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# DISAPPROVAL OF PRESIDENTIAL DECISION TO DENY IMPORT RELIEF TO DOMESTIC INDUSTRY PRODUCING LEATHER COATS AND JACKETS

AUGUST 22 (legislative day, JUNE 12), 1980.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

## REPORT

[To accompany S. Con. Res. 108]

The Committee on Finance, to which was referred the concurrent resolution (S. Con. Res. 108) to disapprove the determination of the President not to provide import relief to the domestic industry producing certain leather coats and jackets, having considered the same, reports favorably thereon without amendment and recommends that the concurrent resolution do pass.

### I. SUMMARY

S. Con. Res. 108 would disapprove the President's determination transmitted to the Congress on March 26, 1980, not to impose increased tariffs on imports of leather coats and jackets as recommended by the U.S. International Trade Commission (ITC) under section 201 of the Trade Act of 1974 in investigation number TA-201-40. If the concurrent resolution is adopted by both the House and Senate, the higher tariffs recommended by the ITC would be imposed. The tariffs recommended by the ITC apply only to leather coats and jackets valued over $150 each. In addition to the existing duties (the most-favored-nation rate of duty is 6 percent ad valorem), the higher duties recommended are 25 percent ad valorem in the first year of relief; 20 percent ad valorem in the second year; 15 percent ad valorem in the third year; and no additional duties thereafter.

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## II. GENERAL EXPLANATION

*Statutory framework*

Sections 201–203 of the Trade Act of 1974 provide a system for determining whether and to what extent to provide import relief to U.S. industries seriously injured by increasing imports. The ITC has the responsibility to determine whether there is serious injury to a domestic industry substantially caused by increasing imports and, if there is injury, to recommend a remedy.

In cases where the ITC is affirmative, the President may accept, reject, or modify its recommendation on remedy. If the President does not accept the ITC's recommendation, Congress may disapprove his determination by enacting a concurrent resolution under the provisions of sections 152 and 203(c) of the Trade Act. Under these provisions, the Congress has 90 working days (as calculated according to the provisions of section 154(b) of the Trade Act) within which to enact such a concurrent resolution. The form of the resolution is provided for in section 152 of the Trade Act. The resolution is unamendable, a motion to proceed to its consideration is privileged, and debate in the Senate on a resolution, and all debatable motions and appeals in connection therewith, is limited to not more than 20 hours. If the concurrent resolution is adopted by both Houses within the 90-day period, then the import relief recommended by the ITC must be proclaimed by the President within 30 days after the adoption of such resolution.

Under section 202(c) of the Trade Act, the President is required to take into consideration the following factors when determining whether to provide any import relief recommended by the ITC, as well as any other factors he considers relevant:

1. 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 or benefits from other manpower programs.
2. 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.
3. 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.
4. The effect of import relief on consumers (including the price and availability of the imported article and the like or directly competitive article produced in the United States) and on competition in the domestic markets for such articles.
5. The effect of import relief on the international economic interests of the United States.
6. 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.
7. The geographic concentration of imported products marketed in the United States.
8. 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.

9. The economic and social costs which would be incurred by taxpayers, communities, and workers, if import relief were or were not provided.

*The leather coats and jackets case*

*Chronology.*—On January 24, 1980, following a 6-month investigation under section 201 of the Trade Act of 1974 (Investigation No. TA-201-40 (USITC Publication 1030)), the ITC determined, by a vote of 4 to 0 (two Commissioners' positions then being vacant), that the industry in the United States producing leather coats and jackets valued at not more than $150 each was seriously injured by increasing imports. The ITC recommended to the President that he increase the existing rates of duty with respect to such items imported under item 791.76 of the Tariff Schedules of the United States; these imports are dutiable now at 6 percent ad valorem for imports from countries receiving most-favored-nation (MFN) treatment. The ITC recommended the following additional duties: 25 percent for the first year, 20 percent for the second year, and 15 percent for the third year. Thereafter, the duties would return to existing levels.

On March 26, 1980, the President notified the Congress of his determination that such import restraints recommended by the ITC on imported leather coats and jackets were not in the national economic interest. He cited the inflationary impact of the increased duties and doubts as to whether import relief would enable the U.S. industry to become competitive. He directed the Secretaries of Commerce and Labor to give expeditious consideration to any petitions for adjustment assistance filed by firms producing leather wearing apparel, by their workers, and by communities impacted by imports of such articles. The Labor Department has certified 1,154 workers in this industry under the adjustment assistance program since January, 1979, and the Commerce Department has certified 12 business firms since January, 1979.

On July 22, 1980, Senate Concurrent Resolution 108 was introduced to disapprove the President's determination not to impose relief as recommended by the ITC. A companion resolution, House Concurrent Resolution 383, was introduced in the House. As noted earlier, under section 203 of the Trade Act of 1974, Congress can disapprove the President's decision and require him to impose the increased tariffs recommended by the ITC if both Houses adopt a concurrent resolution of disapproval of the President's decision under the procedures in section 152 of the Trade Act. Congress has 90 working days from March 26 to adopt an override resolution. The 90 working days will expire in mid-September.

*Economic information.*—Before an industry is eligible for temporary relief from imports under section 201 et seq. of the Trade Act of 1974, it must convince the ITC that increased imports are a substantial cause of serious injury, or threat thereof, to the domestic industry producing a competitive product. The ITC may investigate for up to 6 months before making a decision. The following information on the leather apparel industry comes from the ITC staff report generated in the ITC investigation. The data run through mid-1979.

*The product and its uses.*—The great bulk of the apparel that was the subject of this investigation consists of leather coats and jackets for men and boys, and women and girls. Other articles include vests, pants, and shorts. The ITC's affirmative determination goes to an even narrower class of product, coats and jackets valued below $150 each. In practical terms, this applies almost entirely to men's leather coats and jackets as distinguished from women's leather wearing apparel, which the ITC found is high fashion apparel generally valued at or above $150.

*U.S. producers.*—Approximately 100 firms in the United States produce the articles of leather wearing apparel that are the subject of this investigation. Of the approximately 100 domestic producers, the ITC staff and industry sources estimate that the largest 10 firms account for about 50 percent of total production. Geographically, producing facilities are scattered throughout the country, although there is a concentration of facilities in the Northeast United States, particularly in the New York City metropolitan area. Approximately 50 percent of all U.S. production of leather wearing apparel occurs in this area.

The domestic producers of leather wearing apparel range from large apparel manufacturing firms, employing several hundred people, to small firms employing less than 10 people. Producers usually concentrate on the production of either men's and boy's or women's apparel. Rigidities associated with the machinery employed in the leather wearing apparel industry also make it difficult for leather wearing apparel producers to shift to the manufacture of cloth garments, or other leather goods, such as belts or handbags.

The ITC staff says the women's segment of the leather wearing apparel industry is more fashion-oriented than the men's segment, which results in significant differences in production methods, firm size, and marketing. Firms which concentrate on producing women's leather apparel are typically smaller than the firms producing men's apparel. Many produce to order only, and consequently maintain little or no production facilities or permanent production workers themselves.

*U.S. market.*—U.S. consumption of leather wearing apparel increased from 6.5 million units in 1975 to 11.9 million units in 1978. The ratio of imports to apparent U.S. consumption was 62 percent in 1975, 71 percent in 1976, about the same in 1977, and 82 percent in 1978.

*Imports.*—The estimated value of U.S. imports of leather wearing apparel increased 143 percent between 1975 and 1978, from $131 million in 1975 to $318 million in 1978. The value of imports declined by 10 percent in January–August 1979, compared with imports in the corresponding period of 1978, as a result of a sharp decrease in imports of women's coats and jackets. During the same period, the quantity and value of men's coats and jackets increased, but not enough to offset the women's products' decline. In 1979 and the first half of 1980, imports declined.

Among the major exporters of these products, Korea, Argentina, and Uruguay significantly increased their shares of the U.S. market from 1975 to 1978, whereas the market shares of Taiwan, Spain, and Canada declined. In 1979, imports of leather wearing apparel from Far East countries noticeably increased their market shares, while the shares of Uruguay, Argentina, and Brazil declined. Three factors contributed to the decline in exports from the Latin American producers.

First, severe inflation in the prices of skins and hides have affected Latin American producers more than producers in the Far East, as the former purchase their leathers in their own domestic markets on a spot basis, whereas the latter purchase leather 6 to 12 months ahead, primarily from U.S. suppliers. (The United States supplied about 44 percent of leather hides on the world market in 1978.) Second, recent countervailing duty investigations with respect to imports of leather wearing apparel from Argentina, Uruguay, Brazil, and Colombia, and an investigation by the U.S. Trade Representative (USTR) concerning export restrictions on hides from Argentina, may have affected exports of leather wearing apparel from those countries. Finally, a marked slackening of demand for women's leather wearing apparel in 1979 resulted in declines in U.S. producers' shipments and imports of these articles. Because Uruguay and Argentina are primarily exporters of women's leather wearing apparel, they have been especially hard hit by the downturn in the demand for these articles in the U.S. market.

*U.S. industry performance.*—The share of U.S. capacity utilized in the production of leather wearing apparel increased from 1975 to 1976, but then steadily decreased thereafter, falling under 60 percent for January–August 1979. Employment of production and related workers in the industry followed a similar pattern, increasing from 1975 to 1976, and then steadily declining, reaching a low point in January–August 1979.

Profit-and-loss data as provided by 35 producers of leather wearing apparel show net sales increased by 12 percent from 1975 to 1978, but net operating profit decreased 40 percent over the same period. The ratio of net operating profit to net sales decreased from 5.4 percent in 1975 to 2.9 percent in 1978.

A comparison of profit ratios shows domestic producers of leather wearing apparel to be somewhat worse off than manufacturers in other apparel industries. Leather wearing apparel producers incurred higher raw material costs relative to net sales than did fur and textile outerwear producers, but realized some savings in other expenses, to be able to maintain stable profits at a low level throughout the period 1975–78. Nonetheless, gross profit figures of leather wearing apparel producers are significantly lower than other apparel manufacturers. Both gross and net profit tax figures for leather wearing apparel producers show downward trends from 1975 to 1977, with only a slight recovery in 1978.

The year 1976 was clearly the peak production year for the industry, but producers continued to expand capacity to produce leather wearing apparel in 1977, even though production in that year declined by 10 percent from that in 1976. Production of these articles continued to decline in 1978 and January–August 1979, while capacity dropped slightly. The failure of capacity to track closely production trends is endemic to apparel industries, where demand for particular products from season to season is dependent on shifting fashion and fluctuating raw material costs.

*Prices.*—The average unit values of imports are significantly lower than those of domestic producers' shipments even after the import values are adjusted with CIF charges, duty and importer markup. Imports from the Far East undersell the domestic products by larger margins than imports from Europe or Latin America.

Prices are very important in purchasing decisions. ITC surveys showed that lower prices of the foreign apparel was a very important consideration, if not the most important consideration, in the decision to purchase imports.

*Hide prices and restrictive export practices.*—It is estimated that the cost of leather comprises approximately 54 percent of the cost of manufacturing an article of leather wearing apparel.

Prices of hides, skins, and tanned leather in the U.S. market are determined by cyclical trends in animal slaughter for meat, not by price and demand of the hides themselves. The United States, although the world's largest hide producing country, is also one of the few countries which allows unrestricted exports of its hides. Although the United States accounted for approximately 25 percent of the world production of hides in 1976–78, it accounted for 44 percent of world trade in these articles during the same period. Sixty percent of U.S. hides were exported in 1978. These rising exports, coupled with a cyclical low point in cattle slaughter, resulted in severe inflation in the U.S. wholesale price of hides, skins, and tanned leathers in 1978 and 1979.

In the early 1970's many Latin American countries, some of which had been major suppliers of hides in world trade, began to restrict their hide exports to insure a stable supply of hides for their leather apparel and footwear industries. The result of these restrictions has been that Latin American leather wearing apparel producers sometimes pay less for their leathers than United States and other foreign producers of these articles. This cost advantage is increased when hides are in short supply in major exporting countries such as the United States.

*Imports of U.S. producers.*—One recent trend in the leather wearing apparel industry is for domestic producers to switch to becoming primarily importers of these articles, or to import certain models and styles of garments in order to fill product lines.

Imports of 18 U.S. producers increased significantly during 1975–78, rising from 88,000 units in 1975 to 278,000 units in 1978, representing an increase of 215 percent. On a value basis the increase was even more marked, with imports increasing 285 percent from 1975 to 1978. Imports of U.S. producers surged again in January–August 1979, rising 36 percent on a quantity and 45 percent of a value basis from the corresponding period of 1978. The value of U.S. producer imports in 1978 was about 4 percent of the value of total imports, according to ITC figures.

The committee held a public hearing on S. Con. Res. 108 on August 19, 1980, at which it received testimony from the administration and representatives of the domestic industry, domestic unions, importers, foreign manufacturers, and domestic retailers.

*Committee consideration and action*

The committee considers the import relief provisions of the Trade Act of 1974 (sections 201–203) to be an important instrument in assuring industries and workers in the United States that their legitimate problems with imports will be dealt with in a fair and impartial way, and that they will be given an opportunity to become competitive with imports. When Congress enacted the import relief provisions, it expected the recommendations of the ITC for relief to be given great weight by the President. Indeed, it was the expectation that the recommendations of the ITC would prevail unless the President, taking into account the broader considerations which the law permits him to take into account, determines that there were compelling national economic interests which must prevail over the recommended relief Congress provided in the law that it could review a Presidential determination not to impose import relief recommended by the ITC and disapprove such determination.

The committee has reviewed the President's determination not to impose import relief and concluded that this determination should be disapproved, and thus favorably reports Senate Concurrent Resolution 108 to this effect. This resolution, if finally adopted by the Congress, will result in the imposition of the increased duties recommended by the ITC.

In determining to take this action, the committee carefully considered the President's reasons for deciding not to impose the recommended relief. With respect to the asserted doubts regarding the ability of the domestic leather coats and jackets industry to become competitive, the committee believes that the industry does have a real possibility of becoming competitive again. This belief is based on on the unanimous decision of the ITC that the relief would remedy the import-related injury being experienced and upon the testimony received at the committee's hearing on Senate Concurrent Resolution 108. At the hearing, the industry demonstrated a knowledge of its competitive problems. Additionally, both management and labor indicated significant progress in planning ways for becoming competitive during the 3-year relief period, progress beyond that period when the President made his determination. Given the circumstances of this case, the industry should be given the opportunity to try to become competitive.

With respect to the asserted inflationary impact of the proposed relief, the committee notes that any inflationary impact would be minuscule, as the leather coats and jackets consumed in the United States accounts for no more than a few one-hundredths percent of personal consumption expenditures. Any increase in the Consumer Price Index as a result of the import relief taking effect would be almost unmeasurable. While the inflation rate is down considerably from the rate present when the President made his determination, the committee is concerned about inflation, and does not take its action lightly. However, given that this is a discrete case and not a precedent for a series of small inflationary actions; that it is a case arising out of the trade laws whereby an industry has demonstrated its eligibility for relief following a 6-month investigation; and that a U.S. industry has a real possibility of becoming competitive again and creating jobs, the minimal price impact possible in this case should not deter granting the recommended relief.

## III. VOTE OF THE COMMITTEE IN REPORTING THE RESOLUTION

In compliance with paragraph 7(c) of rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote by the committee to report the resolution.

The resolution was ordered reported by a voice vote.

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