.78	12.60	13.23	13.14	14.03
Output per 1,000 hours (units)							
Harley-Davidson.....	***	***	***	***	***	***	***
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Average.....	20.0	19.7	26.0	25.9	20.6	23.9	25.1

1/ Data on all persons by firm for 1982 are not available.

2/ Wages paid consist of wages plus such additional items as "bonus sharing plan" expenses, vacation/holiday allowances, and attendance bonuses.

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

Financial experience of U.S. producers

The financial indices of net sales, gross profit, operating income (or loss), and net income-before-taxes indicate that 1984 was the best year for the U.S. industry and 1982 the worst (table 11).

Table 11
Heavyweight motorcycles: Income-and-loss experience of U.S. producers on their operations producing such motorcycles, by firms, 1982-86

Item	1982	1983	1984	1985	1986
Net sales:					
Harley-Davidson...1,000 dollars..	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
Cost of goods sold:					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
Gross profit or (loss):					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
General, selling, and administrative expenses:					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
Operating income or (loss):					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
Other income or (expense):					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***
Net income or (loss) before taxes:					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Total.....do.....	***	***	***	***	***

Table continued on following page.

Table 11

Heavyweight motorcycles: Income-and-loss experience of U.S. producers on their operations producing such motorcycles, by firms, 1982-86--Continued

Item	1982	1983	1984	1985	1986
Ratio to net sales of--					
Cost of goods sold:					
Harley-Davidson.....percent..	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Weighted average.....do.....	***	***	***	***	***
Gross profit or (loss):					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Weighted average.....do.....	***	***	***	***	***
General, selling, and administrative expenses:					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Weighted average.....do.....	***	***	***	***	***
Operating income or (loss):					
Harley-Davidson.....do.....	***	***	***	***	1/
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Weighted average.....do.....	(0.6)	1.2	1.5	(0.2)	(0.6)
Net income or (loss) before taxes:					
Harley-Davidson.....do.....	***	***	***	***	***
Honda.....do.....	***	***	***	***	***
Kawasaki.....do.....	***	***	***	***	***
Weighted average.....do.....	(6.0)	(2.4)	(1.2)	(2.9)	(3.2)

1/ * * *

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

Because the industry was * * *, 1/ * * * indicated that there have been substantial reductions in manufacturing costs by implementing programs such as redesign of facilities for more efficient production, and use of "just-in-time" inventory procedures to reduce inventory costs. * * *. Additionally, * * * indicated that the company's * * *.

Harley-Davidson's * * *. Harley-Davidson's * * *. With regard to Kawasaki, a Kawasaki official stated that Kawasaki Motors Manufacturing Corp., U.S.A. is * * *. 2/

1/ Conversation between * * * and Marshall Wade of the Commission's Office of Investigations during the week of Apr. 5, 1987.

2/ Conversation between * * * and Marshall Wade during the week of Apr. 19, 1987.

Harley-Davidson * * * has been profitable since 1983 in its overall operations and in its "motorcycle and related products" operations. ^{1/} Its defense-related operations, which during 1983-86 accounted for between 10.5 percent (in 1983) and 19.5 percent (in 1985) of Harley-Davidson's aggregate net sales, contributed to the firm's overall profitability during 1983-86.

Harley-Davidson's motorcycle and related products operations have been * * *, which consist of three categories: (1) parts and accessories (replacement parts, mechanical accessories, rider accessories, and consumer items sold through Harley-Davidson dealers), (2) licensing of its trademark for a broad range of consumer items, and (3) revenues from its "Harley Owners Group" (HOG) clubs. According to data provided by Harley-Davidson, the three related product categories as a group registered * * *. The * * *, as shown in the following tabulation:

* * * * *

In a May 4, 1987, press release, Harley-Davidson announced record sales and earnings for its first quarter that ended March 29, 1987. The sales and earnings included for the first time the results of its Holiday Rambler subsidiary. With regard to its motorcycle business, Harley-Davidson announced orders for "substantially all" of its planned production of heavyweight motorcycles for the model year ending July 31, 1987. Harley-Davidson stated that its market share and profitability in the motorcycle business will continue to improve for the balance of 1987.

In its July 1986 initial public offering, Harley-Davidson sold 2 million shares of common stock at an initial price of \$11.00 per share. Harley-Davidson's common stock is traded on the American Stock Exchange. The range of market prices for Harley-Davidson's common stock since the initial public offering is shown in the following tabulation:

<u>Period</u>	<u>High</u>	<u>Low</u>
1986:		
July-September ^{1/}	\$13-7/8	\$7-1/4
October-December.....	10-7/8	7-1/4
1987:		
January-March.....	14-3/8	9-3/4
April-May ^{2/}	18-3/4	12-7/8

^{1/} Commencing July 15, 1986.

^{2/} Through May 7, 1987.

The closing price of Harley-Davidson's common stock on June 9, 1987, was \$17-1/8 per share.

^{1/} Selected financial data and other information on Harley-Davidson from its annual report for 1986 are presented in app. F.

U.S. producers' capital expenditures for buildings, machinery, and equipment used in the production of heavyweight motorcycles are shown in the following tabulation (in thousands of dollars):

* * * * *

Efforts of U.S. Producers to Adjust
to Import Competition

Actions taken by the three U.S. producers of heavyweight motorcycles in order to compete more effectively with both domestic and import competition are identified below. The actions were reported by the producers in response to the annual surveys conducted by the Commission pursuant to Presidential Proclamation 5050. In the annual surveys, each producer was requested to provide details of (1) all adjustments that were made during the year to increase its competitive position in the U.S. market, (2) the measurable effects the adjustments had on its competitive position in the U.S. market, and (3) what additional adjustments were planned that would permit the producer to compete more effectively with imports. The information provided in annual surveys has been supplemented by information developed by the Commission staff during field trips to U.S. producing establishments.

Harley-Davidson

The adjustments made by Harley-Davidson during the past 4 years fall under the following descriptive categories: 1/ (1) new technology and product development; (2) improved manufacturing methods, productivity, and quality; (3) employee involvement; (4) marketing; and (5) financial developments. Discussions with officials at the York facility indicate that the adjustment program would have been put into effect even without the President's import relief program, but that it is the President's program that has "bought the time" for Harley-Davidson's comprehensive adjustment program to be a success. 2/

1/ The descriptive categories and portions of the ensuing discussion are based on material appearing in Harley-Davidson's brief presented to the Office of the USTR, May 21, 1986.

2/ Nevertheless, Harley-Davidson's July 1986 prospectus on the sale of its 12-1/2 percent subordinated notes stated that ". . . the benefits to the Company from the special tariff have been limited . . . Two Japanese competitors have plants in the United States, to which they ship engines, transmissions and other major components from Japan for assembly, thus avoiding the special tariff. In addition, Japanese manufacturers also avoided these special tariffs by replacing many 750cc models with products having engine displacements of 690-699cc. Retail prices of prior year models manufactured by the Company's competitors have generally been sharply reduced to sell off excess inventory."

New technology and product development.--Harley-Davidson has reportedly improved and redesigned virtually every component of its motorcycles since 1980. Innovations reportedly introduced by Harley-Davidson include the first all-computer ignition system in the industry, an advanced power train vibration-isolation system, and what has been recognized as the only true anti-dive front suspension in the industry.

Harley-Davidson's principal achievement in new technology and product development in recent years has been the development of its "Evolution" engine. The Evolution engine is basically a much-improved version of Harley-Davidson's V-Twin engine. In general, the Evolution program, in which Harley-Davidson invested over *** million in redesign and improvement of the V-Twin engine, successfully resulted in the development of an engine with increased power, improved fuel economy and reliability, and lowered emission and noise levels. The Evolution engine has received highly favorable comments in trade literature. 1/ Although much of the development of the Evolution engine predates the imposition of import relief that began in April 1983, the Evolution engine became fully operational and was installed in all of Harley-Davidson's motorcycles during the past 4 years.

As a result of the technological progress achieved in its Evolution engine program, Harley introduced a new motorcycle (the XLH Sportster 883) in the 1986 model year. The XLH Sportster 883 competes with imported motorcycles in the lower end of the heavyweight motorcycle market, and has received favorable reviews in the trade press.

One reason for various technological advances in Harley's product development has been the installation in 1983 of a Computer-Aided Design/Computer-Aided Manufacturing (CAD/CAM) system. The three-dimensional CAD/CAM system has reportedly resulted in a * * * improvement in productivity in Harley's more complex designs. Harley plans to * * *, with concomitant cost savings.

Improved manufacturing methods, productivity, and quality.--Harley-Davidson instituted a materials-as needed (MAN) program in 1981, and has continued to implement the system in all its operations. The MAN system, based in part on a system of "in bins" and "out bins" at various work stations, utilizes "just in time" principles to ensure that material is obtained only when needed, thus cutting down substantially on inventory of parts and inventory costs. The MAN system encompasses flow processing, consistent daily production, reduction in setup time, and employee involvement. MAN also reduces inventory costs by requiring suppliers to provide products with virtually no defects to Harley-Davidson's production line at specified times. In this way, Harley-Davidson is able to minimize inventory and inventory carrying charges, and is able to increase product reliability.

Another major development in the areas of improved manufacturing methods, productivity, and quality, was the introduction by Harley-Davidson in 1983 of a quality control system entitled "Statistical Process Control," which allows machine operators to check their work using statistical techniques to ensure that their output meets required specifications; the program was designed to eliminate some scrappage and increase productivity. The States of Pennsylvania

1/ "Evolution Technical Analysis," Cycle magazine, November 1983.

and Wisconsin contributed over \$250,000 in 1984 from their vocational training funds to train Harley-Davidson employees in Statistical Process Control procedures.

Harley-Davidson has also instituted its so-called jelly bean assembly line system in which different models of motorcycles are assembled in random order; that is, a police motorcycle may be first, a dresser next, and another type of motorcycle may follow. Harley-Davidson has found that the jelly-bean system has resulted in improvements in productivity and quality because it requires the same amount of workers on the production line at all times and enables all workers to gain experience working on each model.

Other improvements instituted by Harley-Davidson include a unique powder paint system for motorcycle frames in its York facility, whereby an electrostatic process bonds the paint to frames; a laser-powered sheet metal trimmer for the York facility; and the introduction of computerized numerical control machines and of an automated gear line in its Milwaukee facility.

Harley-Davidson has worked with its suppliers to teach and strongly encourage them to use MAN-type inventory systems, statistical process control, and employee involvement in order to cut costs and increase productivity. Harley-Davidson also has identified a number of components that can be produced more cheaply "in-house" rather than by suppliers, and has increased its production of such parts.

Employee involvement.--Harley-Davidson has also brought about a number of changes in employee involvement, such as the establishment of voluntary "quality circles" of employees that meet periodically to exchange ideas and solve problems. Quality circles are considered an integral part of the MAN system and are instrumental in increasing worker productivity and output quality, as well as worker morale. In addition, Harley-Davidson has instituted employee "work cells" to combine functions and solve problems in specific production areas. Harley-Davidson's employees have also assisted in its cost reduction efforts by accepting wage restraints, cost-of-living restraints, and fringe benefit concessions.

As a result of the improvements made in quality, cost cutting, and productivity, Harley-Davidson claims to have made substantial progress since 1981 in decreasing the number of defects per motorcycle (by *** percent), increasing the number of defect-free motorcycles (by *** percent), and reducing warranty costs (by *** percent), product recall costs, and product liability costs. Ninety-nine percent of the motorcycles coming off Harley-Davidson's assembly line are now reportedly defect free, compared with about 50 percent in 1981. Harley-Davidson also claims to have increased employee productivity by *** percent, to have increased raw material and work-in-progress inventory turnover by *** percent, and to have reduced scrap and rework costs by *** percent, or by over *** per motorcycle.

Marketing.--Harley-Davidson introduced two major marketing initiatives in 1983: (1) a demonstration ride program whereby demonstration rides would be offered to all motorcycle riders at its dealerships, and (2) a national retail finance program (effective January 1984) whereby Ford Motor Credit agreed to provide retail financing directly through Harley-Davidson's dealer network. Within the past year, Harley-Davidson has established a second retail finance program, through Lyons Capital Resources, Inc., to provide retail financing to

Harley-Davidson customers throughout the United States. During the past several years, Harley-Davidson has also formed the Harley Owners Group (HOG), which now has 70,000 members (the world's largest motorcycle group), and has attempted to further its public visibility by offering a broad line of apparel and accessories with the Harley-Davidson name and logo.

Harley-Davidson attempts to maintain a * * *. Harley-Davidson coordinates its demand and production through flexible 3-month forecasts.

Financial developments.--In 1985, Harley-Davidson restructured its debt, replacing an initial loan package that had been in place since the company returned to private ownership in June 1981. The debt refinancing involved a \$10 million asset-based term loan from the State of Wisconsin Investment Board as well as financing from four private financial institutions.

Harley-Davidson has undertaken a significant financial reorganization in the past year. In July 1986, Harley-Davidson issued a public offering of 2 million shares of common stock and a concurrent offering of \$70 million (principal amount) of 12.5 percent subordinated notes due in 1996. Proceeds of the offering were used to reduce outstanding debt, to purchase certain warrants to acquire Harley-Davidson's common stock, and to fund capital expenditures and working capital needs. Elimination of its asset-based debt structure allegedly afforded Harley-Davidson significantly more flexibility in its business decisions. In May 1987, Harley-Davidson filed with the Securities and Exchange Commission for a public offering of 2 million additional shares of common stock.

In December 1986, Harley-Davidson acquired Holiday Rambler Corp., the world's largest privately held producer of recreational vehicles and a major supplier of specialized commercial vehicles. According to Harley-Davidson's 1986 annual questionnaire response, * * *.

Honda

Honda of America Manufacturing, Inc., stated in each of its annual questionnaire responses that it is continuing its efforts to produce competitive motorcycles in its U.S. facility. These efforts have been operational since the first motorcycles were produced at Honda's Marysville, OH, plant in 1979, and were not initiated in 1983 in response to the import relief program. The principal production techniques that Honda has implemented, and continues to use, include the following (as reported by Honda):

* * * * *

In 1986, Honda invested \$10 million in its Marysville plant to make it, according to Honda, "the most efficient and flexible motorcycle plant in the world." The investment resulted in improvements in the paint department (through an updated control system and additional robotics), the assembly area (through replacement of an overhead conveyor system with a "slat conveyor system"), and in material services and loading (through a new conveyor system to bring the parts and materials to the assembly line).

Kawasaki

Kawasaki Motors Manufacturing Corp. indicated in its 1983 annual questionnaire response that during the last quarter of 1983, it * * *. Kawasaki reported that it made * * *. * * *.

U.S. Imports and Market Penetration

The principal data presented in this section have been obtained in response to the Commission's quarterly and annual questionnaires sent to the five major U.S. importers of heavyweight motorcycles as part of the Commission's monitoring responsibility pursuant to Presidential Proclamation 5050 of April 15, 1983. The five U.S. importers (American Honda Motor Co., Inc., Gardena, CA; BMW of North America, Inc., Montvale, NJ; Kawasaki Motors Corp. U.S.A., Irvine, CA; U.S. Suzuki Motor Corp., Brea, CA; and Yamaha Motor Corp., U.S.A., Cypress, CA) have accounted for virtually all U.S. imports of heavyweight motorcycles during the past 5 years.

Also presented in this section are official statistics of the U.S. Department of Commerce on U.S. imports for consumption of heavyweight motorcycles. However, such statistics are only available since 1983 (and not for the full year 1983) because TSUS item 692.52 providing for motorcycles having engines with total piston displacement over 700cc was only created in April 1983; previous to April 1983, such heavyweight motorcycles were not provided for separately from other motorcycles in the TSUS.

U.S. imports

According to information provided in response to the Commission's quarterly monitoring report questionnaires, U.S. imports for consumption of heavyweight motorcycles fell steadily between 1982 and 1985, declining 86.1 percent in volume and 77.7 percent in value (table 12). Total imports increased slightly in 1986, resulting in an overall drop in volume of imports of 82.7 percent and a decrease in value of 68.0 percent over the 5-year period. Imports during January-March 1987 decreased by 41.1 percent in quantity and by 31.2 percent in value compared with the level of imports in the corresponding period of 1986. Imports of motorcycles over 970cc accounted for more than *** of all U.S. imports during 1984-86, following a * * *.

Imports of * * * (table 13). Over the corresponding period, imports of * * *. With the * * *, imports of heavyweight motorcycles increased in 1986 for the first time since 1982.

Official statistics covering imports of heavyweight motorcycles are also available from the U.S. Department of Commerce beginning in mid-1983. These statistics differ slightly from those provided in response to the Commission's questionnaires; however, they are comparable in terms of the magnitude of imports and demonstrate similar trends, as illustrated in the following tabulation (in units):

Country	1983 ^{1/}	1984	1985	1986	Jan. -Mar--	
					1986	1987
Japan.....	8,694	28,701	28,380	35,155	17,981	11,542
West Germany.....	2,593	5,591	6,065	4,553	545	121
All other countries ^{2/} ..	473	645	477	741	317	167
Total.....	11,760	34,937	34,922	40,449	18,843	11,830

^{1/} Data are for mid-April 1983 through December 1983.

^{2/} Imports from "all other countries" consist mainly of imports from Italy.

Table 12

Heavyweight motorcycles: U.S. imports, ^{1/} by engine sizes, 1982-86, January-March 1986, and January-March 1987

Engine size	1982	1983	1984	1985	1986	Jan. -Mar--	
						1986	1987
Quantity (units)							
Over 700cc but not over 790cc.....	^{2/}	***	***	***	***	***	***
Over 790cc but not over 970cc.....	^{2/}	***	***	***	***	***	***
Over 970cc.....	^{2/}	***	***	***	***	***	***
Total.....	223,998	94,303	38,314	31,037	38,661	18,112	10,669
Value ^{3/} (1,000 dollars)							
Over 700cc but not over 790cc.....	^{2/}	***	***	***	***	***	***
Over 790cc but not over 970cc.....	^{2/}	***	***	***	***	***	***
Over 970cc.....	^{2/}	***	***	***	***	***	***
Total.....	473,264	228,862	123,189	105,469	151,427	61,332	42,176
Unit value							
Over 700cc but not over 790cc.....	-	***	***	***	***	***	***
Over 790cc but not over 970cc.....	-	***	***	***	***	***	***
Over 970cc.....	-	***	***	***	***	***	***
Average.....	2,113	2,427	3,215	3,398	3,917	3,386	3,953

^{1/} Does not include motorcycles assembled in the United States by Honda and Kawasaki.

^{2/} Data for 1982 not available by engine size.

^{3/} Landed, duty-paid value.

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

Table 13

Heavyweight motorcycles: U.S. imports, by brands, 1982-86, January-March 1986, and January-March 1987

Brand	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
Quantity (units)							
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Suzuki.....	***	***	***	***	***	***	***
Yamaha.....	***	***	***	***	***	***	***
BMW.....	***	***	***	***	***	***	***
Total.....	223,998	94,303	38,314	31,037	38,661	18,112	10,669
Value 1/ (1,000 dollars)							
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Suzuki.....	***	***	***	***	***	***	***
Yamaha.....	***	***	***	***	***	***	***
BMW.....	***	***	***	***	***	***	***
Total.....	473,264	228,862	123,189	105,469	151,427	61,332	42,176
Unit value							
Honda.....	***	***	***	***	***	***	***
Kawasaki.....	***	***	***	***	***	***	***
Suzuki.....	***	***	***	***	***	***	***
Yamaha.....	***	***	***	***	***	***	***
BMW.....	***	***	***	***	***	***	***
Average.....	2,113	2,427	3,215	3,398	3,917	3,386	3,953

1/ Landed, duty-paid value.

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

Harley-Davidson has alleged that the Japanese producers have been able to evade the import relief on a number of heavyweight motorcycles by downsizing their engines to 699cc or under. Official statistics for motorcycles over 490cc but not over 700cc are presented in the following tabulation (in units):

Country	1983 1/	1984	1985	1986	Jan.-Mar--	
					1986	1987
Japan.....	69,811	138,524	170,014	116,157	53,422	22,820
West Germany.....	413	649	901	363	205	0
All other countries.....	872	2,394	3,014	1,578	567	584
Total.....	71,096	141,567	173,929	118,098	54,194	23,404

1/ Data are for mid-April 1983 through December 1983.

Official statistics for 1982 are not presented in the above tabulation because the range parameters were different in that year. Official statistics for 1982 are available on motorcycles of 491cc but not over 790cc; these statistics show that U.S. imports in 1982 amounted to 292,679 units from Japan; 3,122 units from West Germany; and 2,408 units from all other countries, for a total of 298,209 units.

Market penetration of imports

U.S. imports of heavyweight motorcycles as a share of apparent U.S. consumption 1/ are presented in table 14. The ratio, in terms of quantity, of imports to apparent U.S. consumption decreased from 95.0 percent in 1982 to 20.3 percent in 1985, and then increased in 1986 to 33.2 percent. The ratio of imports to apparent consumption, in terms of quantity, during January-March 1987 was 29.5 percent, representing a decrease compared with the ratio of 43.5 during the corresponding period of 1986. These ratios of imports to apparent U.S. consumption in terms of value experienced a trend similar to the ratios based on quantity. In all years and periods, the ratios based on value were lower than the ratios based on quantity.

The ratio of imports from Japan and West Germany to apparent U.S. consumption are presented in table 15. The ratio of imports from Japan to apparent U.S. consumption in terms of quantity decreased from *** percent in 1982 to *** percent in 1983 and *** percent in 1984, then increased to *** percent in 1985 and *** percent in 1986. The ratio decreased in January-March 1987 compared with the ratio in the corresponding period of 1986. In terms of value, the trend of the ratio of imports from Japan to apparent U.S. consumption was similar to the trend in terms of quantity. The ratio of imports from West Germany to apparent U.S. consumption increased irregularly between 1982 and 1986 on the basis of quantity as well as on the basis of value.

Ratio of imports to U.S. production

The ratio of U.S. imports to U.S. production of heavyweight motorcycles are presented in table 16. The ratio of the quantity of imports to the quantity of U.S. production decreased from 263.1 percent in 1982 to a low of 29.8 percent in 1985, then increased to 48.0 percent in 1986. The ratio of imports to production during January-March 1987 was 48.2 percent, a decrease from the ratio in the corresponding period of 1986.

1/ Apparent U.S. consumption consists of U.S. producers' shipments plus U.S. importers' shipments.

Table 14

Heavyweight motorcycles: U.S. imports, importers' shipments, and apparent consumption, by engine sizes, 1982-86, January-March 1986, and January-March 1987

Engine size	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
U.S. imports (units)							
Over 700cc but not over 790cc....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	223,998	94,303	38,314	31,037	38,661	18,112	10,669
U.S. importers' shipments (units)							
Over 700cc but not over 790 cc...	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Total.....	164,052	138,625	79,492	71,645	43,306	20,689	14,099
Apparent U.S. consumption (units) 2/							
Over 700cc but not over 790cc....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	120,819	131,215	96,852	82,463	29,074	28,622
Total.....	235,734	209,305	181,632	152,610	116,301	41,591	36,128
Ratio of imports to consumption, based on units (percent)							
Over 700cc but not over 790cc....	<u>1/</u>	***	***	***	***	***	***
Over 790cc but not over 970cc....	<u>1/</u>	***	***	***	***	***	***
Over 970cc.....	<u>1/</u>	***	***	***	***	***	***
Average.....	95.0	45.1	21.1	20.3	33.2	43.5	29.5

See footnotes at end of table.

Table 14

Heavyweight motorcycles: U.S. imports, importers' shipments, and apparent consumption, by engine sizes, 1982-86, January-March 1986, and January-March 1987--Continued

Engine size	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
U.S. imports (1,000 dollars)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	473,264	228,862	123,189	105,469	151,427	61,332	42,176
U.S. importers' shipments (1,000 dollars)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	452,396	409,697	242,078	228,777	174,335	84,272	67,584
Apparent U.S. consumption (1,000 dollars) 2/							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	475,964	543,679	450,171	425,169	140,274	140,273
Total.....	710,386	701,736	665,834	577,397	530,470	180,052	167,642
Ratio of imports to consumption, based on value 3/ (percent)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	66.6	32.6	18.5	18.3	28.5	34.1	25.2

1/ Data for 1982 not available by engine size.

2/ Apparent U.S. consumption consists of U.S. producers' shipments plus U.S. importers' shipments.

3/ Landed, duty-paid value.

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

Table 15

Heavyweight motorcycles: Ratios of imports from Japan and West Germany to apparent U.S. consumption, 1982-86, January-March 1986, and January-March 1987

Source	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
Ratio of imports to consumption, based on units (percent)							
Japan.....	***	***	***	***	***	***	***
West Germany.....	***	***	***	***	***	***	***
Total.....	95.0	45.1	21.1	20.3	33.2	43.5	29.5
Ratio of imports to consumption, based on value 1/ (percent)							
Japan.....	***	***	***	***	***	***	***
West Germany.....	***	***	***	***	***	***	***
Total.....	66.6	32.6	18.5	18.3	28.5	34.1	25.2

1/ Landed, duty-paid value.

Note.--Because of rounding, figures may not add to the totals shown.

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

The ratios of imports from Japan and West Germany to U.S. production are presented in table 17. The ratio of the quantity of imports from Japan to U.S. production in terms of quantity decreased from *** percent in 1982 to *** percent in 1984 and 1985, then increased to *** percent in 1986. The ratio decreased by *** percentage points during January-March 1987 compared with that in the corresponding period of the previous year. The ratio of imports from West Germany to U.S. production increased irregularly between 1982 and 1986.

Table 16
 Heavyweight motorcycles: U.S. imports and production, by engine sizes,
 1982-86, January-March 1986, and January-March 1987

Engine size	1982	1983	1984	1985	1986	Jan.-Mar--	
						1986	1987
U.S. imports (units)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	223,998	94,303	38,314	31,037	38,661	18,112	10,669
U.S. production (units)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Total.....	85,125	83,810	121,189	104,250	80,572	23,627	22,153
Ratio of imports to production (percent)							
Over 700cc but not over 790cc....	1/	***	***	***	***	***	***
Over 790cc but not over 970cc....	1/	***	***	***	***	***	***
Over 970cc.....	1/	***	***	***	***	***	***
Average.....	263.1	112.5	31.6	29.8	48.0	76.7	48.2

1/ Data for 1982 not available by engine size.

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

Table 17

Heavyweight motorcycles: Ratios of imports from Japan and West Germany to U.S. production, 1982-86, January-March 1986, and January-March 1987

Source	1982	1983	1984	1985	1986	January-March--	
						1986	1987
	Ratio of imports to production (percent)						
Japan.....	***	***	***	***	***	***	***
West Germany.....	***	***	***	***	***	***	***
Total.....	263.1	112.5	31.6	29.8	48.0	76.7	48.2

Note.--Because of rounding, figures may not add to the totals shown.

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

Prices

Developing a consistent price series for domestic and imported motorcycles is difficult for several reasons. New models are frequently introduced, and existing models are periodically modified with improvements and adjustments. Moreover, the price of any given motorcycle model can vary, depending upon whether or not options such as a luggage rack or radio are included. In addition, price comparisons between domestic and imported motorcycles may not be very useful as comparisons often involve models that cannot be easily classified but cross accepted categories, such as sport, cruising, or touring. Harley-Davidson has three product series, the FL, FX, and the XL, consisting of nearly 20 models with engines of over 700cc. The FL series is Harley's top-of-the-line category of motorcycle, followed by the FX and XL series. Both the FL and FX series offer only 1,340cc engines; the XL series offers engines ranging from 883cc to 1,100cc. Harley-Davidson's FX series * * *, as shown in the following tabulation, based on data provided by Harley-Davidson (in units): 1/

* * * * * * *

The XL series * * *. Sales of the FL series were * * *.

Approximately *** percent of Harley-Davidson's dealers sell only Harley-Davidson motorcycles. Harley's model year runs from August to July; its sales are highly seasonal with over *** percent of its retail sales occurring during the second quarter of a calendar year. In order to promote early or nonseasonal purchases of its motorcycles by dealers, Harley-Davidson offers * * *. First, Harley-Davidson projects dealers' sales based on individual dealers' past sales, then suggests a * * *. If, during * * *, a dealer purchases the number of units suggested by Harley-Davidson, Harley will

1/ Annual totals of the data presented in the tabulation, which are for retail sales, differ somewhat from Harley-Davidson's annual totals of the data presented in table 5, which are for domestic shipments.

* * *. If, during * * *, a dealer purchases the number of units suggested by Harley, Harley will * * *. Harley-Davidson offers * * * because earlier orders help them to gauge future demand and schedule production more efficiently.

Harley-Davidson uses list prices as its pricing base. The dealer list price is called the dealer invoice net. * * *. Rebates are given for * * *.

Sales to police departments comprise fewer than *** motorcycles a year. Bids are submitted to police departments, and the lowest bid is normally given the contract. * * * said that although police department sales usually * * *, they are a good marketing strategy because police motorcycles are highly visible and enhance the company's image.

Freight costs are equalized within five freight zones with the rate dependent upon the motorcycle series shipped. All freight costs are paid by dealers. Dealer financing is provided by an independent financial institution, and customer financing is provided by Ford Motor Credit and Lyons Capital Resources, Inc.

Harley's dealer invoice net prices and suggested retail prices * * *. The XLH Sportster 883 model is used by Harley as a "low price" leader in order to attract future sales of its larger, more expensive motorcycles. Harley currently offers "The 883 Ride Free Guarantee," which guarantees that Harley will repurchase the XLH Sportster 883 at the original purchase price within 2 years of the purchase date if the customer decides to purchase a new FX or FL model Harley. According to * * *, Harley has * * *.

* * * stated that all Harley motorcycles except the XLH 883 models are priced *** to *** percent higher than equivalent models of its domestic and import competitors. * * * said that customers are willing to pay a premium for Harley-Davidson motorcycles because of the "pride of owning a Harley-Davidson," because they are made in America, and because of the "family atmosphere" created by the HOG club, which offers rallies, rides, races, and "camaraderie."

Honda and Kawasaki set prices, offer many different models, and provide buyer incentives for both imported and domestically produced motorcycles. Honda offers six models in the heavyweight motorcycle category. The Gold Wing GL-1200 is Honda's top-of-the-line model followed by the Shadow VT-1100, Shadow VT-700, Magna VF-700, Interceptor VFR-700, and the Hurricane CBR-1000 models.

Approximately *** percent of Honda's dealers sell only Honda motorcycles. Honda's model year runs from October to September; its sales are also highly seasonal. In order to promote early or nonseasonal purchases of their motorcycles by dealers, Honda offers dealers * * *. These *** are offered only at the motorcycle convention in order to induce the dealers to order. Honda offers * * * that are used to reduce end-of-year inventories. * * *.

Honda uses list prices as its pricing base. The list price is called the dealer net price and is a point of reference. According to * * * American Honda, the U.S. distributor of all Hondas, dealers are automatically charged a * * * "holdback" fee, which they get back in October. The purpose of the "holdback" is to enforce automatic savings for the slow winter months. * * *.

Honda has made no recent sales of heavyweight motorcycles to police departments, and all freight costs are paid by dealers.

Approximately *** percent of Kawasaki's dealers sell only Kawasaki motorcycles. Kawasaki offers seven models of heavyweight motorcycles. All but one are produced exclusively in the United States. Kawasaki's model year generally begins in November. Depending on the model, Kawasaki offers * * *; it does not offer quantity discounts or special incentives to encourage early or nonseasonal purchases.

Kawasaki uses a dealer price list as its pricing base. Prices to dealers are similar to those offered by Kawasaki's competitors. Dealers pay freight costs from Kawasaki's U.S. distribution warehouse. Kawasaki also sells to police departments where prices and sales are determined in a bidding process with competitors.

Suzuki offers three series of heavyweight motorcycles: the GSX-R performance series, the tour series, and the VS 1400 cruiser series. Approximately *** percent of Suzuki's dealers sell only Suzuki motorcycles. Suzuki's model year runs from October to September; its sales are also highly seasonal. Suzuki does not offer dealers any incentives to reduce inventories of previous model-year motorcycles. According to * * *, discounts are not given on previous year models because there have been price increases every year for the past few years. These price increases on new models in effect grant discounts to customers seeking to purchase a new motorcycle from the previous model year. Suzuki offers to pay up to *** percent of a dealers' advertising expenditures. The advertising expenditures are limited to a fixed percentage of the money generated by a dealer.

Suzuki uses list prices as its pricing base. Suzuki usually gives dealers *** percent off the list price. Suzuki makes no sales of heavyweight motorcycles to police departments. All freight costs are paid by dealers, but are equalized based on the closest of seven Suzuki motorcycle warehouses.

Yamaha offers four series of motorcycles: a street series, dual-purpose series, motocross series, and a playbike series. Yamaha offers various programs to induce dealer purchases of their motorcycles. Yamaha's "basic ordering" program offers a number of incentives throughout the July to June model year. A *** percent discount is offered if orders are paid for in full within 10 days from the date of invoice. Yamaha will pay * * *. A monthly service charge (starting 91 days after date of invoice through 180 days) is charged on motorcycles that have not been paid for. The monthly service charge is equal to *** or *** percent per month, whichever is lower. Beginning 181 days after the invoice date, dealers are charged a service rate based on *** percent per month on unpaid units. Units must be paid in full as sold; unsold units are due in full 1 year from original invoice date. There are no minimum orders for this plan.

Yamaha also offers a "model show order" program that is available to dealers from October through November. A minimum of *** units must be ordered and invoiced by March 31 to qualify for the program; *** of these units must have a piston displacement of 350cc or above. This program is offered only

for a select set of street and dual-purpose motorcycles. * * * are also offered. Yamaha offers a variety of other similar programs.

Questionnaires sent in connection with the monitoring program did not collect data on actual prices because of the difficulties in developing a consistent price series for motorcycles with the same features. However, unit values were available from the Commission's questionnaires and are presented in tables 18 through 21. ^{1/} Unit values of U.S. producers' domestic shipments of all heavyweight motorcycles in the United States have risen 31 percent between January-March 1984 and October-December 1986 (table 18). Most of the rise in unit values is attributable to * * *. Unit values of Harley-Davidson's domestic shipments * * * during the same period. Kawasaki's unit values * * *.

Table 18

Heavyweight motorcycles: Unit values of U.S. producers' domestic shipments of motorcycles having engines with total piston displacement over 700cc, by quarters, January 1984-December 1986

Period	All U.S. producers	Harley-Davidson	Honda	Kawasaki
1984:				
January-March.....	\$3,931	***	***	***
April-June.....	3,902	***	***	***
July-September.....	4,437	***	***	***
October-December.....	4,547	***	***	***
1985:				
January-March.....	4,437	***	***	***
April-June.....	4,056	***	***	***
July-September.....	4,311	***	***	***
October-December.....	4,459	***	***	***
1986:				
January-March.....	4,582	***	***	***
April-June.....	4,622	***	***	***
July-September.....	5,436	***	***	***
October-December.....	5,139	***	***	***

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

^{1/} Caution should be used in analyzing unit values because they encompass changes in product mix and sales from inventory of previous-year models at a discount.

The only domestic producer with shipments of heavyweight motorcycles of over 700cc but not over 790cc was Kawasaki. Unit values of Kawasaki's domestic shipments *** percent between January-March 1984 and October-December 1986. The unit values for imported shipments of motorcycles in this size category are presented in table 19. During the period covered by the investigation, unit values of imports from Yamaha *** percent and unit values of Suzuki imports *** percent. Honda's (import) unit values *** percent between January-March 1984 and October-December 1986. Kawasaki's (import) unit values *** percent between January-March 1984 and October-December 1985.

Table 19

Heavyweight motorcycles: Unit values of shipments of imports of motorcycles having engines with total piston displacement over 700cc but not over 790cc, by quarters, January 1984-December 1986

* * * * * * *

The unit values for domestic and imported shipments of motorcycles over 790cc but not over 970cc are presented in table 20. Unit values of U.S. producers' domestic shipments * * * from January-March 1984 through October-December 1986. Unit values of Harley-Davidson's domestic shipments * * * between April-June 1985 and October-December 1986. There were no reported shipments of motorcycles in this category by Honda (domestic). Kawasaki's (domestic) unit values * * *. The unit values of imports from Yamaha *** percent between April-June 1984 and October-December 1986. The unit values of Suzuki imports *** percent between January-March 1984 and October-December 1986. Honda's (import) unit values *** percent through April-June 1986 and Kawasaki's (import) unit values *** percent between April-June 1984 and October-December 1985.

The unit values for domestic and imported shipments of motorcycles over 970cc are presented in table 21. Unit values of U.S. producers' domestic shipments have risen 46 percent between January-March 1984 and October-December 1986. Unit values of Harley-Davidson's domestic shipments * * * during the same period. * * * is attributable to * * *. Kawasaki's (domestic) unit values * * *. The unit values of imports from Yamaha *** percent during the period investigated. The unit values of Suzuki imports *** percent, and Honda's (import) unit values *** percent. Kawasaki's (import) unit values *** percent between January-March 1984 and October-December 1986.

Table 20

Heavyweight motorcycles: Unit values of U.S. producers' and U.S. importers' domestic shipments of motorcycles having engines with total piston displacement over 790cc but not over 970cc, by quarters, January 1984-December 1986

* * * * *

Table 21

Heavyweight motorcycles: Unit values of U.S. producers' and U.S. importers' domestic shipments of motorcycles having engines with total piston displacement over 970cc, by quarters, January 1984-December 1986

Period	Domestically produced			
	All U.S. producers	Harley-Davidson	Honda	Kawasaki
1984:				
January-March.....	\$3,968	***	***	***
April-June.....	3,952	***	***	***
July-September.....	4,470	***	***	***
October-December.....	4,755	***	***	***
1985:				
January-March.....	4,541	***	***	***
April-June.....	4,201	***	***	***
July-September.....	4,471	***	***	***
October-December.....	4,867	***	***	***
1986:				
January-March.....	4,933	***	***	***
April-June.....	4,981	***	***	***
July-September.....	5,925	***	***	***
October-December.....	5,803	***	***	***

Period	Imported			
	Yamaha	Suzuki	Honda	Kawasaki
1984:				
January-March.....	***	***	***	***
April-June.....	***	***	***	***
July-September.....	***	***	***	***
October-December.....	***	***	***	***
1985:				
January-March.....	***	***	***	***
April-June.....	***	***	***	***
July-September.....	***	***	***	***
October-December.....	***	***	***	***
1986:				
January-March.....	***	***	***	***
April-June.....	***	***	***	***
July-September.....	***	***	***	***
October-December.....	***	***	***	***

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

Probable Economic Effect of Terminating Import Relief 1/Major foreign suppliers of heavyweight motorcycles to the United States

The Commission requested the four Japanese suppliers of heavyweight motorcycles to the United States (Honda Motor Co., Ltd.; Kawasaki Heavy Industries, Ltd.; Suzuki Motor Co., Ltd.; and Yamaha Motor Co., Ltd.) and BMW AG to provide information on their heavyweight motorcycle operations in Japan and West Germany, respectively. The information requested consisted of the locations of producing facilities; production, capacity, capacity utilization, home-market shipments, home-market inventories, and exports during the period covered by the investigation; and the extent to which exports of heavyweight motorcycles are limited by tariff barriers and/or by restraint agreements (both formal and informal), or other nontariff barriers, in countries other than the United States. Information was also requested on intended or projected changes in production, capacity, capacity utilization, and exports in 1987 and 1988 under two scenarios: (1) the import relief provided for in Presidential Proclamation 5050 is terminated in June 1987, and (2) the import relief is not terminated until April 16, 1988. Similar information was requested by the Commission from the U.S. embassies in Japan and West Germany. Information received in response to the Commission's requests appears below.

Japan.--The four producers in Japan of heavyweight motorcycles are Honda Motor Co., Ltd.; Kawasaki Heavy Industries, Ltd.; Suzuki Motor Co., Ltd.; and Yamaha Motor Co., Ltd. In Japan, Honda produces heavyweight motorcycles in its Hamamatsu plant, Kawasaki, in its Akashi works, Suzuki, in its plants in Toyokawa and Toyama, and Yamaha, in its plant in Iwata. The four producers also manufacture other transportation equipment (including automobiles in the cases of Honda and Suzuki and ships and aircraft in the case of Kawasaki) and a wide variety of industrial, commercial, and consumer products, although not necessarily in the same facilities where heavyweight motorcycles are produced. The data obtained from Honda, Kawasaki, Suzuki, and Yamaha on their heavyweight motorcycle operations in Japan are presented in table 22.

* * *. Honda stated that its production of heavyweight motorcycles * * *. Its exports of heavyweight motorcycles will amount to * * *. Honda listed the following tariff and nontariff barriers on its exports of heavyweight motorcycles:

<u>Type of barrier</u>	<u>Canada</u>	<u>France</u>	<u>Italy</u>	<u>United Kingdom</u>	<u>West Germany</u>
Tariff <u>1/</u>percent..	8.0	9.8	9.4	9.6	9.0
Value-added tax..do....	-	33.3	38.0	15.0	14.0
Other taxes.....do....	-	-	-	10.0 <u>2/</u>	-
Other restrictions.....	-	-	<u>3/</u>	-	-

1/ Percent ad valorem, based on c.i.f. value, except for Canada, where it is based on f.o.b. value.

2/ This special tax is levied on the retail price of the motorcycle.

3/ A maximum of 40,000 units per year of motorcycles of over 381cc from Japan.

1/ An economic analysis concerning the effects of terminating the import relief is presented in app. G.

Table 22

Heavyweight motorcycles: Japanese production, capacity, capacity utilization, home-market shipments, export shipments, and inventories, by firms, 1982-86, January-March 1986, and January-March 1987

Item	1982	1983	1984	1985	1986	January-March--	
						1986	1987
Production:							
Honda.....units..	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	***	***
Total.....do....	349,262	205,280	173,074	139,304	159,960	67,070	61,589
Capacity:							
Honda 1/.....do....	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki 2/.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	3/	3/
Total.....do....	4/	4/	4/	4/	4/	4/	4/
Capacity utilization:							
Honda 5/...percent..	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki 6/.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	***	***
Average.....do....	1/	1/	1/	1/	1/	1/	1/
Home-market shipments:							
Honda.....units..	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	***	***
Total.....do....	33,803	30,551	13,877	21,827	16,240	4,300	2,990
Exports to the United States:							
Honda.....units..	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	***	***
Total.....do....	210,910	79,649	29,145	32,264	31,413	20,943	10,356
Exports to all other countries:							
Honda.....units..	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki.....do....	***	***	***	***	***	***	***
Yamaha.....do....	***	***	***	***	***	***	***
Total.....do....	112,778	132,268	122,190	93,850	115,647	49,007	53,604

See footnotes at end of table.

Table 22

Heavyweight motorcycles: Japanese production, capacity, capacity utilization, home-market shipments, export shipments, and inventories, by firms, 1982-86, January-March 1986, and January-March 1987--Continued

Item	1982	1983	1984	1985	1986	January-March--	
						1986	1987
End-of-period inven- tories in Japan:							
Honda.....units...	***	***	***	***	***	***	***
Kawasaki.....do....	***	***	***	***	***	***	***
Suzuki.....do....	***	***	***	***	***	***	***
Yamaha.....do....	8/	***	***	***	***	***	***
Total.....do....	8/	12,490	11,377	11,606	8,492	8,220	7,246

1/ Reflects capacity for all displacements of motorcycles produced by Honda in its Hamamatsu plant.

2/ Reflects Suzuki's capacity to produce all motorcycles of over 400cc.

3/ * * *.

4/ Not applicable because of the varying bases used for the measurement of capacity by the 4 companies.

5/ Reflects Honda's capacity utilization for all displacements of motorcycles in its Hamamatsu plant.

6/ Reflects Suzuki's capacity utilization for motorcycles of over 400cc.

7/ Not applicable because of the varying bases used for the measurement of capacity utilization by the 4 companies.

8/ Not available.

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

Kawasaki's projected 1987 exports to the United States amount to *** units. Kawasaki stated that * * *. Kawasaki mentioned the following barriers to trade in motorcycles (all displacements): (1) Spain--restrictions (limited importations allowed); (2) Greece--restrictions (limited importations allowed); (3) Portugal--import licenses required; and (4) Mexico--import licenses required.

Suzuki stated that its production of heavyweight motorcycles will be * * *. Suzuki's projected exports of heavyweight motorcycles amount to * * *. Suzuki did not provide a projection of its total exports to the rest of the world. Suzuki stated that its exports of heavyweight motorcycles to its major markets (* * *) are not limited by tariffs or other types of barriers.

Yamaha stated that its capacity * * *.

West Germany.--The only West German producer of heavyweight motorcycles is BMW AG. BMW's production facility is located in West Berlin. Data on BMW's heavyweight motorcycle operations are presented in table 23.

BMW stated that * * *. BMW also stated that tariff barriers, restraint agreements (both formal and informal), and other nontariff barriers to its exports of motorcycles in countries other than the United States are "insignificant."

Table 23

Heavyweight motorcycles: BMW's capacity, capacity utilization, home-market shipments, export shipments, and inventories, 1982-86, January-March 1986, and January-March 1987

* * * * *

U.S. importers' inventories

U.S. importers' inventories of heavyweight motorcycles declined steadily as of December 31 of each year during 1982-86 (table 24). From a high of 130,492 units on December 31, 1982, inventories fell at an average annual rate of 40.6 percent for a total drop of 87.5 percent, or 114,210 units between December 31, 1982, and December 31, 1986. Inventories as of March 31, 1987, amounted to 12,125 units, representing a decrease of 32.9 percent compared with the level of inventories as of March 31, 1986.

Inventories of each brand of Japanese imports * * *. * * *, BMW's inventories * * *.

Dealers' inventories of imported motorcycles also declined steadily between December 31, 1982, and December 31, 1986, though by a relatively smaller margin of 67.4 percent (table 25). Dealers' inventories as of March 31, 1987, amounted to 36,442 units, representing a decrease of 47.7 percent compared with the level of inventories as of March 31, 1986. Inventories of Yamaha heavyweight motorcycles, at both the importer and dealer levels, * * *.

Exchange rates

Quarterly data reported by the International Monetary Fund indicate that during the interval January 1984 through March 1987 the quarterly nominal value of the Japanese yen advanced sharply by 50.8 percent against the U.S. dollar (table 26). 1/ After adjustment for differences in relative inflation rates over the 13-quarter period for which data were collected, the real value of Japan's currency 2/ appreciated 32.9 percent relative to the dollar, significantly less than the appreciation in the nominal exchange rate.

1/ International Financial Statistics, May 1987.

2/ Real Japanese exchange rate data for January-March 1987, the last quarter of the period covered by the investigation, is derived from the Japanese Producer Price Index covering January-February only.

Table 24

Heavyweight motorcycles: U.S. importers' end-of-period inventories, by firms, and by engine sizes, Dec. 31 of 1982-86, Mar. 31 of 1986, and Mar. 31 of 1987.

Item	(In units)						
	Dec. 31 of-- 1982	1983	1984	1985	1986	Mar. 31 of-- 1986	1987
Honda:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Suzuki:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Yamaha:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
BMW:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Total:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Grand total.....	130,492	94,629	59,063	23,082	16,282	18,072	12,125

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

Table 25
Heavyweight motorcycles: Dealers' end-of-period inventories of imported motorcycles, by brands and by engine sizes, Dec. 31 of 1982-86, Mar. 31 of 1986, and Mar. 31 of 1987

Item	(In units)						
	Dec. 31 of--		Mar. 31 of--				
	1982	1983	1984	1985	1986	1986	1987
Honda:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Kawasaki:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Suzuki:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Yamaha:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
BMW:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Total.....	***	***	***	***	***	***	***
Total:							
Over 700cc but not over 790cc.....	***	***	***	***	***	***	***
Over 790cc but not over 970cc.....	***	***	***	***	***	***	***
Over 970cc.....	***	***	***	***	***	***	***
Grand total.....	97,537	83,135	66,769	58,154	31,821	69,718	36,442

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

Table 26

U.S.-Japanese exchange rates: 1/ Nominal- and real-exchange-rate indexes, and Producer Price Indexes in the United States and Japan, 2/ indexed by quarters, January 1984-March 1987

Period	January-March 1984=100.0			
	U.S. Producer Price Index	Japanese Producer Price Index	Nominal- exchange- rate index	Real- exchange- rate index <u>3/</u>
1984:				
January-March.....	100.0	100.0	100.0	100.0
April-June.....	100.7	99.9	100.6	99.8
July-September.....	100.4	100.7	94.9	95.1
October-December....	100.2	100.4	93.9	94.1
1985:				
January-March.....	100.0	100.8	89.7	90.4
April-June.....	100.1	100.1	92.1	92.1
July-September.....	99.4	99.0	96.8	96.4
October-December....	100.0	96.7	111.6	107.9
1986:				
January-March.....	98.5	94.4	123.0	117.8
April-June.....	96.6	90.4	135.8	127.1
July-September.....	96.2	87.9	148.3	135.6
October-December....	96.5	86.6	144.1	129.2
1987:				
January-March.....	97.7	<u>4/</u> 86.2	150.8	<u>4/</u> 132.9

1/ Exchange rates expressed in U.S. dollars per Japanese yen.

2/ Producer price indicators--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

3/ The indexed real exchange rate represents the nominal exchange rate adjusted for the relative rates of inflation as measured by the Producer Price Index in the United States and Japan. Producer prices in the United States decreased 2.3 percent during the period January 1984 through March 1987 compared with a 13.8-percent decrease in Japanese prices during the period covered by the investigation.

4/ Data for the final quarter presented above is derived from the Japanese Producer Price Index covering January-February only.

Source: International Monetary Fund, International Financial Statistics, May 1987.

Considerations under section 202(c) of the Trade Act of 1974

Section 203(i)(4) of the Trade Act of 1974 directs that the Commission take into account the considerations set forth in section 202(c) when advising the President as to the probable economic effect on the industry concerned of the termination or modification of import relief.

Section 202(c)(1).--Section 202(c)(1) directs that consideration be given to "information and advice from the Secretary of Labor on the extent to which

workers in the industry have applied for, are receiving, or are likely to receive adjustment assistance under chapter 2 or benefits from other manpower programs."

The Department of Labor informed the Commission that between January 1982 and December 1986, 10 petitions were received from workers engaged in producing motorcycles, snowmobiles, engines and transmissions, and golf carts. All of the petitions were filed by workers of the Harley-Davidson Motor Co. In 8 of the 10 petitions, employment in motorcycle production could not be separated from employment in the production of other items. Commerce certified 1,787 workers covered by 2 of the 10 petitions as eligible to receive assistance. Eight petitions on behalf of 195 workers were denied because the displacement of these employees was not found to be related to increasing imports.

Section 202(c)(2).--Section 202(c)(2) directs that consideration be given to "information and advice from the Secretary of Commerce on the extent to which firms in the industry have applied for, are receiving, or are likely to receive adjustment assistance under chapters 3 and 4."

The Department of Commerce informed the Commission that Harley-Davidson is the only motorcycle firm covered by the investigation that has petitioned for adjustment assistance retroactive to April 1975. ^{1/} Harley fulfilled all requirements and the Commerce Department in fiscal year 1984 approved the firm's adjustment proposal and authorized financial assistance totaling \$1 million in direct loans and \$3 million in loan guarantees. The available loans and guarantees were not used by the firm because it was able to raise a much larger amount by private methods. According to information obtained in the original investigation, the cost of even a relatively small capital investment in this industry can exceed the amount of financial assistance available under the program. However, indirect benefits were provided to Harley-Davidson through technical consultation valued at \$9,725 from Commerce Department-sponsored programs.

Section 202(c)(3).--Section 202(c)(3) directs that consideration be given to "the probable effectiveness of import relief as a means to promote adjustment, the efforts being made or to be implemented by the industry concerned to adjust to import competition, and other considerations relative to the position of the industry in the Nation's economy."

Harley-Davidson has asserted that the import relief program has been effective in improving its performance, citing among other factors, the reduction of debt via a public stock offering, the purchase of Holiday Rambler Corp., the implementation of a "just-in-time" inventory production system, and improvements in engine design. Honda and Kawasaki have not commented on the effect of the import relief program on their performance. A detailed discussion of adjustments made by Harley-Davidson, and improvements made by Harley-Davidson, Honda, and Kawasaki are presented in the section of this report entitled "Efforts of U.S. Producers to Adjust to Import Competition."

^{1/} Certified firms are eligible to apply for the technical services and financial assistance necessary to implement programs of economic recovery. Technical services include assistance in engineering, marketing, production methods, and financial management. Financial assistance--discontinued effective Apr. 7, 1986, upon enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985--includes both direct loans and loan guarantees.

Section 202(c)(4).--Section 202(c)(4) directs that consideration be given to "the effect of import relief upon consumers (including the price and availability of the imported articles and the like or directly competitive articles produced in the United States) and on competition in domestic markets for such articles."

Since the market for domestic and imported heavyweight motorcycles is relatively small, amounting to approximately \$530 million in 1986, the benefits to consumers of the removal of import relief are not likely to be large for the entire population, but could be substantial for customers of heavyweight motorcycles. Theoretically, foreign producers would be inclined to increase shipments of heavyweight motorcycles to the United States if the final 10 percent tariff is removed. However, * * *. Estimates indicate that if the tariff had been 10 percent lower in 1986, importers' shipments would have increased 8,222 units, or 19 percent over the actual 1986 level. ^{1/} U.S. producers' domestic shipments were estimated to fall by 884 units, or 1 percent. The effect on total shipments would have been a net gain of 7,338 units. The tariff removal and increased motorcycle supply was estimated to reduce import unit values by 6.8 percent and domestic unit values by 0.2 percent. The total gain to consumers was estimated to be \$14 million.

Sections 202(c)(5) and 202(c)(6).--Sections 202(c)(5) and 202(c)(6) direct that consideration be given to "the effect of import relief on the international economic interests of the United States;" and "the impact on U.S. industries and firms as a consequence of any possible modification of duties or other import restrictions which may result from international obligations with respect to compensation."

Under article XIX of the GATT, member countries affected by U.S. import relief imposed to allow orderly adjustment to fairly traded import competition are entitled to receive equivalent compensation for the U.S. action. Compensation is generally in the form of duty reductions on other items that the affected countries export to the United States. If consultations do not produce adequate compensation, a trading partner can retaliate by introducing restrictions against products that it imports from the United States. To date, the only country currently eligible to request compensation, Japan, has not requested compensation for the U.S. imposition of import relief, nor has Japan retaliated against U.S. exports to Japan. Imports of heavyweight motorcycles from West Germany and all other countries have not exceeded the tariff-rate quota amounts applicable to such countries since the import relief was instituted.

Section 202(c)(7).--Section 202(c)(7) directs that consideration be given to "the geographic concentration of imported products marketed in the United States."

In 1986, the bulk of the heavyweight motorcycle imports entered the United States from the west coast, followed by the Northeast States, as shown in the following tabulation (in percent):

^{1/} A discussion of the model is found in app. G.

<u>Region 1/</u>	<u>Percent</u>
West coast.....	89.7
Northeast.....	9.5
Mid-Atlantic.....	0.6
Other.....	<u>0.2</u>
Total.....	100.0

1/ Custom districts are listed in order of importance for each of the regions presented: West coast (Los Angeles, CA; San Francisco, CA; and Seattle, WA); Northeast (New York, NY; Bridgeport, CT; Boston, MA; Ogdensburg, NY; and St. Albans; VT); Mid-Atlantic (Baltimore, MD); Other (all other custom districts not previously indicated).

The principal customs district of importation of heavyweight motorcycles, Los Angeles, CA, accounted for 76.8 percent of 1986 imports. Thus, any impact of the import relief on employment in firms that handle, transport, or distribute the subject products may have been felt primarily in that area.

However, final sales of imported heavyweight motorcycles are not concentrated in any particular geographic region of the United States. These motorcycles are marketed through dealer networks in all parts of the country, with the largest sales volumes occurring in major metropolitan areas. Because motorcycles are sold nationwide, the impact of removal of the import relief on final consumers will not be concentrated in any geographic region.

Section 202(c)(8).--Section 202(c)(8) directs that consideration be given to "the extent to which the U.S. market is the focal point for exports of such article by reason of restraints on exports of such article to, or on imports of such article into, third-country markets."

According to representatives at the U.S. subsidiaries of Honda and Kawasaki, the European Community (EC) and Canada follow the United States in importance as markets for heavyweight motorcycles. The tariffs on heavyweight motorcycles and parts in those two areas in 1987 are shown in the following tabulation:

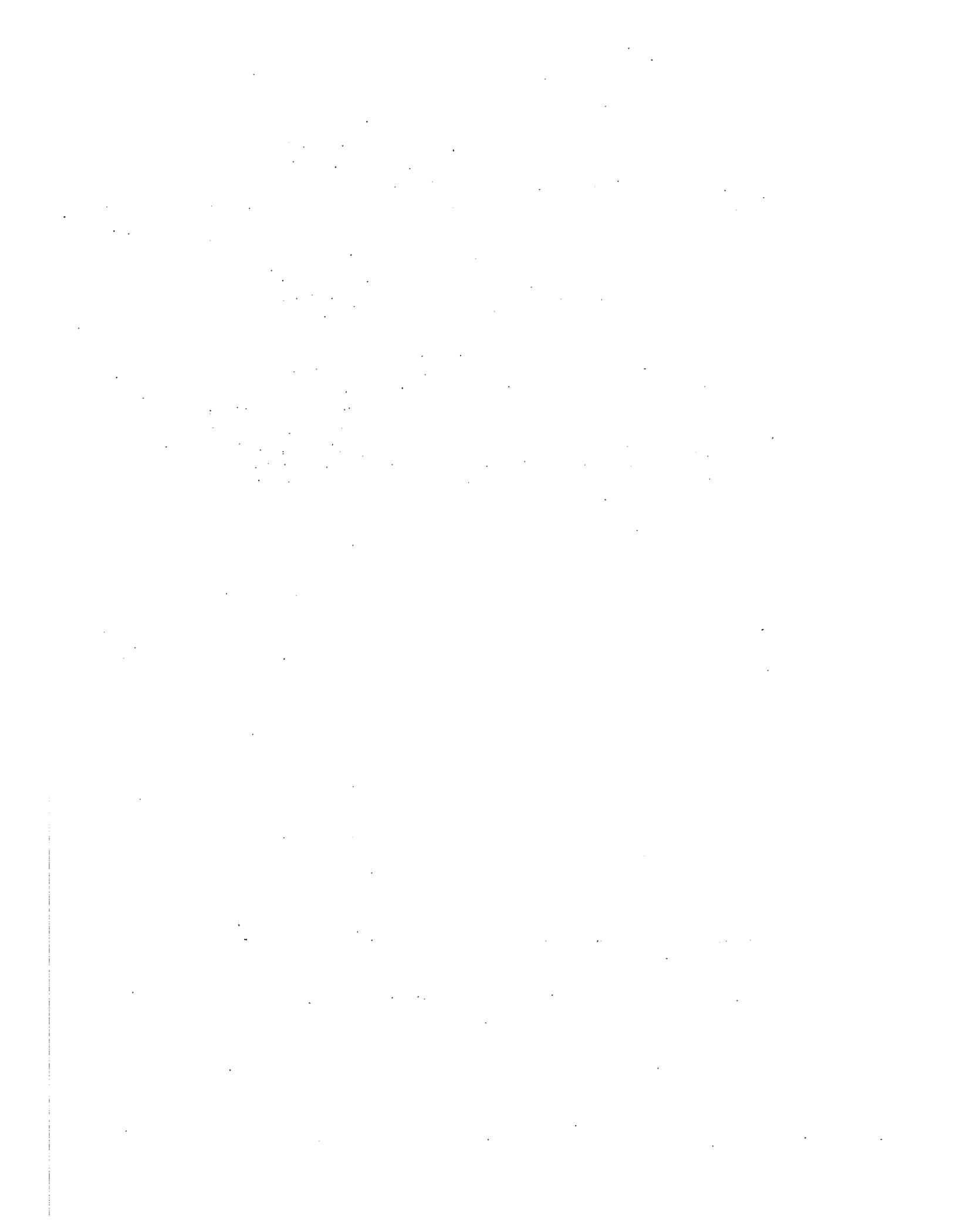
<u>Item</u>	<u>MFN duty rate</u> <u>(Percent)</u>
Canada:	
Motorcycles, having an engine capacity of more than 250cc, engines or sidecars therefor; parts of the above.....	8.0
European Community:	
Motorcycles, autocycles and cycles, fitted with an auxiliary motor, with or without sidecars, sidecars of all kinds.....	9.0
Motorcycle parts.....	6.0

Although the current tariff on motorcycles entering the United States is higher than the rates in Canada and the EC, removal of import relief will give the United States a lower tariff rate--the MFN duty rate is currently 3.7 percent.

Neither the EC nor Canada has formal quota restrictions on imports of heavyweight motorcycles from Japan. The Canadian desk of Commerce's International Trade Administration reported that the Japanese themselves are restricting exports of heavyweight motorcycles to Canada. Both the EC and the Japanese have taken actions to slow imports of Japanese motorcycles into the European market. Because of the continuing competitive difficulties of the European motorcycle producers, the European Commission decided on December 23, 1982, to extend EC import monitoring to motorcycles with engine displacement greater than 50cc. The monitoring will remain in effect through December 1, 1987. It is not clear whether or not such actions have served to divert exports from the Canadian and EC markets to the United States.

Section 202(c)(9).--Section 202(c)(9) directs that consideration be given to "the economic and social costs which would be incurred by taxpayers, communities, and workers, if import relief were or were not provided."

Estimates obtained in the model indicate that the removal of the duty would result in a loss of about 20 jobs, increasing unemployment and other social costs to the communities where the U.S. producers' facilities are located.



B-1

APPENDIX A

PRESIDENTIAL PROCLAMATION 5050 OF APRIL 15, 1983

Presidential Documents

Title 3—

Proclamation 5050 of April 15, 1983

The President

Temporary Duty Increase and Tariff-Rate Quota on the Importation Into the United States of Certain Heavyweight Motorcycles

By the President of the United States of America

A Proclamation

1. Pursuant to section 201(d)(1) of the Trade Act of 1974 (the Trade Act) (19 U.S.C. 2251(d)(1)), as amended, the United States International Trade Commission (USITC) on February 1, 1983, reported to the President the results of its Investigation No. TA-201-47 under section 201(b) of the Trade Act (19 U.S.C. 2251(b)). The USITC determined that motorcycles having engines with total piston displacement over 700 cubic centimeters, provided for in item 692.50 of the Tariff Schedules of the United States (TSUS) (19 U.S.C. 1202), are 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. The USITC recommended the imposition of additional ad valorem duties on imports of such motorcycles of: 45 percent in the first year, 35 percent in the second year, 20 percent in the third year, 15 percent in the fourth year, and 10 percent in the fifth year.

2. On April 1, 1983, pursuant to section 202(b)(1) of the Trade Act (19 U.S.C. 2252(b)(1)), and after taking into account the considerations specified in section 202(c) of the Trade Act (19 U.S.C. 2252(c)), I determined to impose the additional duties recommended by the USITC, but with tariff-rate quotas to assure small volume producers which have not contributed to the threat of injury continued access to the United States market. In order to treat Japan fairly, I determined to provide a tariff-rate quota also for articles from Japan. On April 1, 1983, in accordance with section 203(b)(1) of the Trade Act (19 U.S.C. 2253(b)(1)), I transmitted a report to the Congress setting forth the action I determined to take and the reason it differed from the action recommended by the USITC.

3. Section 503(c)(2) of the Trade Act (19 U.S.C. 2463(c)(2)) provides that no article shall be an eligible article for purposes of the Generalized System of Preferences (GSP) for any period during which such article is the subject of any action proclaimed pursuant to section 203 of the Trade Act (19 U.S.C. 2253).

4. Section 203(e)(1) of the Trade Act (19 U.S.C. 2253(e)(1)) requires that import relief be proclaimed and take effect within 15 days after the import relief determination date.

5. Pursuant to sections 203(a)(1), 203(e)(1), and 503(c)(2) of the Trade Act (19 U.S.C. 2253(a)(1), 2253(e)(1), and 2463(c)(2)), I am providing import relief through the temporary increase of import duties imposed in the form of tariff-rate quotas, and the suspension of GSP treatment, on certain motorcycles, as hereinafter proclaimed.

NOW, THEREFORE, I, RONALD REAGAN, President of the United States of America, acting under the authority vested in me by the Constitution and the statutes of the United States, including General Headnote 4 of the TSUS, sections 203, 503, and 604 of the Trade Act (19 U.S.C. 2253, 2463, and 2483), and

in accordance with Article XIX of the General Agreement on Tariffs and Trade (GATT) (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1788), do proclaim that—

(1) Part I of Schedule XX to the GATT is modified to conform to the action taken in Annex I to this proclamation.

(2) Subpart B, part 6 of schedule 6 and subpart A, part 2 of the Appendix to the TSUS are modified as set forth in Annex I to this proclamation.

(3)(a) Annex II of Executive Order No. 11888 of November 24, 1975, as amended, listing articles that are eligible for benefits of the CSP when imported from any designated beneficiary developing country, is amended by deleting item 692.50 and substituting item 692.53, as added by Annex I to this proclamation, in lieu thereof.

(b) In order to restore GSP treatment for the motorcycles subject to import relief, Annex II of Executive Order No. 11888 of November 24, 1975, as amended, is further amended by inserting in numerical sequence item 692.52, as added by Annex I of this proclamation, effective upon the termination of the import relief proclaimed herein or of any period of extension of such relief.

(4) In order to provide staged reductions in the rates of duty for those new TSUS items created by Annex I(b) to this proclamation, Annex III to Presidential Proclamation 4707 of December 11, 1979, as amended, is further amended by Annex II to this proclamation, attached hereto and made a part thereof.

(5) Whenever the column 1 rate of duty in the TSUS for any item specified in Annex I(b) to this proclamation is reduced to the same level as, or to a lower level than, the corresponding rate of duty inserted in the column entitled "LDDC" by Annex I(b) of this proclamation, the rate of duty in the column entitled "LDDC" for such item shall be deleted from the TSUS.

(6) With the exception of paragraph (3)(b), this proclamation shall be effective with respect to articles entered, or withdrawn from warehouse for consumption, on or after April 16, 1983, and before the close of April 15, 1988, unless the period of its effectiveness is earlier expressly modified or terminated.

(7) The Commissioner of Customs shall take such action as the United States Trade Representative shall direct in the implementation and administration of the import relief herein proclaimed.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of April, in the year of our Lord nineteen hundred and eighty-three, and of the Independence of the United States of America the two hundred and seventh.

Ronald Reagan

ANNEX I

(a) Subpart A, part 2 of the Appendix to the TSUS is modified--

(1) by adding in numerical sequence the following new headnote 9:

"9. Tariff-rate quota as to certain motorcycles; United States International Trade Commission (USITC) surveys on such motorcycles.--The provisions of this headnote apply to Item 924.20 of this subpart and shall remain in effect through April 15, 1988.

(a) The additional duties on motorcycles shall be assessed on each motorcycle imported in excess of the number of motorcycles provided for each of the following countries in any year from April 16 to April 15, inclusive, as set forth in this table:

Restraint period	Quota quantity		
	Federal Republic of Germany	Japan	All other foreign countries
April 16, 1983 through April 15, 1984.....	5,000	6,000	4,000
April 16, 1984 through April 15, 1985.....	6,000	7,000	5,000
April 16, 1985 through April 15, 1986.....	7,000	8,000	6,000
April 16, 1986 through April 15, 1987.....	8,500	9,000	7,000
April 16, 1987 through April 15, 1988.....	10,000	10,000	8,000

(b) The USITC shall conduct surveys with respect to the motorcycles subject to temporary duty increases as follows:

(1) Quarterly.--Surveys by calendar quarter to obtain monthly data on U.S. production, U.S. producers' sales, shipments and inventories, U.S. importers' sales and inventories, imports for consumption, dealers' inventories, U.S. exports, employment, employee-hours, wages, prices, and apparent U.S. consumption. The initial survey shall cover the last quarter of 1982 and the first and second quarters of 1983; the last such survey shall cover the quarter which ends not less than 60 days prior to the termination of the import relief. The results of these surveys shall be published within 60 days of the end of the quarter.

(2) Annually.--Annual surveys to obtain from domestic producers data by calendar quarter on profits, unfilled orders, and inventories, annual data on capital expenditures and capacity, and a summary on an annual basis of action taken to adjust to imports and of progress in the adjustment program; and to obtain from importers data by calendar quarter on prices, unfilled orders, and inventories. The initial survey shall cover calendar year 1983, and subsequent surveys shall cover calendar years beginning with 1984. The results of each such survey shall be published by the end of the first quarter of each year thereafter so long as the import relief is in effect."

ANNEX I

(2) by inserting in numerical sequence the following new item and rates of duty:

Item	Articles	Rates of duty					2
		Effective on or after April 16,					
		1983	1984	1985	1986	1987	
"924.20	Motorcycles provided for in item 692.52 having engines with total piston displacement over 700 cubic centimeters, imported in excess of the quota quantities specified in headnote 9 to this subpart...	The rate provided for in item 692.52 + 45% ad val.	The rate provided for in item 692.52 + 35% ad val.	The rate provided for in item 692.52 + 20% ad val.	The rate provided for in item 692.52 + 15% ad val.	The rate provided for in item 692.52 + 10% ad val.	The rate provided for in item 692.52, but not less than the rate which would have applied had the imported article been subject to the applicable column 1 rate of duty provided herein for this item"

(b) Subpart B, part 6, schedule 6 of the TSUS is modified by deleting item 692.50 and by inserting in lieu thereof the following:

[Motorcycles...]

"Motorcycles:

692.52	Having engines with total piston displacement over 700 cubic centimeters..	4.4% ad val.	3.7% ad val.	10% ad val.
692.53	Other.....	4.4% ad val.	3.7% ad val.	10% ad val."

ANNEX II

Annex III to Presidential Proclamation 4707 of December 11, 1979, is amended by deleting from Section A of that Annex TSUS item number 692.50 with its corresponding rates of duty and by inserting the following TSUS item numbers, rates of duty, and footnotes therein:

Item in TSUS as modified by Annex II	Rate from which staged	Rates of duty <u>1/</u> , effective with respect to articles entered on and after January 1--							
		1980	1981	1982	1983	1984	1985	1986	1987
692.50 <u>4/</u>	5% ad val.	4.8%	4.7%	4.5%	4.4% <u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>
692.52 <u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	4.4% <u>4/</u>	4.2%	4%	3.9%	3.7%
692.53 <u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	<u>4/</u>	4.4% <u>4/</u>	4.2%	4%	3.9%	3.7%

4/ Item 692.50 is discontinued and superseded by items 692.52 and 692.53 effective April 16, 1983.

[FR Doc. 83-10543

Filed 4-15-83; 4:31 pm]

Billing code 3195-01-C

APPENDIX B

LETTER RECEIVED BY THE COMMISSION FROM THE
UNITED STATES TRADE REPRESENTATIVE

DOCKET
NUMBER
1390

Office of the
Secretary
Int'l Trade Commission

B-8

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20508

March 31, 1987

Office of the
Secretary
DOCKET/CONF

07 APR 9 11:26

The Honorable Susan Liebeler
Chairman, U.S. International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Chairman Liebeler:

In 1983, following an affirmative determination by the U.S. International Trade Commission under section 201 of the Trade Act of 1974 with respect to imports of certain motorcycles, the President proclaimed import relief for the domestic industry in the form of increased rates of duty for a period of five years. The import relief is scheduled to terminate on April 16, 1988.-

On March 17, 1987, Mr. Vaughn L. Beals, Jr., Chairman and Chief Executive Officer of Harley-Davidson, Inc., informed this Office and publicly announced that his firm no longer needs import relief to compete. I understand that Harley-Davidson, Inc., the sole petitioner for import relief in 1983, has subsequently petitioned the Commission to initiate an investigation under section 203(i)(2) of the Trade Act of 1974 and to advise the President that there would be no adverse economic impact on the domestic heavyweight motorcycle industry if import relief were terminated immediately.

In view of these and other developments related to the economic condition and competitiveness of the domestic industry, under the authority delegated to me by section 5(a) of Executive Order 11846, I request the Commission, pursuant to section 203(i)(2) of the Trade Act of 1974, to advise the President at the earliest possible date as to the probable economic effect on the domestic industry concerned of immediate termination of the increased duty provided for in item 924.20 of the Tariff Schedules of the United States and applicable to motorcycles having engines with total piston displacement over 700 cubic centimeters.

Inasmuch as the Commission has been preparing quarterly and annual reports on the U.S. heavyweight motorcycle industry and motorcycle imports since the import relief was instituted, the Commission is requested to expedite the conduct and completion of this investigation and to submit its advice as soon as possible.

Sincerely,


for Clayton Yeutter

CY:fsf

APPENDIX C

THE COMMISSION'S NOTICE OF INVESTIGATION AND HEARING

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 206, Subparts A and D (19 CFR Part 206), and Part 201, Subparts A through E (19 CFR Part 201).

EFFECTIVE DATE: April 15, 1987.

FOR FURTHER INFORMATION CONTACT: George L. Deyman (202-523-0481), Office of Investigations, U.S. International Trade Commission, 701 E Street NW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-724-0002. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-523-0161.

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 21 days after publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Service List

Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) 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 9:30 a.m. on May 21, 1987, 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 May 13, 1987. 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 by May 14, 1987, and attend a prehearing conference to be held at 9:30 a.m. on May 15, 1987, in room 117 of the U.S. International Trade Commission Building. Posthearing briefs must be submitted not later than the close of business on May 27, 1987. 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 § 201.6(b)(2) of the Commission's rules (19 CFR 201.6(b)(2))).

Written Submissions

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 May 27, 1987. A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8). All written submissions except for 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).

Authority: This investigation is being conducted under the authority of section 203 of the Trade Act of 1974. This notice is published pursuant to § 201.10 of the Commission's rules (19 CFR 201.10).

Issued: April 16, 1987.

(Investigation No. TA-203-17)

Heavyweight Motorcycles; Import Investigation

AGENCY: International Trade Commission.

ACTION: Institution of an investigation under section 203(i)(2) of the Trade Act of 1974 (19 U.S.C. 2253(i)(2)) and scheduling of a hearing to be held in connection with the investigation.

SUMMARY: Following receipt of a request filed on April 9, 1987, by the United States Trade Representative under authority delegated by section 5(a) of Executive Order 11846, the United States International Trade Commission instituted investigation No. TA-203-17 under section 203(i)(2) of the Trade Act of 1974 for the purpose of gathering information in order that it might advise the President of its judgment as to the probable economic effect on the domestic industry concerned of the termination of import relief presently in effect with respect to motorcycles having engines with total piston displacement over 700 cubic centimeters, provided for in item 692.52 of the Tariff Schedules of the United States (TSUS). Such relief is provided for in Presidential Proclamation 5050 of April 15, 1983 (48 FR 16639) and is set forth in item 924.20 of the appendix to the TSUS. The relief is scheduled to terminate on April 16, 1988.

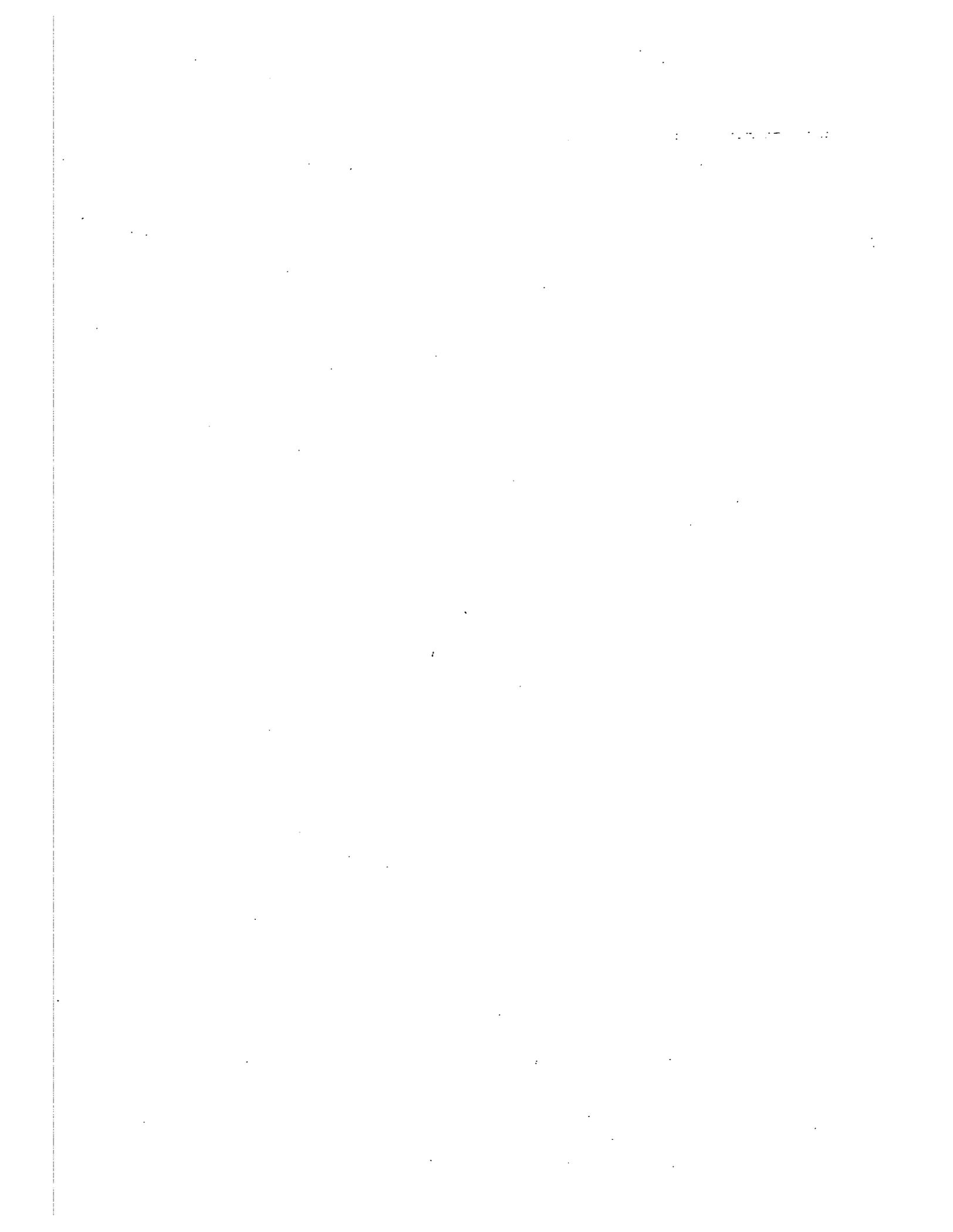
By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 87-9020 Filed 4-21-87; 8:45 am]

BILLING CODE 7020-02-M



APPENDIX D .

PORTIONS PERTAINING TO MOTORCYCLES OF THE TARIFF SCHEDULES
OF THE UNITED STATES ANNOTATED (1987)

B-14
TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1987)

SCHEDULE 6. - METALS AND METAL PRODUCTS
Part 6. - Transportation Equipment

Page 6-197

6 - 6 - B, C
692.52 - 692.6

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty		
				1	Special	2
		Motorcycles and parts thereof:				
		Motorcycles:				
692.52		Having engines with total piston displacement over 700 cubic centimeters.....	3.7% ad val. 1/	Free (E,I)	10% ad val. 1/
	10	Over 700 cubic centimeters but not over 790 cubic centimeters.....	No.			
	20	Over 790 cubic centimeters but not over 970 cubic centimeters.....	No.			
	30	Over 970 cubic centimeters.....	No.			
692.53		Other.....	3.7% ad val.	Free (A,E,I)	10% ad val.
		Having engines with total piston displacement:				
	10	Not over 50 cubic centimeters.....	No.			
	30	Over 50 but not over 90 cubic centimeters.....	No.			
	40	Over 90 but not over 190 cubic centimeters.....	No.			
	60	Over 190 but not over 290 cubic centimeters.....	No.			
	65	Over 290 but not over 490 cubic centimeters.....	No.			
	80	Over 490 but not over 700 cubic centimeters.....	No.			
	90	Other.....	No.			
692.55	00	Parts.....	X.....	4.2% ad val.	Free (A ² ,E,I)	25% ad val.
692.60	00	Vehicles (including trailers), not self-propelled, not specially provided for, and parts thereof.....	X.....	3.2% ad val.	3.2% ad val.(D) Free (A ² ,E,I)	45% ad val.
		Subpart C. Aircraft and Spacecraft				
		Subpart C headnotes:				
		1. This subpart does not cover --				
		(i) guided weapons and missiles or similar weapons of war (see part 5A of schedule 7); or				
		(ii) toy balloons or toy kites (see part 5E of schedule 7).				
		2. For the purposes of this subpart --				
		(a) the term "aircraft" embraces lighter-than-air aircraft (balloons and airships), heavier-than-air aircraft (airplanes, including machines also capable of use for ground or water transportation; gliders and kites), all the foregoing, however propelled, and whether designed for civilian or military use, but does not include spacecraft; and				
		(b) the term "spacecraft" embraces craft, however propelled, and whether designed for civilian or military use, designed for flight beyond the earth's atmosphere.				
		1/ Duty temporarily increased. See item 924.20 in part 1B, Appendix to the Tariff Schedules, and general headnote 3(d)(11).				

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1987)

APPENDIX TO THE TARIFF SCHEDULES
Part 2. - Temporary Modifications Proclaimed Pursuant to
Trade-Agreements Legislation

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty																											
				1	2																										
		<p>9. <u>Tariff-rate quota as to certain motorcycles; United States International Trade Commission (USITC) surveys on such motorcycles.</u>--The provisions of this headnote apply to item 924.20 of this subpart and shall remain in effect through April 15, 1988.</p> <p>(a) The additional duties on motorcycles shall be assessed on each motorcycle imported in excess of the number of motorcycles provided for each of the following countries in any year from April 16 to April 15, inclusive, as set forth in this table:</p> <table border="1"> <thead> <tr> <th rowspan="2">Restraint Period</th> <th colspan="3">Quota Quantity</th> </tr> <tr> <th>Federal Republic of Germany</th> <th>Japan</th> <th>All other foreign countries</th> </tr> </thead> <tbody> <tr> <td>April 16, 1983 through April 15, 1984</td> <td>5,000</td> <td>6,000</td> <td>4,000</td> </tr> <tr> <td>April 16, 1984 through April 15, 1985</td> <td>6,000</td> <td>7,000</td> <td>5,000</td> </tr> <tr> <td>April 16, 1985 through April 15, 1986</td> <td>7,000</td> <td>8,000</td> <td>6,000</td> </tr> <tr> <td>April 16, 1986 through April 15, 1987</td> <td>8,500</td> <td>9,000</td> <td>7,000</td> </tr> <tr> <td>April 16, 1987 through April 15, 1988</td> <td>10,000</td> <td>10,000</td> <td>8,000</td> </tr> </tbody> </table> <p>(b) The USITC shall conduct surveys with respect to the motorcycles subject to temporary duty increases as follows:</p> <p>(1) <u>Quarterly.</u>--Surveys by calendar quarter to obtain monthly data on U.S. production, U.S. producers' sales, shipments and inventories, U.S. importers' sales and inventories, imports for consumption, dealers' inventories, U.S. exports, employment, employee-hours, wages, prices, and apparent U.S. consumption. The initial survey shall cover the last quarter of 1982 and the first and second quarters of 1983; the last such survey shall cover the quarter which ends not less than 60 days prior to the termination of the import relief. The results of these surveys shall be published within 60 days of the end of the quarter.</p> <p>(2) <u>Annually.</u>--Annual surveys to obtain from domestic producers data by calendar quarter on profits, unfilled orders, and inventories, annual data on capital expenditures and capacity, and a summary on an annual basis of action taken to adjust to imports and of progress in the adjustment program; and to obtain from importers data by calendar quarter on prices, unfilled orders, and inventories. The initial survey shall cover calendar year 1983, and subsequent surveys shall cover calendar years beginning with 1984. The results of each such survey shall be published by the end of the first quarter of each year thereafter so long as the import relief is in effect.</p>	Restraint Period	Quota Quantity			Federal Republic of Germany	Japan	All other foreign countries	April 16, 1983 through April 15, 1984	5,000	6,000	4,000	April 16, 1984 through April 15, 1985	6,000	7,000	5,000	April 16, 1985 through April 15, 1986	7,000	8,000	6,000	April 16, 1986 through April 15, 1987	8,500	9,000	7,000	April 16, 1987 through April 15, 1988	10,000	10,000	8,000		
Restraint Period	Quota Quantity																														
	Federal Republic of Germany	Japan	All other foreign countries																												
April 16, 1983 through April 15, 1984	5,000	6,000	4,000																												
April 16, 1984 through April 15, 1985	6,000	7,000	5,000																												
April 16, 1985 through April 15, 1986	7,000	8,000	6,000																												
April 16, 1986 through April 15, 1987	8,500	9,000	7,000																												
April 16, 1987 through April 15, 1988	10,000	10,000	8,000																												

B-16
TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1987)

APPENDIX TO THE TARIFF SCHEDULES
 Part 2. - Temporary Modifications Proclaimed Pursuant to
 Trade-Agreements Legislation

Item	Stat Suf-fix	Articles	Units of Quantity	Rates of Duty					2
				Effective on or after April 16,					
				1983	1984	1985	1986	1987	
924.20	1/	Motorcycles provided for in item 692.52 having engines with total piston displacement over 700 cubic centimeters, imported in excess of the quota quantities specified in headnote 9 to this subpart.....	1/	The rate provided for in item 692.52 + 45% ad val.	The rate provided for in item 692.52 + 35% ad val.	The rate provided for in item 692.52 + 20% ad val.	The rate provided for in item 692.52 + 15% ad val.	The rate provided for in item 692.52 + 10% ad val.	The rate provided for in item 692.52, but not less than the rate which would have applied had the imported article been subject to the applicable column 1 rate of duty provided herein for this item
924.30		Wood shingles and shakes of western red cedar provided for in item 200.85: If entered during the period from June 7, 1986, through December 6, 1988, inclusive.....					35% ad val.	35% ad val.	
924.31		If entered during the period from December 7, 1988, through December 6, 1990, inclusive.....					20% ad val.	20% ad val.	
924.32		If entered during the period from December 7, 1990, through June 6, 1991, inclusive.....					8% ad val.	8% ad val.	
				Quota Quantity (in gross)					
				Entered during the restraint period--					
				February 23, through May 21	May 21, through August 12	August 23, through November 22	November 23 through February 22		
Whenever the respective aggregate quantity of clothespins specified below for items 925.11, 925.12 and 925.13, has been entered in any restraint period, no article in such item may be entered during the remainder of the restraint period, except as provided for in headnote 7/									
Clothespins, spring type, of wood or plastic, valued not over \$1.70 per gross, provided for in item 790.05, entered on or after February 23, 1982, and before the close of February 22, 1984:									
925.11	2/	Valued not over 80 cents per gross.....	2/	125,000	125,000	125,000	125,000	125,000	
925.12	2/	Valued over 80 cents but not over \$1.35 per gross.....	1/	150,000	150,000	150,000	150,000	150,000	
925.13	2/	Valued over \$1.35 but not over \$1.70 per gross.....	2/	225,000	225,000	225,000	225,000	225,000	
				Note: The shaded area indicates that the effective period has expired.					

1/ See Appendix statistical headnote 1.
 2/ See Appendix statistical headnote 2.
 Note: The shaded area indicates that the effective period has expired.

APPENDIX E

LETTER FROM THE UNITED STATES TRADE REPRESENTATIVE
TO THE U.S. CUSTOMS SERVICE CONCERNING THE
APPLICABILITY OF TARIFF-RATE QUOTAS ON
MOTORCYCLES TO FOREIGN-TRADE ZONES

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON

20506

April 25, 1983

The Honorable William von Rabb
Commissioner of Customs
Washington, D.C. 20229

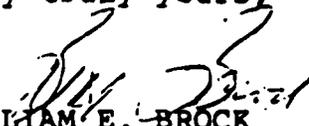
Dear Commissioner von Rabb:

On April 15, 1983, the President signed Proclamation 5050 implementing his decision to provide import relief for the heavyweight motorcycle industry. The President accepted the recommendation of the United States International Trade Commission (USITC) with one modification to provide a tariff-rate quota exclusion to enable small volume producers to continue to export to the United States. The USITC considered and rejected a request to exclude products of Foreign Trade Zones from the import relief. The President did likewise when imposing the tariff-rate quotas. Therefore, pursuant to the proclamation, including paragraph (7), you should make certain that all motorcycles as defined by the USITC and the proclamation entered on and after April 16, 1983 from Foreign Trade Zones, are subject to the additional duties provided for under item 924.20, TSUS, in Annex I (a)(2) of the proclamation. No motorcycles from Foreign Trade Zones were provided with a tariff-rate quota exemption as were, for example, the first 6000 imports from Japan. This means that motorcycles entered from the Foreign Trade Zones are to be treated like articles in excess of quota quantities since there is, in effect, a zero quota quantity for Foreign Trade Zones.

This directive does not alter the normal Customs Foreign Trade Zone rules for parts of motorcycles obtaining privileged status. However, parts without privileged status incorporated into a motorcycle subject to the import relief (that is, as defined in item 924.20, TSUS) and then entered from the zone into the United States, will be subject to the additional duties.

Will you also take the necessary steps to ensure that my office is notified of any contemplated ruling or directive that might have an impact on the effectiveness of the relief.

Very truly yours,


WILLIAM E. BROCK

APPENDIX F

SUPPLEMENTARY FINANCIAL DATA ON HARLEY-DAVIDSON

SELECTED FINANCIAL DATA

	Year ended December 31.				
	1986	1985	1984	1983	1982
	(In thousands, except share and per share amounts)				
Income statement data:					
Net sales	\$ 295,322	\$ 287,476	\$ 293,825	\$ 253,505	\$ 210,055
Cost of goods sold	219,167	217,222	220,040	194,271	174,967
Gross profit	76,155	70,254	73,785	59,234	35,088
Operating expenses:					
Selling and administrative	51,060	47,162	47,662	36,441	37,510
Engineering, research and development	8,999	10,179	10,591	9,320	13,072
Total operating expenses	60,059	57,341	58,253	45,761	50,582
Income (loss) from operations	16,096	12,913	15,532	13,473	(15,494)
Other income (expense):					
Interest expense	(8,373)	(9,412)	(11,256)	(11,782)	(15,778)
Other	(388)	(338)	(311)	188	(1,272)
	(8,761)	(9,750)	(11,567)	(11,594)	(17,050)
Income (loss) before provision (credit) for income taxes, extraordinary items, and cumulative effect of change in accounting principle					
	7,335	3,163	3,965	1,879	(32,544)
Provision (credit) for income taxes	3,028	526	1,077	906	(7,467)
Income (loss) before extraordinary items and cumulative effect of change in accounting principle					
	4,307	2,637	2,888	973	(25,077)
Extraordinary items and cumulative effect of change in accounting principle					
	564	7,318	3,578	7,795	-
Net income (loss)	\$ 4,871	\$ 9,955	\$ 6,466	\$ 8,768	\$ (25,077)
Average number of common shares outstanding					
	5,235,230	3,680,000	3,680,000	3,720,000	4,016,664
Per common share:					
Income (loss) before extraordinary items and cumulative effect of change in accounting principle					
	\$ 0.82	\$.72	\$.79	\$.26	\$ (6.61)
Extraordinary items and cumulative effect of change in accounting principle					
	0.11	1.99	.97	2.10	-
Net income (loss)	\$ 0.93	\$ 2.71	\$ 1.76	\$ 2.36	\$ (6.61)
Balance sheet data:					
Working capital (deficiency)	\$ 39,937	\$ 16,245	\$ 16,756	\$ 13,003	\$ (28,786)
Total assets	327,196	114,092	99,207	88,980	85,766
Short-term debt, including current maturities of long-term debt					
	18,090	2,875	2,305	2,136	40,734
Long-term debt, less current maturities					
	191,594	51,504	56,258	57,666	35,072
Total debt	209,684	54,379	58,563	59,802	75,806
Stockholders' equity (deficit)	26,159	4,622	(6,323)	(12,789)	(21,975)

Source: Harley-Davidson, Inc., Annual Report (1986).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS



Results of operations do not include Holiday Rambler Corporation since it was acquired effective December 31, 1986 and is accounted for as a purchase.

1986 Compared to 1985 - Net sales increased \$7.8 million (2.7%) in 1986 as the result of an increase of \$20.2 million (8.4%) in net sales from the Motorcycle and Related Products segment, offset in part by a decrease of \$12.4 million (26.4%) in net sales from the Defense and Other Businesses segment. The higher sales level was a result of 1920 additional motorcycle unit shipments due to favorable acceptance of the 1986 model year motorcycles both domestically and abroad, as well as, the normal model year price increases. The decrease in Defense and Other Businesses revenue was due to the completion of the computer wiring harness contract in February, 1986 and to a lower level of production of metal casings resulting from lower government demand.

Overall gross profit increased \$5.9 million (8.4%) in 1986. In the Motorcycle and Related Products segment gross profits increased \$11.1 million or (18.6%) as a result of higher motorcycle shipments and continued productivity improvements in manufacturing. As a result gross margins as a percentage of sales for this segment increased to 27.1% up from 24.8% in 1985. Gross profit decreased \$5.2 million (48.5%) in the Defense and Other Businesses segment. As previously discussed, this was due to the completion of the computer wiring harness contract and a lower government demand for metal casings. The overall 1986 gross profit percentage of sales of 16.0% in 1986 was down from 22.8% in 1985 and was the result of both the lost computer wiring harness contract and an aggressive bid submitted on the current metal casing contract. The positive impact of the improved gross profit from the Motorcycle and Related Products segment more than offset the lower gross profit from the Defense and Other Businesses segment as overall Gross Profit as a percentage of sales improved to 25.8% in 1986 from 24.4% in 1985. The improvement in gross profit was partially offset by operating expenses that were \$2.7 million higher in 1986 than in 1985. The major contributors were increased product liability and associated expenses of \$3.7 million and higher selling expenses of \$1.5 million partially offset by lower engineering expenses of \$1.2 million and a favorable pension accounting adjustment of \$.8 million. The increased product liability and associated costs experienced by the Company in 1986 were typical of all companies that were able to secure insurance. Selling expenses were higher due to both increased sales and to a greater emphasis on dealer network support. Engineering expenses were lower in the Motorcycle and Related Products segment as major development efforts have substantially been completed. The Company adopted FASB No. 87 "Employer's Accounting for Pensions" during 1986, which resulted in lower pension expense compared to 1985.

Interest expense in 1986 was \$1.1 million higher when compared to 1985. Although average debt outstanding increased over 1985, average interest rates declined. The excess cash generated by the July debt and equity offering was reinvested and resulted in higher interest income of \$1.1 million in 1986 when compared to 1985.

During 1986, the Company renegotiated its current loan agreement which resulted in an extraordinary write-off of deferred financing costs of \$.8 million net of taxes compared to 1985 when the Company refinanced its borrowings, which generated \$2.9 million of extraordinary gain net of taxes. In addition, the benefit to the Company from the utilization of its net operating loss carryforward was \$1.4 million in 1986 compared to \$4.4 million in 1985. The net of the three extraordinary items resulted in \$6.8 million less of extraordinary income in 1986 when compared to 1985.

1985 Compared to 1984 - Net sales decreased \$6.3 million (2.2%) in 1985 as the result of a decrease of \$20.1 million (7.7%) in net sales from the Motorcycles and Related Products segment, offset in part by an increase of \$13.8 million (41.6%) in net sales from the Defense and Other Businesses segment. The lower sales level in the Motorcycles and Related Products segment was caused primarily by a 4,400 unit reduction in motorcycle shipments by the Company, compared with 1984, as part of its effort to reduce dealer inventory levels and also by a change in the motorcycle mix sold to dealers. Increased sales in the Defense and Other Businesses segment were generated from increased unit shipments of bomb casings.

APPENDIX G

ECONOMIC ANALYSIS CONCERNING THE EFFECTS OF
TERMINATING THE IMPORT RELIEF
ON HEAVYWEIGHT MOTORCYCLES

Since the petitioners in the original 201 investigation, Harley-Davidson, requested the removal of the remaining tariff, and because there was no opposition from the other domestic producers or importers, only the probable effects of removing the tariff will be discussed. No discussion of continuation of import relief is presented.

The level of import relief currently provided to the heavyweight motorcycle industry is 13.7 percent ad valorem; 10 percent ad valorem is provided via the import relief program and 3.7 percent ad valorem is the statutory rate. The probable economic effects on the domestic industry of removal of the tariff 1/ have been calculated through use of a static economic model. 2/ Data from 1986 were used to estimate the effect that a tariff reduction of 10 percent would have had on the motorcycle industry and consumers during that year. This methodology allows for estimating the effect of a tariff reduction on aggregate demand, domestic shipments, imports, prices, and employment.

Supply and demand considerations.--The probable economic effect of removal of import restrictions from the motorcycle industry depends importantly on the nature of its demand and supply relationships. Both domestic and foreign supply are believed to be highly elastic. The short-run elasticity of domestic supply was considered to be high because capacity utilization rates have been low for the U.S. industry, averaging 45 percent in 1986, 3/ and because significant export markets exist. 4/ The short-run supply elasticity of foreign motorcycles is also considered high because the United States is only one of several important export markets, and because there is unused capacity among the major foreign producers. This suggests that foreign producers are likely, in the event of a price increase in the U.S. market, to divert shipments from other markets, and increase production for shipment to the United States.

Since heavyweight motorcycles are high priced, consumer durables that could be considered luxury goods, aggregate demand is probably fairly price elastic. 5/ Because motorcycles are not a necessary product for most

1/ The primary effect of a tariff is to raise prices of the restricted item. A secondary effect is to raise prices of items that are not subject to the tariff, such as domestically produced motorcycles and foreign motorcycles that enter within the quota level, and are therefore imported duty free. If the tariff is removed, consumers would benefit from price reductions of imported motorcycles that are subject to the tariff and from any price reductions of duty-free motorcycles, whether domestically produced or imported.

2/ The model assumes that the domestic and imported products are partial substitutes and that both domestic and import supply curves slope upward. A more detailed explanation of the methodology is described in the USITC staff research paper: Rousslang and Suomela, "Calculating the Consumer and Net Welfare Costs of Import Relief," July 1985.

3/ As shown in the section in this report entitled "U.S. exports."

4/ Exports accounted for *** percent of total domestic production and *** percent of Harley-Davidson's production in 1986.

5/ Published estimates of the price elasticities of demand for heavyweight motorcycles are not available and cannot be readily estimated from the data obtained in this review investigation. In the 201 investigation, econometric estimates by the staff indicated that the price elasticity of demand for Harley-Davidson's motorcycles was approximately -.2. These estimates are discussed in memorandum INV-G-005 dated January 14, 1983.

consumers, purchases of motorcycles can easily be deferred when prices increase, and price reductions are likely to attract significant numbers of new and trade-in buyers. The price elasticity for heavyweight motorcycles is also influenced by the availability of substitutes; the greater the substitutability for other products, the greater the price elasticity of demand. For consumers with a strong interest in performance, many motorcycles with engine displacements of significantly less than 700cc are easily capable of providing comparable levels of performance as some of the largest displacement motorcycles in the heavyweight class. For purchasers who face decisions on basic transportation, the price level of many heavyweight motorcycles is in the range of some automobiles. Both the domestic and import demand schedules were considered more price elastic than aggregate demand primarily because domestic and imported heavyweight motorcycles are, in addition to the above factors, substitutes for one another. However, they are differentiated enough not to be perfect substitutes, and there is a significant degree of brand loyalty, which will tend to make some purchasers fairly insensitive to price changes.

Three scenarios of economic effects are presented in order to demonstrate the model's sensitivity to the use of different demand and supply elasticities. The three cases used elasticities that could be reasonably expected in this market and which ranged from moderate to fairly high levels. Changes in the elasticities did not significantly change the results. Scenario II's results fell between the results of the other two cases and is used in the discussion of termination of import relief. In case II, a domestic supply elasticity of 5, an import supply elasticity of 10, an aggregate demand elasticity of -2, a domestic demand elasticity of -2.5, and an import demand elasticity of -2.5 were used. The elasticities used in scenario I were lower than the other cases. Case I assumes a domestic supply elasticity of 2.5, an import supply elasticity of 5, an aggregate demand elasticity of -1, a domestic demand elasticity of -1.5, and an import demand elasticity of -1.5. The elasticities used in scenario III were somewhat higher than the other cases. Case III is based on a domestic supply elasticity of 10, an import supply elasticity of 20, an aggregate demand elasticity of -3, a domestic demand elasticity of -3.5, and an import demand elasticity of -3.5.

Termination of import relief.--The removal of the 10 percent tariff currently provided by the import relief program on imports of heavyweight motorcycles is estimated to have a relatively small effect on the industry and

consumers. Imports would increase because they are expected to pass through most of the tariff reduction to consumers, resulting in both increased total demand, and a displacement of domestic shipments because of reduced import prices, as shown in the following tabulation:

Item	Actual	Case I	Case II	Case III
U.S. producers' domestic shipments (units).....	72,995	72,222	72,111	71,907
Domestic share (percent).....	62.8	60.2	58.3	56.1
Importers' shipments (units).....	43,306	47,769	51,528	56,193
Import share (percent).....	37.2	39.8	41.7	43.9
Consumption <u>1/</u>	116,301	119,991	123,638	128,100
Percent change over actual.....	-	3.2	6.3	10.1
Capacity utilization <u>2/</u> (percent)	***	***	***	***
Employment decrease.....	-	15	18	23
Total consumer gains (million dollars).....	-	13.6	13.8	15.0
Price changes:				
Domestic (percent).....	-	-0.4	-0.2	-0.2
Imports (percent).....	-	-6.6	-6.8	-7.2

1/ Consumption equals U.S. producers' domestic shipments plus importers' shipments.

2/ Capacity utilization equals the sum of U.S. producers' domestic shipments and exports divided by capacity.

Imports are estimated to increase 8,222 units, or 19 percent in case II. The value of import shipments is estimated to increase from \$174.3 million to \$193.3 million, or by approximately 10.9 percent. Domestic shipments are estimated to decline 884 units, or 1.0 percent below the actual 1986 production level. The value of shipments by domestic producers is estimated to fall from \$356.1 million to \$351.0 million, or by approximately 1.5 percent. Total consumption is expected to increase by 7,337 units from 116,301 units to 123,638 units, or by 6.3 percent. The domestic producers' share of total consumption is estimated to fall from 62.8 percent to 58.3 percent. Domestic producers' exports are estimated to increase by 45 units and employment in domestic heavyweight motorcycle production is expected to decline by 18 employees. Domestic capacity utilization is expected to decrease from *** percent to *** percent.

The results in case I show slightly better results for the domestic producers than in case II, and case III's statistics are slightly worse. For example, domestic shipments for case I are estimated to be 72,222 units, or 111 units higher than in case II. In case III, domestic shipments are estimated to be 71,907 units or 204 less than case II. The decline in employment is 15 for case I, versus 18 for case II and 23 for case III.