A COMPETITIVE ASSESSMENT OF THE U.S. JEWELRY INDUSTRY, PHASE I: COSTUME JEWELRY

Report to the Committee on Finance, U.S. Senate, Investigation No. 332-222, Under Section 332(g) of the Tariff Act of 1930

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Preface

On January 8, 1986, at the request of the Committee on Finance of the U.S. Senate 1/ and in accordance with section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), the United States International Trade Commission instituted investigation No. 332-222, A Competitive Assessment of the U.S. Jewelry Industry. The Commission was asked to issue two consecutive reports examining, first, the conditions of competition that have affected the costume jewelry segment of the U.S. industry and, secondly, the conditions of competition that have affected the precious metal jewelry (including precious metal chain) segment of the U.S. industry. In each report, the Commission was asked to provide information on the key economic factors in the U.S. market; on competitive factors including price, quality, design, and marketing techniques; on employment levels and trends; and on government standards and regulations pertaining to country-of-origin and precious-metal-content marking of jewelry, including Customs procedures for enforcing such standards and regulations.

Notice of the investigation was given by posting copies of the notice of investigation at the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register (51 FR 3272, January 24, 1986). 2/

Although no public hearings were conducted for this investigation, the Manufacturing Jewelers and Silversmiths of America (MJSA) 3/ sponsored three industry forums to discuss trade issues. The first forum was held on March 4, 1986, in New York, NY; the second was held on April 1, 1986, in Providence, RI; and the third was held on April 7, 1986, in Los Angeles, CA. Statements were received by the Commission from members of Congress and from U.S. producers, importers, and purchasers of costume jewelry.

In the course of this investigation, the Commission collected data and information from questionnaires sent to producers, importers, and purchasers of costume jewelry. 4/ In addition, information was gathered from various public and private sources; the industry forums; overseas posts of the U.S. Department of State; foreign field work in Taipei, Taiwan, and Hong Kong; and from interviews with industry executives representing producers, importers, and purchasers of costume jewelry, as well as from public data gathered in other Commission studies and from other sources.

1/ The request from the Committee on Finance is reproduced in Appendix A.

2/ A copy of the Commission's Notice of Investigation is reproduced in Appendix B.

3/ MJSA is the principal trade association for domestic jewelry manufacturers, representing some 2,300 members.

4/ A discussion of the survey design and methodology appears in Appendix C.

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Executive Summary

The United States market has traditionally supported a large and highly competitive domestic costume jewelry industry. In addition, practically every country with a costume jewelry industry does some exporting to the United States. Competition in the marketplace is based on a variety of factors, the most important of which are price, quality, design, service, availability of product, and promotional incentives. The U.S. marketplace is extremely competitive, and the last 5 years have seen major increases in costume jewelry imports. Imports of base metal jewelry, which comprises 97 percent of U.S. production, gained a 19-percent share of the U.S. market. Imports of nonmetal jewelry dominated that market niche, accounting for an 84 percent share, and possibly attracting some demand away from base metal jewelry. Generally, imports from Taiwan, Hong Kong, Japan, and The Republic of Korea (Korea), the major U.S. suppliers, are considered to have a competitive advantage over domestically produced costume jewelry on the basis of price, while domestic products are believed to outperform imports in areas such as design and quality.

Costume jewelry includes any articles of personal adornment, such as rings, bracelets, earrings, pendants, and necklaces that are made of nonprecious materials. Costume jewelry of base metal is that made of any nonprecious metal, such as copper, brass, iron, steel, aluminum, or zinc. Nonmetal jewelry is made primarily from plastic, wood, leather, bone, shell, and ivory. The principal findings of the investigation are outlined below. Table A presents an industry and market profile for 1981-85.

1. World Markets

- o <u>World imports of costume jewelry grew at an 8 percent annual rate from 1981 to 1985 despite a decline in consumption during 1982-83; the growth in consumption accelerated in 1985 with a 1-year gain of 16 percent</u>.

The United States has been the principal market for costume jewelry imports, absorbing 29 percent of total world imports in 1981 and increasing its share to over 52 percent in 1985. France, the second largest importer, bought abroad only one-seventh as much as the United States in 1985.

The United States also led import growth by a wide margin, increasing at a 25-percent annual rate from 1981 to 1985. Canada was a distant second, at 17 percent. The United Kingdom, France, Japan, Switzerland, and Hong Kong were also significant gainers, while other markets were either flat or down (pp. 3-6).

Table A.—Profile of U.S. costume-jewelry industry and market, 1981-85

Item	1981	1982	1983	1984	1985	Absolute change, 1985 from 1981	Percentage change, 1985 from 1981
Apparent consumption....million dollars..	1,169	1,172	1,260	1,509	1,625	456	39.0
Base metal.....do....	1,110	1,093	1,134	1,282	1,385	275	24.8
Nonmetal.....do....	60	79	127	227	239	179	298.3
Shipments 1/.....do....	1,053	1,056	1,121	1,183	1,216	163	15.5
Base metal.....do....	1,029	1,028	1,076	1,142	1,174	145	14.1
Nonmetal.....do....	24	28	45	42	42	18	75.0
Imports 2/.....do....	193	177	194	379	460	267	138.5
Base metal 3/.....do....	154	123	110	191	259	105	68.2
Nonmetal 3/.....do....	39	54	85	188	200	161	412.8
Imports to consumption ratio....percent..	16.5	15.1	15.4	25.1	28.3	11.8	71.5
Base metal.....do....	13.9	11.3	9.7	14.9	18.7	4.8	34.5
Nonmetal.....do....	65.0	68.4	66.9	82.8	83.7	18.7	28.8
Exports 2/.....million dollars..	77	61	55	53	51	-26	-32.7
Base metal 3/.....do....	73	58	52	51	48	-25	-34.3
Nonmetal 3/.....do....	3	3	3	3	3	0	0
Ratio of exports to shipments...percent..	7.3	5.8	4.9	4.5	4.2	-3.1	-42.5
Base metal.....do....	7.1	5.6	4.8	4.5	4.1	-3.0	-42.3
Nonmetal.....do....	12.5	10.7	6.7	7.1	7.1	-5.4	-43.2
Trade balance 2/.....million dollars..	-116	-116	-139	-325	-408	-293	251.3
Base metal.....do....	-81	-65	-58	-140	-211	-130	160.5
Nonmetal.....do....	-36	-51	-82	-185	-197	-161	447.2
Capacity utilization: 2/							
Costume jewelry.....percent..	53	49	59	70	4/	4/	-
Employment: 2/							
Total.....number..	23,800	20,300	21,200	23,100	22,200	-1,600	-6.7
Production workers.....do....	18,400	15,700	16,400	17,600	17,100	-1,300	-7.1
Net sales 5/.....million dollars..	433	414	460	509	537	104	24.1
Operating profits 5/....million dollars..	60	46	58	71	72	12	19.8
Ratio of gross profit to net sales 5/ percent..	48.4	45.3	48.1	50.0	48.2	-0.2	-
Ratio of net income before income taxes to net sales 5/.....percent..	12.9	10.5	12.1	13.6	12.9	0.0	-
Capital expenditures: 5/							
Total.....million dollars..	8	6	9	4	6	-2	-25.7
Ratio of capital expenditures to total net sales.....percent..	1.8	1.5	2.0	0.8	1.1	-0.8	-
Research and development: 6/							
Total.....million dollars..	3	4	4	4	5	2	60.4
Ratio of research and development to total net sales.....percent..	1.2	1.3	1.5	1.3	1.4	0.2	-

1/ U.S. industry total projected from questionnaire responses of a sample of U.S. producers of costume jewelry (see app. C for a discussion of survey methodology).
2/ Compiled from official statistics of the U.S. Department of Commerce.
3/ Estimated on the basis of responses to questionnaires of the U.S. International Trade Commission.
4/ Not available.
5/ Compiled from responses of 25 U.S. producers supplying usable income-and-loss data to questionnaires of the U.S. International Trade Commission. These firms together accounted for approximately 44 percent of estimated U.S. producers' shipments of costume jewelry in 1985.
6/ Complied from responses of 19 U.S. producers; the ratio to net sales is based on the net sales of the 19 respondents.

2. World Suppliers

o Newly industrialized nations supplied most of the increase in imports from 1981-85. Hong Kong was a leading exporter throughout the period, while Taiwan and Korea displaced the United States and West Germany as leaders. Japan and Italy are other leading competitors of the United States.

Hong Kong, Taiwan, and Korea, the three leading suppliers last year, far outpaced their competitors in trade growth from 1981 to 1985, each more than doubling exports, with average annual growth rates in the 19-25 percent range. Hong Kong nearly doubled its share of world exports, to 21.8 percent. Together the three supplied 48 percent of estimated world exports in 1985. Other major competitors were Japan and West European countries, particularly West Germany, Italy, Austria, France, and the United Kingdom. Even Japan did no better than a sixth of Hong Kong's export growth rate. Others showed moderate rates of growth. The United States was the major loser, showing a 29-percent export decline over the period, falling from lead supplier in 1981 to sixth place in 1985. Its share of world exports fell from about 13 percent to 7 percent in that period (pp. 6-7).

3. U.S. Market

o Growth of U.S. costume-jewelry consumption outstripped growth of per capita personal disposable income during 1981-85, as more women worked, low-priced jewelry became more plentiful, and the popularity of natural materials boosted jewelry purchases generally.

Apparent U.S. consumption of costume jewelry increased 39 percent, from $1.17 billion in 1981 to $1.63 billion in 1985--an 8.6-percent annual rate. The portion of nonmetal jewelry consumed more than tripled, to 15 percent of total costume jewelry consumed in 1985, up from 5 percent in 1981, as consumption rose from $60 million in 1981 to $239 million in 1985. Apparent consumption of nonmetal jewelry increased more during 1981-85 than that of base-metal jewelry--298 percent vs. 25 percent.

An impetus for this shift has been a change in styles toward inexpensive, nonmetal jewelry as accessories to casual clothing and sportswear, which have been popular in recent years. Once these goods are purchased to complement one outfit, a market develops for additional products in a variety of styles and colors to match related attire. In addition to a shift in consumers' tastes, the relatively lower price of such products has contributed to the growth in this market niche.

Since U.S. suppliers concentrate production predominantly on base-metal jewelry, imports met 90 percent of the 1981-85 increase in U.S. apparent consumption of nonmetal jewelry, compared with 38 percent of increased U.S. consumption of base-metal jewelry. As a result, by 1985, imports accounted for 84 percent of U.S. nonmetal-jewelry consumption, compared with 65 percent in 1981 (pp. 7-12).

4. U.S. Industry Profile

o The U.S. industry of roughly 800 firms consists mainly of small producers. The 4 largest producers account for roughly one-fourth of U.S. producer shipments and the largest 50, for 68 percent.

Numerous mergers, new entrants, and exits from the industry have taken place in recent years. The Jewelers Board of Trade reports that the number of all jewelry manufacturers (including precious-metal jewelry) increased 27 percent from January 1983 to January 1985, the period of the most rapid rise in U.S. apparent consumption. A moderate trend toward concentration of costume-jewelry-market power in larger firms has emerged: in 1982 the four largest firms accounted for 27 percent of U.S. producers' shipments, up from 23 percent in 1977; the 50 largest firms accounted for 68 percent, up from 63 percent in the earlier year. Approximately 40 percent of U.S. producers are located in the Providence, RI, metropolitan area. (p. 16)

o In nominal terms, domestic industry shipments rose 16 percent during 1981-85, which was slower than the 39-percent increase in U.S. apparent consumption. In real terms, shipments fell 4 percent over that period.

In constant 1981 dollar terms, U.S. producer shipments declined from $1,053 million to $1,010 million. Despite being by far the largest and fastest growing market in the world for costume jewelry during the period, the United States was not able to convert the advantages of its home market and its traditional supplier relationships into a comparable rate of growth in industry shipments. With 83 percent of the domestic market in 1981, U.S. producers supplied only two-fifths of the increase in apparent consumption during the 4 following years, while importers supplied three-fifths of the increase, cutting U.S. producers' overall market share to 72 percent (pp. 9-11, 17-19).

o Costume jewelry of base metal dominated U.S. production, accounting for 97 percent of U.S. shipments from 1981-85.

The dominance of base-metal jewelry declined slightly, from 98 to 97 percent during 1981-85, as consumer preference shifted to lower priced jewelry and products of natural materials. In reference to product types, U.S. producers reported concentrating on earrings (43 percent of shipments in 1985) and on necklaces and other neckwear (18 percent) (pp. 11, 17-19).

o Industry capacity utilization fluctuated widely from a 1982 low of 49 percent to 70 percent in 1984.

The swings paralleled but were somewhat wider than those for all U.S. manufacturing industries, which bottomed at 58 percent in 1982, recovering to 67 percent in 1984 (pp. 16-17).

- o Distribution channels shifted, with a 9 percentage point rise in the share of sales directly to retail outlets, and an equal reduction in the share of sales to wholesalers. This shift may have produced a structural increase in the level of inventories producers need to supply retailers.

With the rising popularity of lower priced jewelry, retailers increasingly ordered directly from producers, so that sales to retail operations increased from 63 to 72 percent during 1981-85, while those to wholesalers fell from 27 percent to 18 percent. The inventory-to-shipments ratio rose from 17 percent in 1981 to 23 percent by 1985, and is now double the inventory-shipment ratio for all manufacturers, which fell from 14 percent (1981) to 12 percent (1984) (pp. 22-23).

- o Total employment fell 6.7 percent (1981-85), slightly more than the 4 percent fall in the real value of shipments; average hourly earnings increased 15 percent; average weekly hours were up slightly. Productivity per worker increased 3 percent.

The industry job loss was 1,600 for the period. The decline reported for production workers was 7.1 percent. Average hourly earnings in the industry increased 14.6 percent from 1981 to 1985 (less than the 18.2 percent increase in the consumer price index), from $4.81 to $5.51. The latter figure compares with $7.28 for workers in miscellaneous manufactures, and $9.14 in all manufacturing. An increase in the number of producers in 1983-84 (see above), which added to capacity during a time of flat real demand for base-metal jewelry, might account for some of the decline in productivity noted in those years (pp. 23-25).

5. Levels and Trends in U.S. International Trade

- o Export levels were the first to show signs of some deterioration in the U.S. costume-jewelry competitive position, as the ratio of exports to producer shipments declined steadily from 7.3 percent in 1981 to 4.2 percent in 1985.

Exports declined by a third, from $77 million to $51 million, mainly because of strong Asian competition and the strength of the dollar. In 1985, Canada, Japan, and the United Kingdom were our leading markets, receiving 21, 16, and 9 percent of U.S. exports, respectively (pp. 26-28).

- o Base-metal jewelry imports expanded 68 percent from 1981 to 1985 (13.9-percent annual rate). Imports from developing countries under The Generalized System of Preferences (GSP) accounted for 62 percent of base-metal jewelry imports and 74 percent of nonmetal jewelry imports in 1984.

These percentages fell to 46 and 57 percent in 1985 because of reductions in GSP eligibility. GSP imports accounted for 97-98 percent of 1985 costume-jewelry imports from Korea, India, and the Philippines, the third-, fifth-, and sixth- largest exporters to the United States. For the two leading exporters, Taiwan and Hong Kong, the percentages were 59 and 44 percent, respectively (pp. 28-33, 42-46).

- o U.S. imports of costume jewelry under the GSP program more than doubled during the period, to account for one-half of imports in 1985. The top three GSP suppliers accounted for 80 percent of total imports under the GSP in that year.

U.S. imports under the GSP increased from $97 million in 1981 to $232 million in 1985. GSP imports from the five leading suppliers of costume jewelry under the program accounted for an average of 66 percent of total imports from those countries in 1985. GSP imports from Korea more than tripled; from $20 million in 1981 to $65 million in 1985. Termination of GSP privileges for Hong Kong on certain costume-jewelry products in 1985 did not appear to slow its exports significantly, in spite of application of the 15.1 percent duty on non-GSP imports (pp. 42-46).

- o The ratio of imports to apparent consumption decreased from 1981 to 1983, but increased sharply in 1984 and somewhat more in 1985, to an 18.7-percent import-penetration ratio in the dominant U.S. base-metal market segment.

The apparent deficit balance in U.S.-jewelry foreign trade more than tripled over the 4 years from 1981 to 1985 to $408 million, equivalent to a third of U.S. shipments. The rapid expansion of imports was favored by the shift of U.S. demand to nonmetal jewelry, little-produced by U.S. suppliers, which bypassed major U.S. producer advantages of nearness to market and traditional supplier-buyer relationships. The import-consumption ratio for GSP imports of base-metal jewelry was 8.5 percent in 1985 (pp. 9-12).

6. Leading Competitive Factors

- o Foreign-made costume jewelry was reported to enjoy an overall competitive advantage in the U.S. market, primarily as a result of pricing advantages.

On the basis of responses to Commission questionnaires, foreign-made products held an overall competitive advantage in costume-jewelry products and enjoyed a price advantage, including the ability to satisfy various quality and price levels. In costume jewelry of base metal, foreign-made products were still believed to hold the overall advantage but to a lesser degree. Foreign producers were also reported to offer metal products at lower prices. Foreign and domestic producers were rated about equal in their ability to supply metal products at diverse price levels (pp. 46-51).

- o Domestically produced costume jewelry was reported to hold a competitive advantage in marketing factors.

On the basis of questionnaire responses, domestic producers were heavily favored in all nonprice marketing factors, most particularly in the ability to deliver products in a shorter time, in product design, and in overall product availability. In terms of having an advantage in product quality and historical supplier relationships, domestic producers were still favored, but to a lesser degree. With respect to costume jewelry made of base metal, the relative performance of domestic products improved. The perceived advantage of domestic base-metal products was greater than that for domestic nonmetal costume jewelry in each of the marketing factors, indicating that the U.S.

industry is more competitive in this sector of the market. For nonmetal costume jewelry, foreign-made products received a higher rating in every factor (pp. 61-63).

- o Imported products hold a competitive advantage through the ability to supply a lower priced product because of lower labor and materials cost, exchange rates, and other factors.

In response to Commission questionnaires to U.S. producers, importers, and purchasers of costume jewelry, two-thirds of all responses indicated that foreign-made products held a competitive advantage in the U.S. market on the basis of price; domestic products were rated closest to imports from countries other than major Asian competitors. Foreign producers were favored in an ability to supply lower priced products. U.S. producers and importers indicated that the perceived pricing advantage was the result of lower labor costs. Although importers rated foreign-made products as having an advantage because of their lower materials costs and favorable exchange rates, domestically produced products were believed to hold an advantage in other pricing factors, such as transportation costs (pp. 51-57).

- o Promotional incentives, aimed at retailers, are generally considered to be an important factor of competition.

Most questionnaire respondents reported that promotional incentives, such as cooperative advertising, are important factors of competition among domestic suppliers offering costume jewelry. Other programs, such as in-store sales support services, point-of-sale promotions, and training for store personnel, are also popular incentive programs. Most imported products are not supported by such services or are supported to a limited degree. However, in general, the price advantages enjoyed by imported products reportedly outweighed any advantage caused by these promotional incentives (pp. 21-22).

7. Tariff and Nontariff Barriers

- o Preferential duty rates reportedly play a significant role in the international competitiveness of many national costume-jewelry industries.

The demand for most costume jewelry is highly price elastic, indicating that any additional cost factor which affects price may have a significant impact on the competitiveness of those products. Most major world markets for costume-jewelry products are developed countries, and most leading competitors are developing nations. Preferential tariff treatment provides developing nations a competitive advantage in most third country markets because it lowers the price of their products relative to those of developed nations. The effect is that developed-country industries must usually try to compete on such nonprice factors as quality, design, and delivery time, and to invest more heavily in such areas (pp. 66-67).

- o Among nontariff barriers affecting the international trade of costume jewelry, different national marking requirements are reported to be the most significant.

An indication of the country of origin is required to be marked on costume-jewelry articles in all major markets. In addition, for base-metal jewelry, most markets require a marking that indicates the fineness of material used in plating and/or the process by which the article has been plated. However, there is no universal technical terminology or standards for such markings. According to a substantial number of questionnaire respondents, this lack of commonality tends to inhibit the flow of trade through additional costs, both direct and indirect, in meeting various national standards. Other nontariff barriers reportedly include import licensing requirements, and alleged direct or indirect government assistance to industries (pp. 67-69).

8. Product Standards and Marking Regulations

- o Industry representatives allege that country-of-origin marking requirements related to imported costume jewelry are not effectively enforced after products move through Customs.

A substantial number of questionnaires indicated that imported costume jewelry is often not properly marked as such when it reaches the ultimate consumer. Existing U.S. Customs regulations allow for the country of origin markings on certain articles of imported jewelry to be made with gummed stick-on labels. However, industry representatives allege that such labels are removed, either accidentally or deliberately, thereby defeating the purpose of the requirements. Further, they believe consumers have no ready means to discern whether an item is domestically produced or imported. Thus, due to limited information, if consumers encounter problems with an article they often assume it is of domestic origin and erroneously associate the problem with the domestic industry (p. 68).

9. Financial Experience & Investment Responses of U.S. Producers

- o The profitability of U.S. producers responding to Commission questionnaires remained relatively stable over the period 1981-85.

Net sales of costume jewelry by U.S. producers reporting full financial data increased 24 percent, from $433 million in 1981 to $537 million in 1985. Total expenses incurred increased at the same rate over the period, from $377 million in 1981 to $468 million in 1985, so that profitability measured by net income before taxes remained at 12.9 percent of sales in both years (pp. 71-73).

- o Substantial investment by U.S. producers in pollution control equipment to meet federal standards for wastewater discharge and employee safety were claimed to have affected negatively U.S. industry's competitive position vis-a-vis imports by adding costs not incurred by foreign producers.

Discharges of certain metals and hazardous materials into bodies of water are restricted under regulations issued by the Environmental Protection Agency (EPA) that became effective in 1984. Many local governments have also established water pollution standards, some of which are more stringent than Federal standards. These rules impact directly on electroplaters, including those in the jewelry industry, who in turn have reportedly invested in waste-treatment equipment to remove the hazardous byproducts of their operations. Further, according to industry sources, in order to provide a safe working environment for employees under guidelines established by the Occupational Safety and Health Administration (OSHA), domestic producers reportedly invested heavily in pollution control equipment. However, from profit and loss data obtained from the Commission's questionnaires, including data on capital expenses for environmental control, such investments did not cause a net decrease in profitability in the industry below levels in prior years.

Based on discussions with representatives from industries in Taiwan and Hong Kong, similar regulations exist in those countries; however, enforcement is reported to be less stringent (pp. 74-76, D-4, D-7).

10. The Competitive Outlook for the U.S. Industry

- o Although there is contradictory information concerning the exact nature of competition between the predominantly base metal U.S.-produced costume jewelry and foreign-made jewelry, both in the U.S. market and abroad, concentration by the U.S. industry on its current strengths in product quality, design, and marketing appears crucial to its success in these markets.

U.S. imports of costume jewelry were rated by questionnaire respondents as having an overwhelming price advantage over U.S. products. So much so, in fact, that one of the key questions becomes how did the U.S. industry remain as competitive as it did in the face of this competition. Of primary importance in determining the U.S. industry's exact competitive position is the amount of cross-competition that exists between base metal jewelry and nonmetal jewelry. If the crossover is low, than the U.S. industry faces relatively less import competition because the greatest import growth was in nonmetal jewelry. On the other hand, if there is free cross-competition, the industry faces a far greater competitive challenge. The evidence is mixed. However, regardless of the exact nature of this cross competition, the U.S. product was consistently rated better than imports in all the major nonprice competitive factors, and it is the pursuit of these advantages that promises to sustain the industry (pp. 76-79).

Chapter 1. Product Description and Uses

Jewelry includes any articles of personal adornment, such as rings, bracelets, earrings, pendants, and necklaces. These articles can be made of precious or nonprecious materials and are often set with natural, synthetic, or imitation stones, or natural, cultured, or imitation pearls. Costume jewelry is generally considered jewelry made of nonprecious materials and synthetic, or imitation stones, and is low to moderately priced and fashion oriented. It can be separated into that which is an imitation of precious items and that which is ornamental. Imitation items are usually modeled on precious metal jewelry and made of comparatively cheaper materials. Fashion or ornamental jewelry does not generally have precious metal counterparts and is made of a variety of materials, although various types of plastic, glass, and wood are most popular. For this investigation, costume jewelry includes any object of personal adornment and small articles ordinarily carried in the pocket, in the handbag, or on the person for personal convenience; and parts in chief value of any material except precious metal (including rolled precious metal 1/), precious stones, natural pearls, precious metal (including rolled precious metal) set with precious or semiprecious stones 2/, cameos, intaglios, amber, or coral, or any combination thereof. Specific materials commonly used in costume jewelry include base metals 3/, electroplated metals 4/, glass, plastic 5/, wood, bone, shell, textiles, leather, synthetic, imitation and semiprecious stones, nuts, and ivory, among others.

Typical articles of jewelry and personal adornment include rings, earrings and clips, bracelets, necklaces, neck chains, watch chains, key and chains, brooches, cuff links, collar pins and clips, tie pins and clips, dress-studs, medals, fobs, pendants, military, fraternal, and similar emblems, and chain, made of base metal, provided it is produced in continuous lengths. Also included in costume jewelry are watch attachments, such as bracelets and straps, as well as insignia, and religious articles (including rosaries, chaplets, crucifixes, and medals) of a purely devotional character. The so-called small articles ordinarily carried on the person include cigar and cigarette cases and holders, spectacle cases, coin purses, card cases, pocket combs, powder boxes, lipstick holders, money clips and similar articles.

1/ The term "rolled," as used in regard to precious metals, means material made with a metal base upon one or more surfaces of which a covering of precious metal is affixed by soldering, brazing, welding, hot-rolling, or similar mechanical methods, and also includes base metal inlaid with precious metal.

2/ Semi-precious stones are generally considered to be such because of their relative softness, inferior brilliance, or comparative abundance. They can vary widely in price from costly tanzanite, red tourmaline, green garnet, and colored topaz, to inexpensive amethyst and chrysoprase.

3/ A base metal is any nonprecious metal. Copper, brass, iron and steel, aluminum and zinc are commonly used in jewelry.

4/ The term "electroplated" applies to any metal with a coating of another metal by an electrolytic process. Gold, silver and nickel are commonly used as plating metals for uniformity of color and shine.

5/ Polystyrene, acrylic and PVC are commonly used in costume jewelry.

All articles classified as costume jewelry and parts thereof under the Tariff Schedules of the United States (TSUS) have been included in this study. For simplification, all references to costume jewelry hereinafter shall include component parts for such articles, except as noted. For purposes of the investigation we have provided analysis throughout the report on the basis of major product categories. All reference to product groupings refer to those defined below, except as noted:

- o Rings - Jewelry in the form of a circlet worn on any of the fingers. This includes those used as fraternal, college, school, wedding, and other special occasion rings, and also any used as mountings for stones.
- o Neckwear - This item includes a string of jewels, beads or the like, or a metal band or chain worn around the neck. It also includes all chains that are used to suspend a pendant, locket or other ornament.
- o Earrings - An ornament that attaches to the lobe of the ear by a small screw, clip, or by a wire piercing the ear.
- o Watch bracelets - An ornament, to be worn on the wrist, to which a watch is attached, including bracelets, bands, and straps.
- o Religious articles - A class of objects made to be worn combining religious uses with artistic beauty. Included here are rosaries, medals, crucifixes and chaplets, of a purely devotional character.
- o Findings - Standardized parts of jewelry marketed for use in manufacturing or repair work. This includes items such as joints, pins, spring rings, ring blanks, and other unassembled parts.
- o Clasps - An attachment used to connect the two ends of a neck chain, necklace, bracelet, or similar piece of jewelry.
- o Other jewelry articles - Included here are all other articles of jewelry and personal adornment such as bracelets, brooches, tie pins and clips, coin purses, collar pins and clips, key chains, cuff links, medals, money clips, emblems, insignia, pendants, and various small cases and boxes.

Chapter 2. World Markets

Not only has the United States been the world's largest importer of costume jewelry for more than a decade, but during the period 1981-85, U.S. imports rose by nearly 150 percent (25 percent per annum) to account for more than 50 percent of total world imports. By comparison, total world imports increased by an estimated 37 percent during the period, an average annual rate of 8 percent.

United Nations and national trade statistics indicated that the top 10 importers of costume jewelry 1/ during 1981-85, their respective shares, and the share of U.S. exports in each market in 1985 were as follows:

Country	1981	1982	1983	1984	1985	Share of world total 1985	Change, 1985 from 1981	Share of U.S. exports 1985
	1,000 dollars					Percent		
United States..	205,161	190,036	211,128	414,371	505,885	52.2	146.6	--
France.....	56,729	56,174	50,505	53,075	67,604	7.0	19.2	3.6
United Kingdom.....	47,369	45,039	42,927	53,993	64,350	6.6	35.8	9.0
Canada.....	26,322	19,004	23,645	37,561	49,597	5.1	88.4	20.9
Japan.....	38,063	38,354	39,165	44,078	45,547	4.7	19.7	15.5
Hong Kong.....	35,119	26,959	25,556	31,077	44,091	4.5	25.5	4.9
Switzerland....	31,337	30,598	31,112	31,236	40,854	4.2	30.4	2.8
West Germany...	44,638	39,392	35,450	35,240	39,371	4.1	-11.8	2.8
Italy.....	21,373	20,176	19,256	21,292	26,365	2.7	23.4	2.2
Australia.....	14,091	12,559	11,621	14,878	18,815	1.9	33.5	4.7
World.....	710,172	661,108	593,045	833,532	970,000 1/	100.0	36.6	100.0

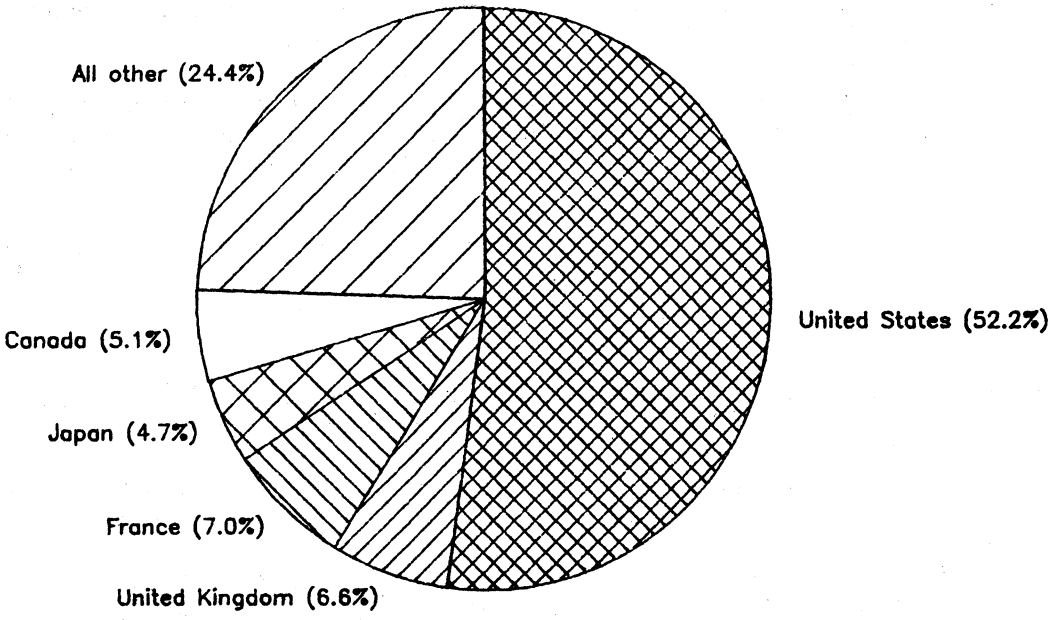
1/ Estimated.

Figure 1 illustrates the relative country shares in 1985. With the exception of 1984, France was the second largest importer during the period, but was 7.5 times smaller than the U.S. market in 1985. Canada, which accounted for 5 percent of imports in 1985, was the only market that approached the United States in growth rate, increasing by 88 percent during 1981-85. An apparent trend in all major world markets is toward nonmetal costume jewelry. Earrings and neckwear are the most popular articles and plastic, beads, and wood the most popular materials. The U.S. market will be discussed in greater detail following this section.

1/ Costume jewelry is defined as those products included in SITC item 897.2.

Figure 1. Costume jewelry:

Major world importers, 1985



2.1 France

French imports of costume jewelry rose 19 percent between 1981 and 1985, when it accounted for 7 percent of world imports. According to the latest available statistics, Hong Kong was the leading supplier of costume jewelry to France in 1984. Hong Kong, Italy, and West Germany have been the major suppliers of costume jewelry to France over the period. Together these countries account for almost one-half of total French imports. Base-metal jewelry was the principal imported article accounting for over 90 percent of total costume-jewelry imports during the period. France's principal import from Hong Kong, accounting for approximately one-third of their total costume-jewelry exports to France, was metal watch bands. The principal product from Italy, accounting for over one-third of their total exports, was unplated base-metal jewelry articles; and that from West Germany, accounting for over one-fourth of their total exports, was plated base metal jewelry articles.

2.2 United Kingdom

U.K. imports of costume jewelry rose 14 percent from 1981 to 1984 and 19 percent between 1984 and 1985. According to the latest available statistics the relative share of imports of costume jewelry made of base metal decreased from 94 percent in 1980 to 77 percent in 1984. The bulk of such imports in 1981 was plated base-metal costume jewelry from Ireland. In 1984, Ireland continued to be the principal supplier of base-metal-plated jewelry; however, imports of nonmetal jewelry from Hong Kong increased approximately fivefold over the period.

The U.S. was the largest supplier of costume jewelry to the United Kingdom in 1981 and accounted for $8 million, or 18 percent of total costume-jewelry imports. Hong Kong was the second largest supplier in 1981 and accounted for $8 million, or 16 percent of such imports. This situation reversed itself during 1981-85. Such imports from Hong Kong increased 20 percent to $9 million in 1984, or 17 percent of total imports; Hong Kong became the largest supplier to the United Kingdom. Imports from the United States, however, decreased 39 percent and amounted to $5 million in 1985, or 10 percent of total imports, as the United States slipped to the second leading supplier. The increased importance of Hong Kong can be attributed to its aggressive export marketing and ability to supply lower priced products. They also offer a variety of products made of nonmetal materials whose popularity has increased in recent years.

2.3 Canada

Canadian imports of costume jewelry rose 88 percent, averaging 17 percent per annum, from 1981 to 1985, accounting for 5 percent of world imports. The relative share of imports of costume jewelry made of base metal decreased from approximately 75 percent in 1981 to 65 percent in 1985. According to export statistics of partner countries, it is estimated that the bulk of Canadian nonmetal costume-jewelry imports are from European nations, and those of base metal are from the United States and Asian nations.

The United States was the largest supplier of costume jewelry in 1981, accounting for $16 million, or 61 percent of total imports. Imports from the United States increased 48 percent to $24 million in 1985, or 47 percent of total imports. Hong Kong was the second largest supplier in 1985, accounting for $8 million, or 17 percent of total imports. Such imports from Hong Kong almost tripled from their $3 million value in 1981. Taiwan was the third largest supplier in 1985, accounting for $4 million, or 8 percent of total imports.

2.4 Japan

Japanese imports of costume jewelry rose 20 percent during 1981-1985, when they accounted for 5 percent of world imports. Base-metal jewelry accounted for over 90 percent of total costume-jewelry imports during 1981-85. Over the period, plated-jewelry articles accounted for approximately one-half of Japan's total costume-jewelry imports and metal watch bands, primarily from Hong Kong, accounted for an additional 30 percent of total imports. Imports of nonmetal costume jewelry from Hong Kong and The Republic of Korea (Korea) increased approximately fivefold over the period.

The United States was the largest supplier of costume jewelry in 1981, accounting for $10 million, or 26 percent of total costume-jewelry imports. Approximately one-fifth of total imports from the United States were plated base-metal costume jewelry. Hong Kong was the second largest supplier, accounting for $7 million, or 17 percent of such imports. By 1985, this situation was reversed. Such imports from Hong Kong more than doubled to $13 million, or 29 percent of total imports, and Hong Kong became the largest supplier. Imports from the United States declined 14 percent, amounting to $8 million in 1985, or 19 percent of total imports.

In 1985, the United States continued to be the principal supplier of base-metal plated jewelry, accounting for $7 million, or 16 percent of total imports. The bulk of the increase in imports from Hong Kong was in metal watch bracelets, which rose from $6 million in 1981 to $10 million in 1985. The decline in imports from the United States was in plated-jewelry articles, such as brooches, neckwear, and pendants.

Chapter 3. World Suppliers

As the only world supplier of costume jewelry to experience a drop in exports during the overall period 1981-85, the United States plunged from the number one world exporter to sixth place. United Nations and national trade statistics indicate that the top 10 world exporters of costume jewelry 1/ for the period 1981-85, their respective shares, and their share of U.S. imports in 1985 were as follows:

Country	1981	1982	1983	1984	1985	Share of world total 1985	Change, 1985 from 1981	Share of U.S. imports 1985
	1,000 dollars					Percent		
Hong Kong.....	74,007	70,287	87,213	135,469	179,770	21.8	142.9	24.8
Taiwan.....	52,097	58,250	70,453	101,417	114,793	13.9	120.3	25.5
Republic of Korea.....	49,715	73,766	51,686	71,790	101,200	12.3	103.6	14.6
West Germany...	61,040	57,798	52,121	53,268	67,217	8.1	10.1	1.3
Japan.....	50,360	35,676	44,632	51,231	62,358	7.6	23.8	12.6
United States..	80,164	64,397	58,998	57,146	56,953	6.9	-29.0	--
Italy.....	44,145	39,784	37,759	40,207	54,094	7.1	6.6	2.9
Austria.....	23,017	21,694	22,470	25,583	38,566	4.7	67.6	1/
France.....	25,759	21,285	17,244	22,607	34,652	4.2	34.5	1.8
United Kingdom.....	29,490	25,051	22,269	26,133	33,158	4.0	12.4	0.9
World.....	624,836	594,025	549,171	659,095	825,000 2/	100.0	32.0	100.0

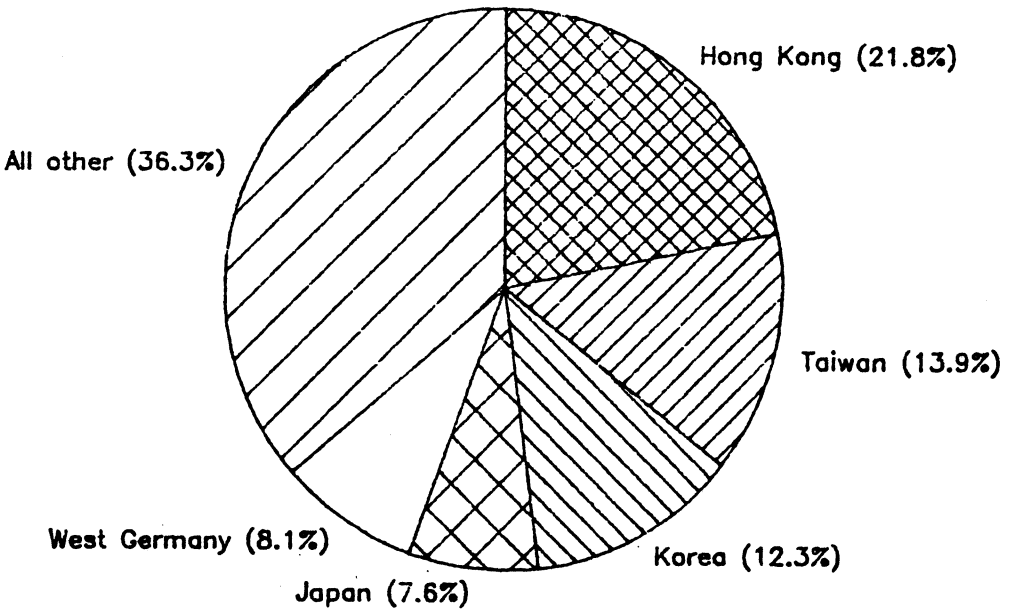
1/ Less than 0.5 percent.
2/ Estimated.

Leading the low-cost Asian jewelry producers was Hong Kong which became the world's leading exporter of costume jewelry in 1983, as total exports from Hong Kong were rising 142 percent from 1981 to 1985 for an average annual increase of 25 percent. In 1985, Hong Kong accounted for 22 percent of total world exports of costume jewelry (figure 2). Taiwan rose from the fourth leading exporter in 1981 to the second leading exporter in 1983, at which position it has remained, as exports of costume jewelry from Taiwan more than doubled (an increase of 22 percent per annum). Taiwan peaked at 15 percent of total world exports in 1984. Korea's rank as an exporter during this period

1/ Includes items classifiable in SITC item 897.2.

ranged from first to sixth and was third in 1985, accounting for 12 percent of total world exports. West Germany and Japan were the fourth and fifth leading exporters in 1985, accounting for roughly 8 percent of total world exports each.

Figure 2. Costume jewelry: Major world suppliers, 1985



Chapter 4. U.S. Market

4.1 Domestic Market Profile

The world's largest consuming market for costume jewelry products is the United States. In addition to supporting a large domestic industry, the U.S. market also accounts for more than one-half of the world's total imports of costume jewelry. With the exception of jewelry findings and clasps, the ultimate consumers of products included in this report are individuals. During 1981-85 the growth and product composition of the U.S. market was heavily influenced by economic factors and subjective preferences. Among economic factors which affected the growth of the U.S. market were employment levels and trends, personal disposable income levels and growth, and the rising price of input materials and finished goods. Industry sources indicated that the most important subjective factor influencing consumer buying habits was the "look" accessories lend to fashions. Recent consumer preferences for less-expensive products resulted in a shift in the market, primarily in terms of product materials.

The return of women to the workforce was a major contributing factor to the expansion and changing composition of the market. According to industry sources, jewelry has traditionally been considered a gift item and most

purchases were for that purpose. The popularity of jewelry articles as gift purchases declined somewhat as consumers bought more items for their personal wardrobes. Self-purchases currently account for approximately two-thirds of all sales. Women, ages 22-40, represent the largest purchasing category and account for over one-half of total sales. The desire to complement a woman's work wardrobe, by adding a feminine look to business attire, has prompted new designs in costume jewelry.

The popularity of jewelry as a gift item results in the highly cyclical or seasonal nature of the domestic market. Approximately one-fourth of annual jewelry sales occurr during December. The seasonality of the costume jewelry market is less significant than that of the precious-metal jewelry market because costume products are less expensive and are often purchased on impulse.

In addition to the structural seasonality of the jewelry market, unpredictable fads and trends also play a significant role in the market. The difference between a fad and a trend is the length of impact on the market. When the popularity of a market element, such as a particular article, material, or design, skyrockets for a relatively short period of time, that element is considered to be faddish. The popularity of the element evaporates once the novelty wears off. Fads appear to be frequent in the domestic market since styles turnover very quickly. With each new fad, demand for specific articles shift, but the overall market is not significantly affected. Some fads, however, can turn into trends. If a fad remains popular for a relatively long period, usually more than one to five years, it is considered a trend in the marketplace and can last for many years.

"Twister-bead" necklaces provide an example of the short-lived fad. Prior to 1984, this style of necklace, where a number of bead strands are twisted together, was not in vogue. During late 1983 and 1984, these necklaces became popular as they were highlighted in fashion publications and consumers considered their "look" appealing. By 1985, the "look" was out of style and sales declined and are currently very low. Gold necklaces and neck chains provide an example of a fad which has become a trend. These goods attained faddish popularity in the late 1970's. Since then, however, the popularity of these goods has only modestly declined yet, according to industry sources, they remain a steady selling item.

Many factors affect the popularity of particular styles in the domestic market, however, most popular designs are reportedly based on current styles in Europe, with a 6 month to a year lag. In recent years, television and music videos have expanded the market in terms of styles and price ranges. Much of the current popularity of costume jewelry can be attributed to the influence of certain music video personalities. The wide range of costume jewelry styles, from simple bangle bracelets to elaborate stone-set items, has increased the price range for costume jewelry. By combining materials and designs, certain high-end costume jewelry is priced at levels that were once exclusive to precious-metal jewelry. As another example of the media's influence, industry sources attribute the current popularity of bracelets to certain musicians' multiple bracelet "look." This has not only affected the youth market (ages 13-17) but has transcended it to reach various other age groups. A more conservative look can be achieved by wearing only one or two bracelets.

Licensing has become a popular facet of jewelry marketing. Virtually any commercial name, personality, or character can be licensed and used in jewelry products, ranging from key rings to pendants. Licensing is said to have a major impact on consumers, who identify the licensee's image with the product. In the highly competitive jewelry market, any marketing advantage can significantly affect business. Some producers use licensing as a technique to broaden their lines within a price range, as well as to add new markets. Others value the exclusivity in product distribution that licensing allows. Some of the drawbacks to licensing include the fact that the manufacturer must get prior approval for most designs, or changes in design, and promotional materials. In addition, manufacturers reportedly pay substantial fees and royalties, based on sales, to the licensee.

According to respondents of the Commission's purchaser's questionnaires, purchases of costume jewelry are often made in bulk, based on market demand, price, design, quality, and availability of product; country of origin is not considered in their purchasing decisions. Most respondents indicated that it was virtually impossible to differentiate between domestically produced products and those imported. They noted that many of their suppliers make no distinction between the two. Since country of origin is not a major factor in purchasing decisions, and most firms cannot maintain records in this manner, it is difficult to discuss the domestic market purely in terms of domestically-produced and imported products.

According to industry reports which discuss only jewelry articles (i.e., excluding watch bracelets), approximately 45 percent of retail jewelry sales consist of earrings, 25 percent of neckwear, 15 percent of rings, and the remainder of other articles, such as bracelets, brooches, etc. Base-metal articles dominate the fashion jewelry market, the bulk of which are electroplated. Of nonmetal products, plastic jewelry accounts for about one-third of the market; wood accounts for about one-fourth; and the remainder is distributed among a variety of other materials. Nonmetal jewelry is currently popular with all ages because it is inexpensive and can complement any wardrobe.

Responses to the Commission questionnaires corroborate the industry reports. According to questionnaire responses, earrings, the bulk of which were base metal, accounted for the largest share of costume jewelry purchases, amounting to 58 percent in 1985, up from 45 percent in 1981. Neckwear, also primarily base metal, was the second most popular category, accounting for 32 percent of the total in both years. Rings and watch bracelets showed declining importance, dropping from shares of 6 percent and 8 percent in 1981 to 5 percent and 2 percent, respectively, in 1985. The share accounted for by the remainder, which consisted of religious articles, findings, and clasps, dropped from 9 percent to 3 percent.

4.2 Trends in Consumption and Import Penetration

Estimated U.S. apparent consumption of costume jewelry and parts thereof increased 39 percent, by $456 million during 1981-85, represented primarily by imports, which experienced an average annual increase of 24 percent, compared with 4 percent for U.S. producers' shipments (table 1; figure 3). The largest

Table 1.--Costume jewelry: Producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1981-85

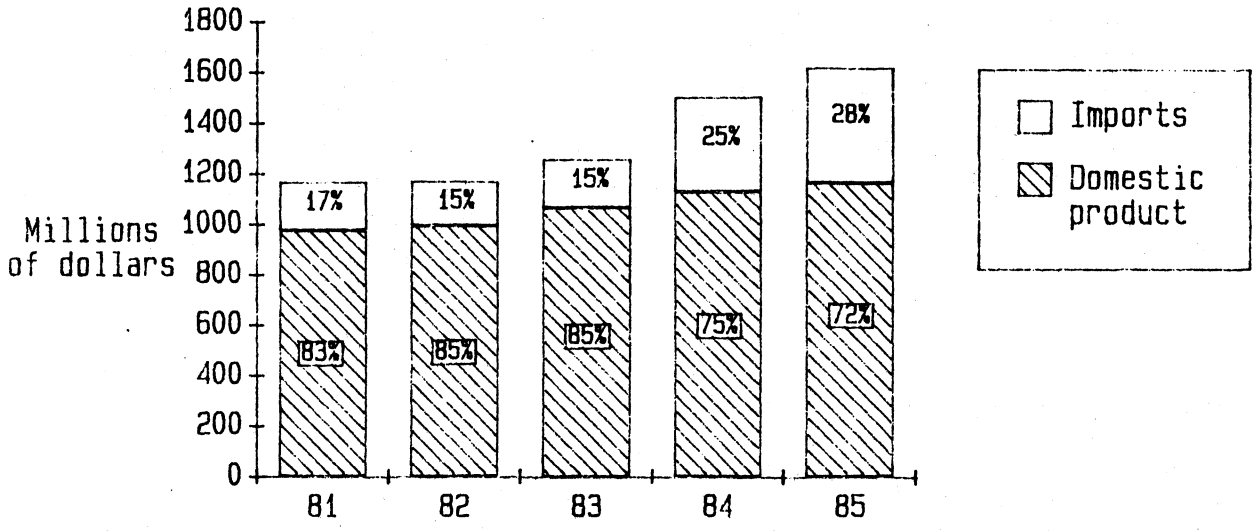
(Value in millions of dollars; change in percent)

Year	Producers' shipments 1/	Exports	Imports	Trade balance	Apparent consumption	Ratio (percent) of imports to consumption
			Value			
1981.....	1,053	77	193	-116	1,169	16.5
1982.....	1,056	61	177	-116	1,172	15.1
1983.....	1,121	55	194	-139	1,260	15.4
1984.....	1,183	53	379	-325	1,509	25.1
1985.....	1,216	51	460	-408	1,625	28.3
			Change			
Change, 1985 from 1981.....	15.5	-32.7	138.5	251.3	39.0	71.5
Average annual change, 1985 from 1981.....	3.7	-9.4	24.3	36.9	8.6	14.4

1/ Projected from shipments data compiled from responses to questionnaires of the U.S. International Trade Commission

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Figure 3. Costume jewelry: Apparent U.S. consumption, 1981-85



Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission and official statistics of the U.S. Department of Commerce.

annual growth occurred during the 1983-84 period, when apparent consumption increased 20 percent as imports grew by $185 million (95 percent). The growth in imports caused the ratio of imports to apparent consumption to increase from 17 percent in 1981 to 28 percent in 1985. Again, the largest increase occurred during the 1983-84 period as the ratio of imports to apparent consumption jumped from 15 to 25 percent. The 39-percent growth in consumption was mainly a reflection of the return of women to the workforce, supported by slight growth in per capita disposable personal income, which increased 7 percent from approximately $9,800 in 1981 to $10,500 in 1985. In addition, the growth in popularity of low-cost costume jewelry gave an impetus to the overall rise in consumption of all costume-jewelry products.

Costume jewelry made of base metal. Reduced imports and exports of base-metal costume jewelry combined with small growth in U.S. producers' shipments to give little change in apparent consumption during 1981-83. Consumption then increased 22 percent from 1983 to 1985, as producers' shipments increased by $98 million (9 percent) and imports by $149 million (135 percent) (table 2). The ratio of imports to apparent consumption for base-metal jewelry declined from 14 percent in 1981 to 10 percent in 1983 and then rose annually to 19 percent in 1985, with the largest increase occurring during 1983-84.

Table 2.--Costume jewelry made of base metal: 1/ Producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1981-85

(Value in million of dollars; change in percent)

Year	Producers' shipments 2/	Exports 3/	Imports 3/	Trade balance	Apparent consumption	Ratio (percent) of imports to consumption
			Value			
1981.....	1,029	73	154	-81	1,110	13.9
1982.....	1,028	58	123	-65	1,093	11.3
1983.....	1,076	52	110	-58	1,134	9.7
1984.....	1,142	51	191	-140	1,282	14.9
1985.....	1,174	48	259	-211	1,385	18.7
			Change			
Change, 1985 from 1981..	14.1	-34.3	68.2	160.5	24.8	34.5
Average annual change, 1985 from 1981..	3.4	-10.0	13.9	27.0	5.7	7.7

1/ Estimated from responses to questionnaires of the U.S. International Trade Commission.
2/ Projected from shipments data in response to questionnaires of the U.S. International Trade Commission.
3/ Estimated from questionnaire responses for import and export data applied to official statistics of the U.S. Department of Commerce.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Costume jewelry made of materials other than base metal. Although U.S. producers' shipments of nonmetal costume jewelry rose at an average annual rate of 15 percent during 1981-85, the near quadrupling of apparent consumption was due primarily to U.S. imports, which increased at more than a 50-percent annual rate (table 3). Imports more than doubled from 1983 to 1984 alone. Estimated U.S. exports of nonmetal costume jewelry remained fairly steady over the period. The ratio of imports to apparent consumption for nonmetal costume jewelry increased from 65 percent in 1981 to 84 percent in 1985. The largest increase occurred during the 1983-84 period as the import share increased from 67 to 84 percent. The sharp rise in consumption can be attributed to the increasing popularity of nonmetal costume jewelry, particularly necklaces and earrings.

Table 3.--Costume jewelry made of materials other than base metal: 1/ Producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1981-85

(Value in million dollars; change in percent)

Year	Producers' shipments 2/	Exports 3/	Imports 3/	Trade balance	Apparent consumption	Ratio (percent) of imports to consumption
			Value			
1981.....	24	3	39	-36	60	65.0
1982.....	28	3	54	-51	79	68.4
1983.....	45	3	85	-82	127	66.9
1984.....	42	3	188	-185	227	82.8
1985.....	42	3	200	-197	239	83.7
			Change			
Change, 1985 from 1981..	75.0	0	412.8	447.2	298.3	28.8
Average annual change, 1985 from 1981.....	15.0	0	50.5	52.9	41.3	6.5

1/ Estimated from responses to Commission questionnaires.
2/ Projected from shipments data in response to questionnaires of the U.S. International Trade Commission.
3/ Estimated from questionnaire responses for import and export data applied to official statistics of the U.S. Department of Commerce.

Source: Compiled from information supplied in response to Commission questionnaires and official statistics of the U.S. Department of Commerce.

Chapter 5. U.S. Industry Profile

5.1 Production Process

Just as costume jewelry can be made of a wide variety of materials, there are also a broad range of production technologies involved. In general, the degree of mechanization in the production of jewelry is inversely related to the quality of the metals and stones used; the less costly the materials, the lower the degree of skill and handwork required. Some jewelry products such as metal expansion watch bands, however, contain mechanisms that require a greater degree of precision and mechanization than does an ornament with no moving parts. Despite automation in costume jewelry production, the manufacturing process is still fairly labor intensive, particularly in the assembling of metal jewelry.

The types of processes used within a plant depend on factors that include the degree to which the plant is self-contained and does not rely on job shops for certain operations, how many parts (if any) must be supplied from outside, and whether the firm merely assembles jewelry from purchased stock findings or produces all parts internally for captive production. The particular process used in fabricating a piece of jewelry will also depend, to a large extent, on the material being used. For example, a stamping 1/ process cannot be used in making beads, while grinding 2/ is not normally used in making metal jewelry. In general, however, all costume jewelry is produced in two phases. The first phase involves the forming or shaping of the piece, and the second involves finishing operations. A discussion of each of these steps follows as it applies to selected materials.

Forming the piece. Beads used in costume jewelry can be made from a variety of materials, including plastic, wood, mineral stones, bone, and shell. The first step in processing such raw materials is to slice the raw form into a desired thickness to form flat pieces. These flat pieces are then diced to form cubes which, when ground into a round form, will yield a bead of the desired diameter. Metal beads, usually hollow, are formed by stamping a piece of tubing into a round die that will yield the desired diameter bead. Beads can be dyed, frosted, enamel-baked, or vacuum-plated to yield any desired color or shade. Once the beads are formed, holes are drilled, using a standard or sonic drill, and finished. Plastic beads are generally formed by injection molding and are often molded directly on thread.

Metal parts used in the manufacture of costume jewelry are usually made from flat stock, wire, or tubing. The two basic methods of processing metal involve the cutting of forms from flat stock or creating complex designs of solid metal using casting techniques. Stamping involves the mechanical formation of parts by striking flat stock into dies in power-driven or foot-operated presses to create desired forms. Photo-chemical milling is a technique in which a design is etched on flat stock that has a sensitized surface. The flat stock is then subjected to an acid bath that eats away the metal around the design enabling small parts to be produced without distortion or burr edges.

1/ Stamping involves forming a piece from flat stock in a power or hand-driven press.

2/ Grinding involves the rough shaping of a stone, in preparation for polishing.

Casting of jewelry parts consists of pouring liquid metal into molds of bronze, rubber, or plaster to form or duplicate jewelry from a wax pattern. Pressure may be applied to the molds by centrifugal force, air, steam, or a vacuum beneath the mold. Generally, the lost-wax casting method is used in most costume jewelry production. This involves the making of a "tree" of numerous identical wax models affixed to a wax base and pouring plaster of Paris over the "tree" to form the mold. When the plaster dries the mold is fired and the wax melts away, leaving a hollow cavity into which the molten metal is poured. When the casting cools, the mold is broken and the jewelry is cut off, making it ready for finishing. Die casting, another popular form of casting, is a process in which molten metal is forced into a metal mold or die under pressure. Casting has two advantages over stamping in that it is often less costly and allows more freedom of design. Brass, tin, zinc-aluminum, and lead are most often utilized in casting.

Following the manufacture of the component parts, the pieces are assembled mechanically or by hand with the use of rivets, screws, and springs, or by soldering or welding pieces together. The solder material varies from hard solders, consisting of relatively expensive golds and silvers, to soft solders of lead and tin.

The use of plastic materials for costume-jewelry articles has increased in recent years. Popular plastic jewelry items include beads, necklaces, bracelets, and brooches. Plastics add a wide range of textures, shapes, and colors to a product line. The manufacturing of plastic jewelry involves capital investment in machinery, primarily injection mold machines, but does not require a high level of technology. Injection molding involves the making of a metal mold into which heat-softened plastic is injected and in which it solidifies in the desired shape. Once the piece is formed, it is ready to be finished.

Finishing. The final step in the manufacturing process, finishing, varies with the types of materials used and the desired final effect. For beaded jewelry, operations usually include only stringing and packaging. In metal jewelry, however, operations to create a desired appearance are more complex. In general, metal costume jewelry is polished and electroplated to conceal raw edges and add uniformity of color. Once the metal achieves the desired look, there may be some stone setting and further polishing before packaging.

Polishing involves the gradual smoothing and buffing of the metal to achieve a desired texture and shine. Materials used as polishing agents include emery paper, cloth, wood, leather, cotton, and wool. These operations can be done with various polishing wheels operated by hand or by machine. Usually, a tumbling method is used to polish large quantities of relatively small costume jewelry articles. 1/

Depending upon the base material, various forms of plating can be used to create a piece of gold-look or colored jewelry. If the base material is plastic or wood, a vacuum plating is generally used to bond a coating metal to the base material. Vacuum plating is a process whereby a coating metal is

1/ Tumbling is used to polish jewelry of certain forms by rotating them in a power-driven barrel with special polishing agents; the pieces are polished by friction as they "tumble" on each other.

deposited on a substance by volitization in a vacuum. The result is a metallic finish that is microscopic in thickness and inexpensive to produce. If the base material is a metal, it is usually electroplated. This process involves covering the base metal with a film of another metal by an electrolytic process. The article to be covered is immersed in a chemical solution; electric current flows through the solution from a piece of metal (anode) to the article (cathode), depositing the metal on it. A variety of metals and alloys can be used in this process, which can give the appearance of an expensive piece at relatively low cost. The most common metals used are gold and its various alloys, silver, and nickel. Nickel plating is an estimated 30 percent cheaper than silver plating but is seldom used in high-price pieces because it tarnishes easily. Other metals including rhodium, platinum, copper, and bronze can also be used to achieve desired results.

Certain costume-jewelry articles have unique production processes. For example, the production of cloisonne jewelry involves an enameling process in which thin strips of metal are soldered, in the form of designs, to the surface of a piece of metal. The spaces enclosed by the little metal walls are then filled with different colors of enamel. Generally, cloisonne items are enameled and fired four to seven times at a temperature of between 700 and 900 degrees celsius, depending on the design. After firing, the enamel surfaces are ground and polished, with the enamel forming the decoration.

Jewelry necklaces and neck chains are generally made of gold or gold alloys (such as 14 karat, 18 karat, etc.); however, for the low-price end of the market they are usually made of electroplated base metals. While some chain is made by hand, most is manufactured by machine. The use of chain machines from West Germany or Italy is predominant in many parts of the world, although some U.S. chain manufacturers have built their own machines, usually based on Italian or West German designs. Different sizes and types of machines, as well as separate tooling, may be required, depending on the type of chain manufactured. The two most common types of chain machines are curb and cable. 1/

The production process for chain begins with wire. The wire is fed from a spool or coil into a machine, where links are formed and connected. The chain is strung off the machine in hanks and wiped clean. The next step is to prepare the chain for soldering by coating it with talcum powder. Most producers throughout the world solder chain in an electric dissociate ammonia furnace. Alternative production methods are high-frequency induction or open-flame soldering. After soldering, the chain is cleaned. The process can end here, but usually chain is processed further by hammering, flattening, or faceting 2/, depending on the style desired. Hammered chain must be annealed 3/ one or more times for greater strength and flexibility.

Once the desired style is attained, mending operations are performed to repair broken or weak links. The chain can be sold as footage chain or made into finished jewelry articles by cutting it to desired lengths and adding

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1/ Cable chain consists of three-dimensional interconnected links. Curb chain is cable that has been flattened to "two" dimensions.

2/ Faceting involves putting facets, or polished surfaces, on an item.

3/ Annealing involves heating the metal to make it softer and easier to work.

spring rings, or otherwise manipulating it. Electroplating-finished chain provides a uniform color and sparkling appearance and is a standard practice among many chain manufacturers.

5.2 Structure of the Domestic Industry

U.S. producers. There were approximately 800 U.S. producers of costume jewelry during 1981-85. Exact figures on the number of establishments are not available; however, according to information supplied by the Jewelers Board of Trade, the number of all jewelry manufacturers (costume and precious) increased 27 percent from January 1983 to January 1985. Approximately two-thirds of all costume jewelry manufacturers are located in the Northeast, primarily Massachusetts, New York, and Rhode Island. Rhode Island alone accounts for the largest concentration of such firms, and is home to approximately 40 percent of U.S. costume jewelry manufacturers. The concentration of manufacturers and suppliers in the New England region allows for effective economies of scale in costume jewelry production through the use of a large pool of trained jewelry workers, suppliers of parts, and subcontractors. Additionally, many major buying offices located in New York, a major fashion market and wholesale costume jewelry district, have relatively easy access to manufacturers. Other major centers of production are located in California and New Jersey.

U.S. producers of costume jewelry are somewhat specialized although generally not vertically integrated. Most manufacturing jewelers who produce finished articles purchase raw materials, parts, and services from jobbers such as casters, stampers, chain manufacturers, findings and other parts manufacturers, and electroplaters. According to the Census of Manufactures, the 4 largest firms in 1982 accounted for 27 percent of total industry shipments; the 8 largest for 37 percent; the 20 largest for 54 percent; and the 50 largest firms accounted for 68 percent of total industry shipments. These shares were all greater than the corresponding values reported in the 1977 Census.

Capacity utilization. Responses to the Commission's questionnaires were insufficient to provide an in-depth analysis of capacity utilization in the industry. However, according to the latest available statistics published by the U.S. Department of Commerce, the capacity utilization of U.S. costume jewelry manufacturers decreased from 53 percent in 1981 to 49 percent in 1982. Such utilization then increased to 70 percent in 1984. This follows a similar trend of capacity utilization rates for all industries that declined from 66 percent in 1981 to 58 percent in 1982 and then increased to 67 percent in 1984.

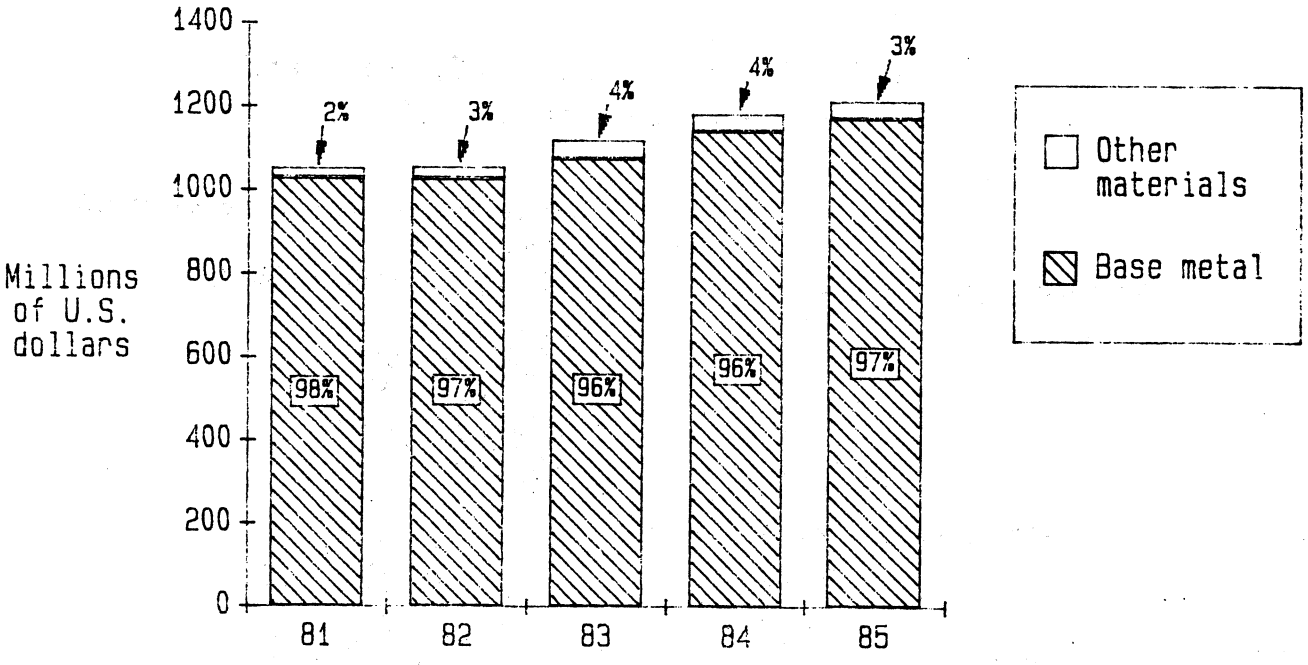
Available information from questionnaire responses indicated that the greatest portion of capacity by domestic producers is devoted to production of earrings and neckwear. Religious articles and clasps were the least often produced and received the smallest portion of productive resources. Increased operating and production costs and increased competition from imports in the U.S. market were cited as factors limiting the expansion of production and market share. These factors combined to contribute, in part, to the decline in capacity utilization of U.S. producers. Furthermore, overall capacity rose as the number of producing establishments increased. Other factors contributing to underutilized capacity included acquisitions and mergers, as

well as costs required to bring factories in compliance with federal, state, and local pollution control standards.

U.S. producers' shipments. The estimated value of U.S. producers' shipments of costume jewelry and parts rose from $1.05 billion in 1981 to $1.22 billion in 1985, or by 16 percent (table 1).

The estimated share of costume jewelry of base metal decreased from approximately 98 percent in 1981 to 97 percent in 1985 (figure 4). On the basis of responses to Commission questionnaires, approximately 38 percent of producers' shipments in 1981 were earrings, 20 percent were neckwear, 12 percent were watch bracelets, 7 percent were rings, 1 percent were findings, religious articles, and clasps, and 22 percent were other jewelry articles (figure 5). By 1985, the relative proportion of earrings increased to 43 percent, watch bracelets dropped to 8 percent and most other products' shares were steady or declined (figure 6). The shift in product concentration reflects changing market demands caused by fashions, hairstyles, and consumer preferences.

Figure 4. Costume jewelry: U.S. producers' shipments, by material, 1981-85



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

Estimated producers' shipments of base-metal costume jewelry, which were stable from 1981 to 1982, increased 14 percent by 1985, for an average annual increase of 4.5 percent between 1982 and 1985 (table 2). Since base-metal

Figure 5. Costume jewelry: U.S. producers' shipments, by product, 1981

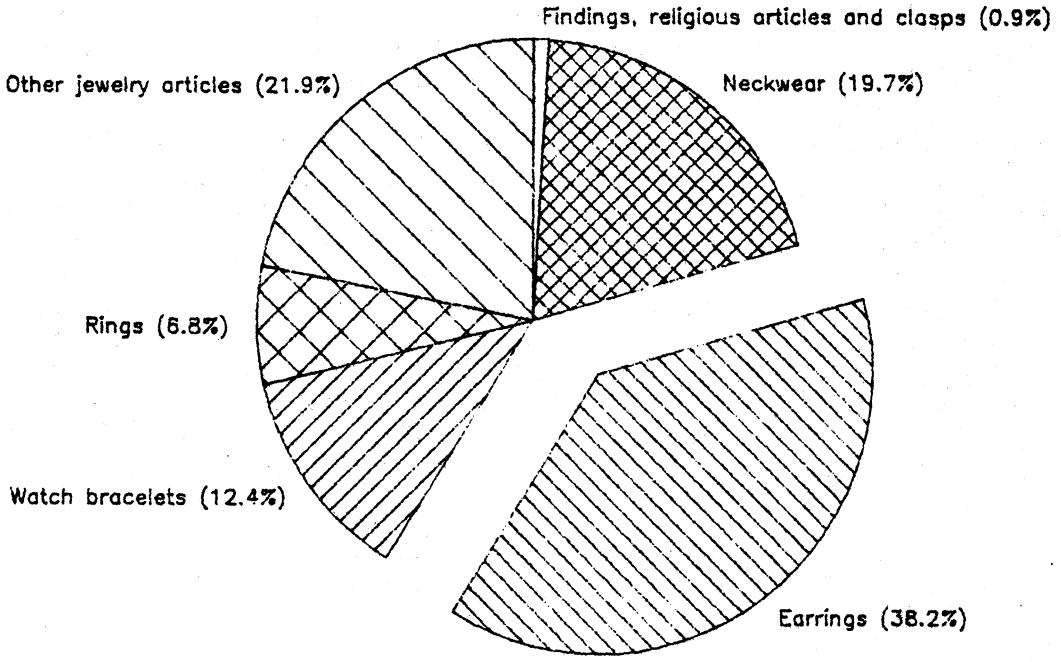
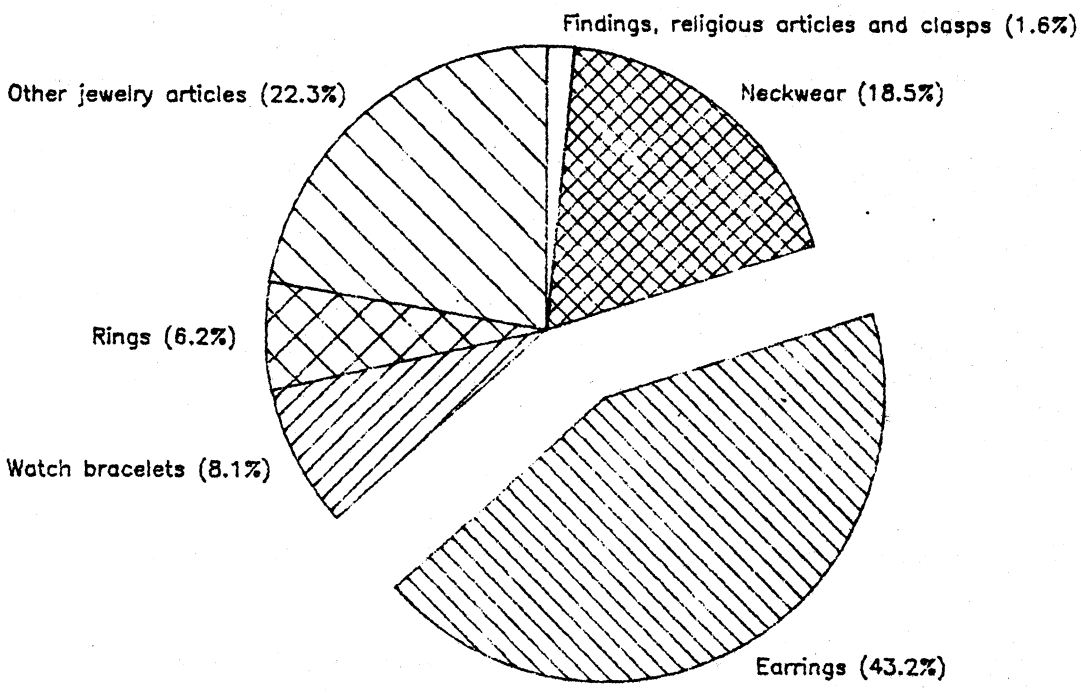


Figure 6. Costume jewelry: U.S. producers' shipments, by product, 1985



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

costume jewelry accounts for virtually all costume jewelry production, the product breakdowns by percent are similar to those for all costume jewelry.

Estimated producers' shipments of nonmetal costume jewelry increased 87 percent, by $21 million, from 1981-83, and then decreased 6 percent in 1984 and 1985, for an overall increase of 77 percent (table 3).

Based on data obtained from the questionnaire, earrings and neckwear were the major nonmetal products shipped in 1981, accounting for an estimated 46 percent and 40 percent of total shipments, respectively (figure 7). Other jewelry articles accounted for 12 percent of total shipments; the remainder was divided between watch bracelets and findings. By 1985, the relative importance of earrings and neckwear decreased slightly to 37 percent and 35 percent, respectively. Other jewelry articles experienced the largest increase in share as it doubled to account for 25 percent of total industry shipments (figure 8). No production of nonmetal rings, clasps, or religious articles was reported for the period by questionnaire respondents.

The significance of earrings and neckwear in nonmetal costume-jewelry production can be attributed to the demand for personal adornment by women and children. Most of these products are inexpensive colored plastic articles that dress up women's sportswear currently in vogue. Children's jewelry is reportedly popular because there are more young girls who try to emulate their mothers and dress like women with inexpensive plastic jewelry articles.

The following tabulation shows the trend in estimated U.S. producers' shipments for all costume jewelry and that for base-metal and nonmetal costume jewelry (in constant 1981 dollars):

Year	All costume jewelry	Index (1981=100)	Base-metal jewelry	Index (1981=100)	Nonmetal jewelry	Index (1981=100)
1981....	1,053	100.0	1,029	100.0	24	100.0
1982....	998	94.8	972	94.5	27	112.5
1983....	1,039	98.7	997	96.9	42	175.0
1984....	1,058	100.5	1,021	99.2	38	158.3
1985....	1,010	95.9	975	94.8	35	145.8

Estimated producers' shipments of all costume jewelry decreased 4 percent from 1981 to 1985. Estimated shipments of costume jewelry made of base metal decreased 5 percent during the period and estimated shipments of nonmetal jewelry increased 45 percent. The real growth in production of nonmetal costume jewelry can be attributed to changing consumer preference, but for the most part imports satisfied this demand.

Producer costs. The following tabulation shows the percentage of raw materials cost and value added by manufacture 1/ to shipments and the percentage of production workers' wages to value added, as compiled from

1/ Value added by manufacture is derived by subtracting the cost of materials, supplies, containers, fuel, purchased electricity, and contract work from the value of shipments.

Figure 7. Costume jewelry: U.S. producers' shipments of nonmetal costume jewelry, by product, 1981

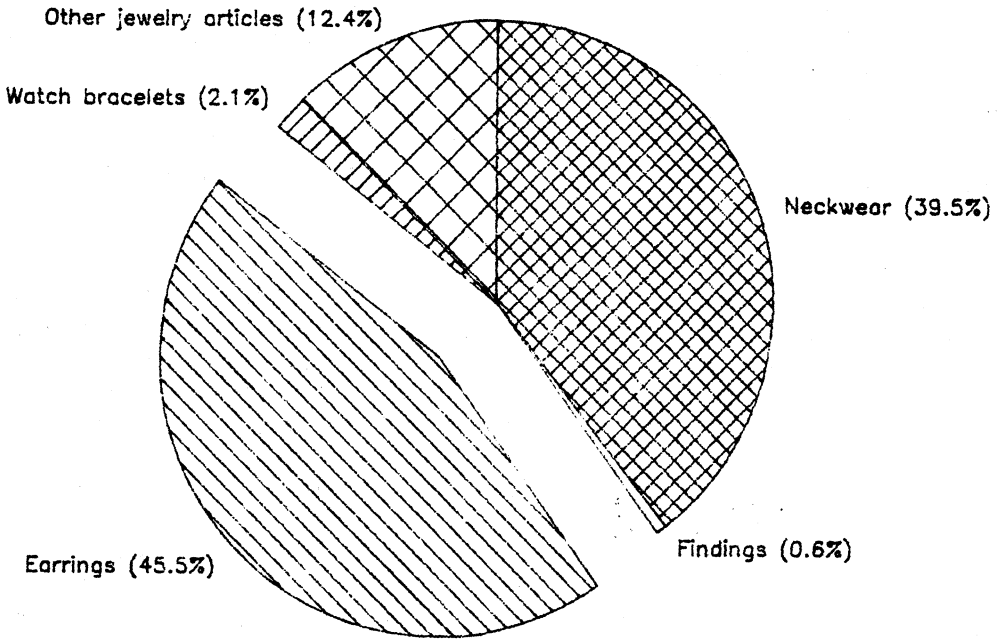
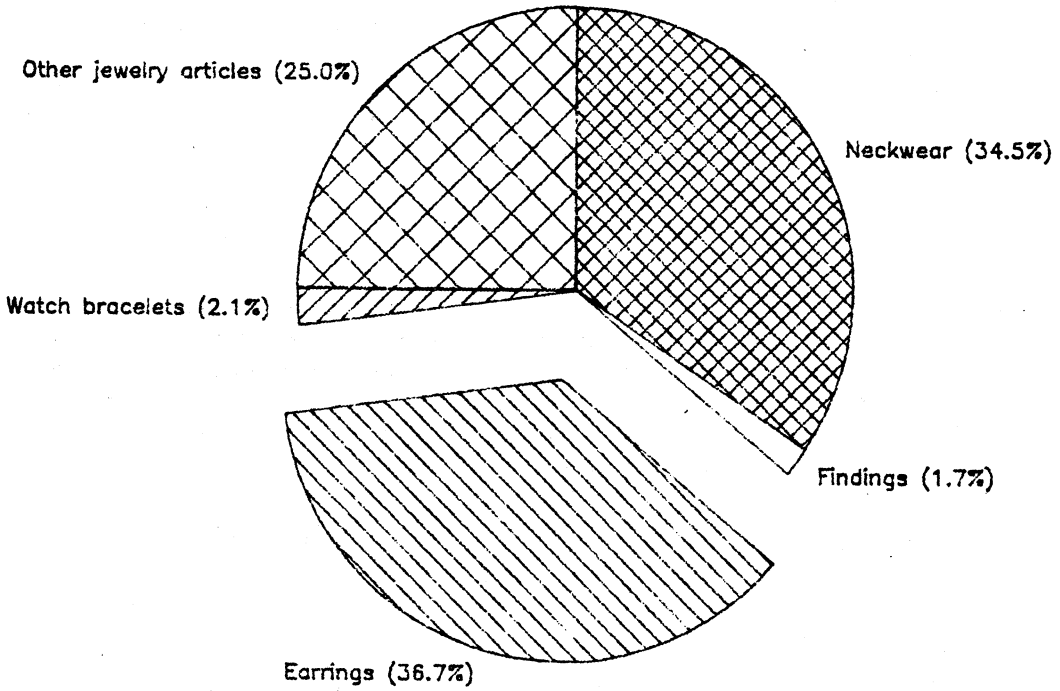


Figure 8. Costume jewelry: U.S. producers' shipments of nonmetal costume jewelry, by product, 1985



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

official statistics of the U.S. Department of Commerce, for the years 1981-84 (in percent):

Year	Ratio of materials costs to shipments	Ratio of value added to shipments	Ratio of production workers' wages to value added
1981...	45.4	56.2	29.2
1982...	40.4	57.3	26.8
1983...	44.1	55.5	24.8
1984...	41.4	60.6	24.8

Probably reflecting the slight shift by U.S. manufacturers toward more nonmetal costume-jewelry production, for which raw materials play a smaller role in overall cost of production, the cost of raw materials as a percentage of shipments in the costume-jewelry industry as a whole (SIC 3961) fluctuated on a decreasing trend from 45 percent in 1981 to 41 percent in 1984. Concurrently the share of value added to shipments rose from 56 percent to 61 percent. Production of nonmetal jewelry requires less highly skilled labor in general than that of base-metal jewelry, and the shift was further reflected in the decrease in the share of value added accounted for by production-workers' wages, from 29 percent in 1981 to less than 25 percent in 1983 and 1984.

Marketing aspects. According to questionnaire responses, no major factors set apart the U.S. market from any other, except size. In order to be successful, a supplier must be responsive to changes in style and taste, deliver on time, offer a good quality product, and, most important, be reasonably priced. As low-cost imports have increased in the domestic market, purchasers indicate that price has become the basis for most costume-jewelry buying decisions. Also, as changes in design in costume jewelry are frequent (occurring nearly every 3 months), suppliers must anticipate future demand. These factors, however, are not unique to the domestic market, but apply to any major costume-jewelry market.

The bulk of U.S. costume-jewelry producers are small firms that traditionally have relied on the wholesaler to market their products. Marketing efforts by producers were primarily concentrated in advertising in trade publications and local newspapers. Increasingly, however, retailers with limited budgets have begun buying directly from both domestic and foreign producers. Trade shows have become important for the development of contacts between buyers and suppliers. According to questionnaire responses, many producers currently offer in-store sales-support services, point of sale promotions, training for store personnel, and cooperative advertising as incentives to buyers. Another emerging trend is the leasing of store space to companies that operate in-store jewelry counters.

Most domestic manufacturers, according to questionnaire responses, do not dedicate a significant amount of resources toward developing export markets. Methods to develop such markets include advertising in foreign magazines, soliciting orders through trade shows, and the exploration of possible licensing agreements with foreign manufacturers. Manufacturers'

representatives occasionally travel abroad, but very few are familiar with the foreign marketplace. Foreign sales offices or distribution centers are sometimes established if market conditions are deemed appropriate. Product design and prices are considered to be among the most important factors for a successful export program.

Trade barriers or other foreign restrictions on trade in costume jewelry were not cited by questionnaire respondents as significant in terms of limiting U.S. exports. Packaging, marking, and labelling requirements were considered to be the most common hindrances to exports. Other alleged restrictions included the prohibition of finished goods (Mexico), and prohibition of imports and license restrictions in favor of direct investment (Brazil).

Channels of distribution. There was one major difference between the primary distribution methods of U.S. producers of costume jewelry and those employed by importers during 1981-85. According to questionnaire respondents, approximately one-third of the value of imports was imported for direct sale, usually by retail operations, to the ultimate consumer. Conversely, domestic manufacturers reported insignificant direct sales to the ultimate consumer. The following tabulation shows the share of sales (other than direct sales to the final consumer by retailing importers) to producers and to importers by channel of distribution for the years 1981 and 1985 as reported by respondents to both questionnaires (in percent): 1/

Channel of distribution	1981	1985
Sales to:		
Manufacturers	11	10
Jewelry Wholesalers	27	18
Retail operations	63	72
Department Stores	28	33
Retail Jewelers	20	16
Syndicated Stores	4	8
Catalog Showrooms	4	3
Other	7	13

Note.--Because of rounding, figures may not add to 100 percent.

The channels of distribution for costume jewelry changed somewhat during 1981-85. The share of shipments of costume jewelry to manufacturers, consisting primarily of findings and other parts for further processing, remained relatively stable during the period, declining from 11 percent in 1981 to 10 percent in 1985. However, the share of sales to wholesalers declined from 27 percent in 1981 to 18 percent in 1985, as more domestic manufacturers and importers increased direct sales to retailers.

Since the bulk of domestic producers are small firms with little marketing expertise, traditionally they have not devoted large resources to

1/ Based on questionnaire responses by producers and importers of costume jewelry in 1981 and 1985. There were 191 responses for 1981 and 271 responses for 1985.

such efforts. During the late 1970's several factors began to affect this situation. Retail chains expanded and both department stores and mass merchandisers became more important outlets for jewelry sales. For better control of product selection, delivery time, and costs, these outlets began purchasing jewelry directly from manufacturers, thus eliminating, or severely curtailing, the need for wholesalers. Without the use of middlemen, retailers get faster delivery time and more closely meet the changing demands of the marketplace. Smaller manufacturers, who relied heavily on the wholesaler for effective marketing, were forced to utilize limited resources to accommodate direct-to-retailer marketing strategies in order to maintain a presence in the domestic market.

Sales to department stores showed the greatest rise in relative importance, accounting for nearly one-third of the total in 1985. The greatest loser among the retail store categories was the retail jeweler, as shipments through this channel dropped from 20 percent of the total in 1981 to 16 percent in 1985, reflecting in large part the trend toward greater sales of plastic and other nonmetal jewelry, generally sold through other outlets. On the plus side of this trend was the share of sales through other outlets, including boutiques, party plans, and contract sales, which nearly doubled from 7 percent of the total in 1981 to 13 percent in 1985.

Although trends in distribution of base-metal costume jewelry did not differ greatly from those for costume jewelry of other materials, a far higher proportion of shipments of base metal products went to other manufacturers, because most costume jewelry manufactured in the United States from purchased parts is base-metal jewelry. Shipments of other jewelry are far more likely to consist of finished goods.

U.S. inventories. Questionnaire data indicate that the ratio of inventories to shipments for costume jewelry producers increased from 17 percent in 1981 to 23 percent in 1985. In comparison, the ratio of inventories to all manufacturers' shipments, as reported in the 1986 Statistical Abstract of the United States, declined annually from 14 percent in 1981 to 12 percent in 1984. The estimated value of jewelry inventories increased 52 percent, from $184 million in 1981 to $279 million in 1985. Estimated inventories of base-metal costume jewelry accounted for the bulk of such inventories and increased 49 percent from $179 million to $266 million. Estimated inventories of nonmetal costume jewelry, however, more than doubled from $5.2 million to $13.1 million. The significant increase in inventories appears to be structural and lasting, and can be attributed to an industry response to changing distribution-channel demands. As more retailers have started to buy directly from the manufacturer, producers have had to maintain larger inventories to fill orders more quickly as well as to supply a sales force with samples.

Employment levels and trends. As reported by the Bureau of Labor Statistics (BLS), total employment in establishments producing costume jewelry decreased from 23,800 workers in 1981 to 20,300 workers in 1982; employment of such workers then increased to 23,100 workers in 1984 before declining to 22,200 workers in 1985. 1/ Overall, employment decreased 7 percent during the period.

1/ Although employment data were collected from questionnaire responses, the BLS data were judged to be more accurate for analytical purposes.

The following tabulation shows the number of production workers in the costume jewelry industry during 1981-85:

Year	Production workers	Index (1981=100)
1981.....	18,400	100.0
1982.....	15,700	85.3
1983.....	16,400	89.1
1984.....	17,600	95.1
1985.....	17,100	92.9

The number of production workers engaged in costume-jewelry production fluctuated during the period, but also decreased 7 percent from 1981 to 1985. Production workers accounted for 77 percent of the costume jewelry workforce in both 1981 and 1985. In comparison, production workers accounted for 68 percent of all manufacturing employment in 1985. The vast majority of the costume jewelry workforce is accounted for by workers involved in the production of base-metal jewelry.

Most firms in the industry are small and employ less than 10 workers each. According to the 1982 Census of Manufactures, 60 percent of total employment in 1982 was in firms employing less than 10 employees, 34 percent was accounted for by firms employing between 10 and 50 employees, and the remainder was employed by firms employing over 50 employees.

The average number of hours worked per week by U.S. costume-jewelry production workers increased slightly from 37.7 hours in 1981 to 38.0 hours in 1985. The average hourly earnings of those employees increased from $4.81 in 1981 to $5.51 in 1985, or by 15 percent.

Declines in productivity after 1982 contributed to rising producer costs. As previously noted U.S. producers' shipments of costume jewelry increased in nominal terms, however, in real terms, adjusted for rising producer prices, they actually declined. A calculated index of productivity measured in real output per production worker during the period and the producer price index for costume jewelry follow:

Year	Productivity 1/ (Index, 1981=100)	Costume jewelry producer price index 2/ (Index, 1981=100)
1981.....	100.0	100.0
1982.....	111.1	105.8
1983.....	110.8	107.9
1984.....	105.0	111.9
1985.....	103.2	120.4

1/ Calculated from responses to Commission questionnaires and official statistics of the Bureau of Labor Statistics.
2/ Calculated from official statistics of the Bureau of Labor Statistics.

As these indices show, the productivity of such workers in the industry increased 11 percent during 1981-82, but has since eroded annually to leave a net overall increase of 3 percent for the period. Conversely, producer prices, which rose 6 percent during 1981-82, continued to increase, producing a 20 percent rise in prices over the period. Decreasing productivity probably reflects, in the main, a lag by U.S. producers in reducing employment in response to a declining market share, as imports increased rapidly in 1984-85. For comparison purpose, similar indices for all manufacturing industries were calculated, and show the following results:

Year	Productivity 1/ (Index, 1981=100)	All manufacturing industries producer price index (Index, 1981=100)
1981.....	100.0	100.0
1982.....	102.3	105.1
1983.....	110.0	106.7
1984.....	112.3	110.4
1985.....	3/	3/

1/ Calculated from official statistics of the U.S. Department of Commerce.
2/ Calculated from official statistics of the Bureau of Labor Statistics.
3/ Not available.

As these indices show, an increase in worker productivity in all manufacturing industries from 1981-84 of 12 percent exceeded the 5 percent productivity increase for costume jewelry workers over the same period. Moveover, producer prices for all manufacturers rose by only 10.4 percent, compared with an 11.9-percent increase in costume jewelry prices over the same period.

In order to develop a pool of future workers in the industry, various institutes currently offer training programs for the manufacturing jewelry industry as a whole. Among them are the Jewelry Institute, located in Providence, Rhode Island, and the Gemological Institute of America, located in Santa Monica, California. Most of these facilities offer programs and courses in all facets of jewelry operations, including design, manufacturing, repair, and business management. Their function is to provide the domestic industry with a flow of skilled workers.

Chapter 6. Levels and Trends in U.S. International Trade

6.1 Trade Balance

The overall U.S. trade deficit in costume jewelry during 1981-85 increased $292 million, or by 37 percent annually. The deterioration in the trade balance prior to 1983 occurred primarily as a result of lower U.S. exports of base-metal jewelry; increasing imports of both base metal and other

costume jewelry were the primary cause of the later deficit. In fact, the trade deficit in base-metal jewelry, which had actually declined by $23 million between 1981 and 1983, increased more than 3.5 times in 1985 compared with the deficit in 1983. The deficit in other jewelry increased annually during the 5-year period, registering an absolute increase of $161 million, and reaching a level nearly 5.5 times the 1981 level.

6.2 U.S. Exports

Questionnaire responses were insufficient to accurately depict trends for exports of costume jewelry in detail. However, official statistics of the U.S. Department of Commerce show that not only did U.S. exports of costume jewelry decline annually between 1981 and 85 by 33 percent overall, but that of all the major U.S. markets, only exports to Canada and the Netherlands showed an increase during the period as a whole (table 4). Eighty-five percent of the decrease occurred prior to 1984. The relative shares accounted for by the top five markets in 1985 are illustrated for 1981 and 1985 in figures 9 and 10, respectively.

Table 4.--Costume jewelry: U.S. exports of domestic merchandise, by principal markets, 1981-85

Market	1981	1982	1983	1984	1985	1981	1985	Change, 1985 from 1981
	1,000 dollars					Percent		
Canada	10,717	8,516	10,990	11,327	10,732	14.0	20.9	0.1
Japan	9,275	8,888	6,668	7,066	7,957	12.1	15.5	-14.2
United Kingdom	8,690	5,959	5,059	5,213	4,617	11.4	9.0	-46.9
Netherlands	1,734	1,692	1,773	1,886	3,774	2.3	7.3	117.6
Hong Kong	4,025	3,214	2,800	1,617	2,534	5.3	4.9	-37.0
Australia	4,748	3,363	3,463	2,767	2,400	6.2	4.7	-49.5
France	4,426	4,089	2,907	2,288	1,878	5.8	3.6	-57.6
Mexico	3,933	1,511	740	696	1,627	5.1	3.2	-58.6
All other	28,951	24,046	20,826	20,378	15,937	37.8	31.0	-45.0
Total	76,500	61,278	55,225	53,237	51,456	100.0	100.0	-32.7

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

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

On the basis of questionnaire responses, the relative proportion of costume-jewelry exports of base metal decreased from 95 percent in 1981 to

Figure 9. Costume jewelry: U.S. exports, 1981, to major markets in 1985

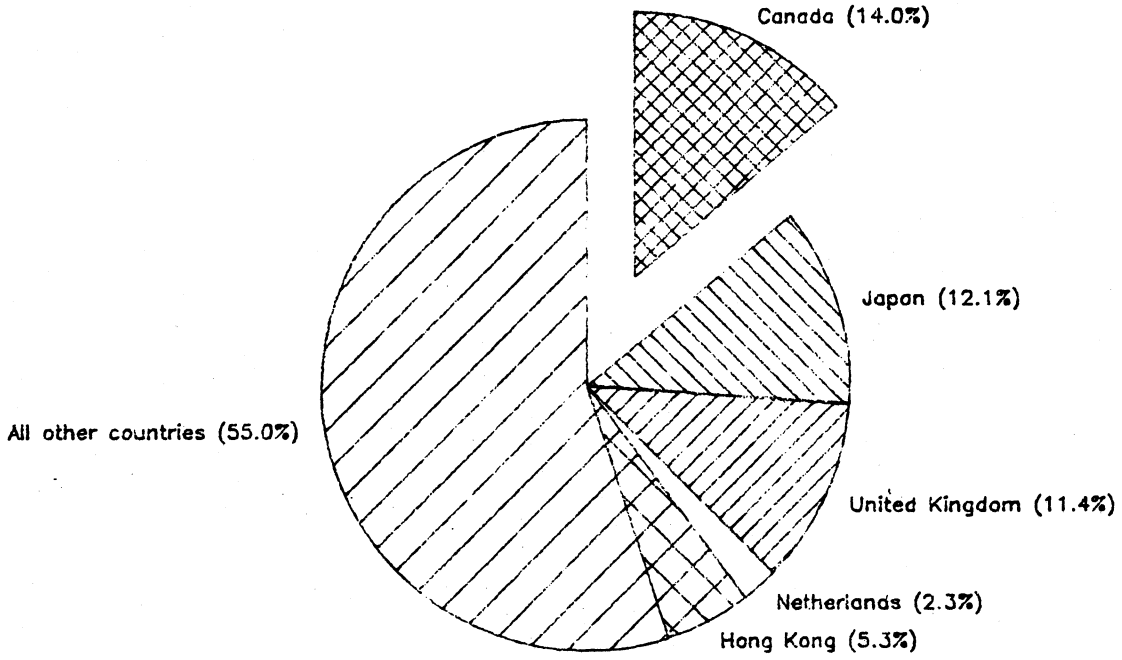
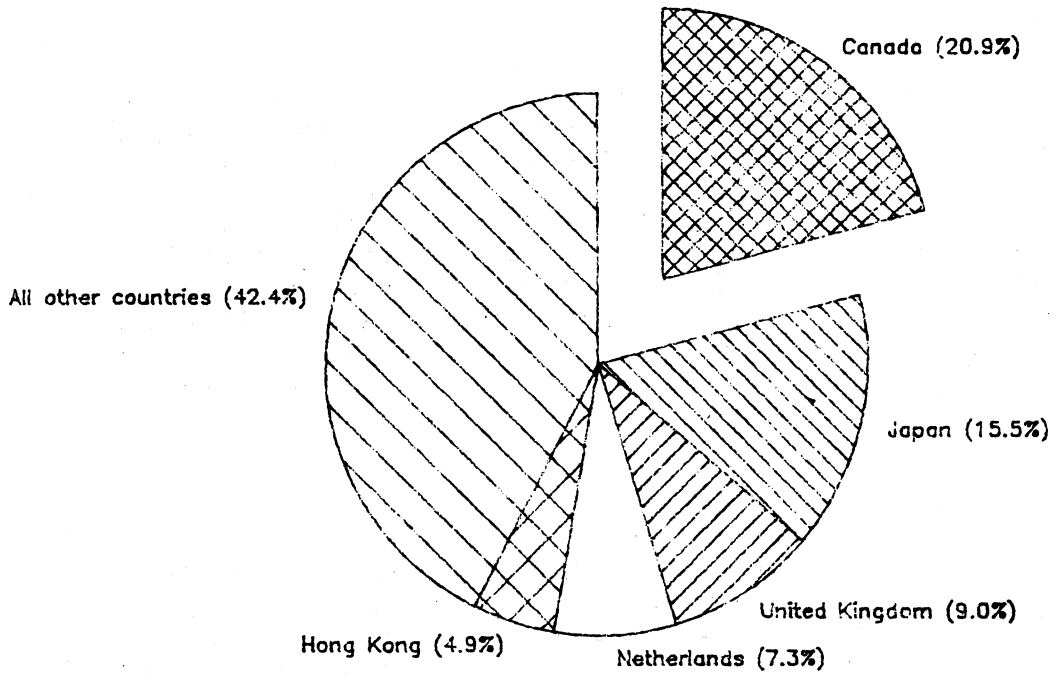


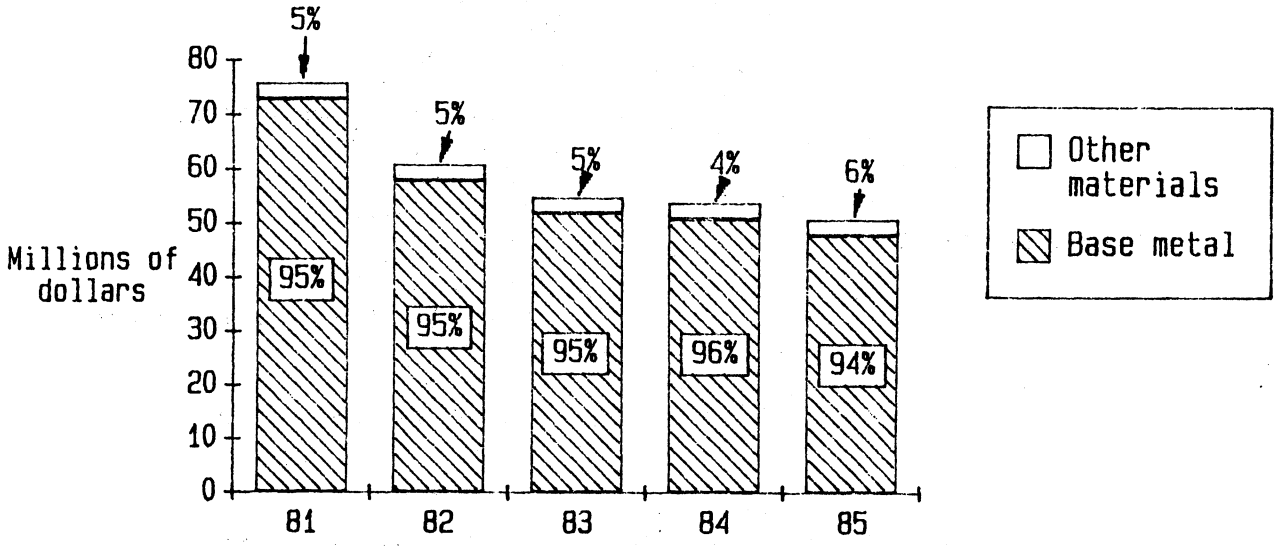
Figure 10. Costume jewelry: U.S. exports, 1985, to major markets



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

94 percent in 1985 (figure 11). In 1981, an estimated 30 percent of domestic exports of costume jewelry were accounted for by earrings; 26 percent by

Figure 11. Costume jewelry: U.S. exports, by material, 1981-85



Source: Commission questionnaire responses for export data and official statistics of the U.S. Department of Commerce.

neckwear; 13 percent by watch bracelets; 7 percent by rings; 8 percent by findings, religious articles, and clasps; and 15 percent by other jewelry articles (figure 12). By 1985, earrings accounted for 35 percent and other jewelry articles for 36 percent (figure 13). All other product categories decreased in share except for findings, religious articles, and clasps, which increased to 11 percent. The ratio of exports to estimated domestic shipments declined from 8 percent in 1981 to 4 percent in 1985. Major constraints on U.S. exports during the period included strong competition from foreign manufacturers and the relative strength of the U.S. dollar vis-a-vis foreign currencies which resulted in a price disadvantage in foreign markets for U.S.-made costume jewelry.

6.3 U.S. Imports

Importers of costume jewelry in the United States include both businesses and individuals. Among the various business firms importing such articles are those that are part of the industry as manufacturers or distributors, as well as retailers. This group of importers also includes other firms and corporations that import relatively cheap promotional and give-away items or awards, such as pins, and firms, such as toy companies, that use jewelry articles in part of their regular business lines. Most of these firms place a single order for the year and are infrequent importers. Individuals who

Figure 12. Costume jewelry: U.S. exports, by product, 1981

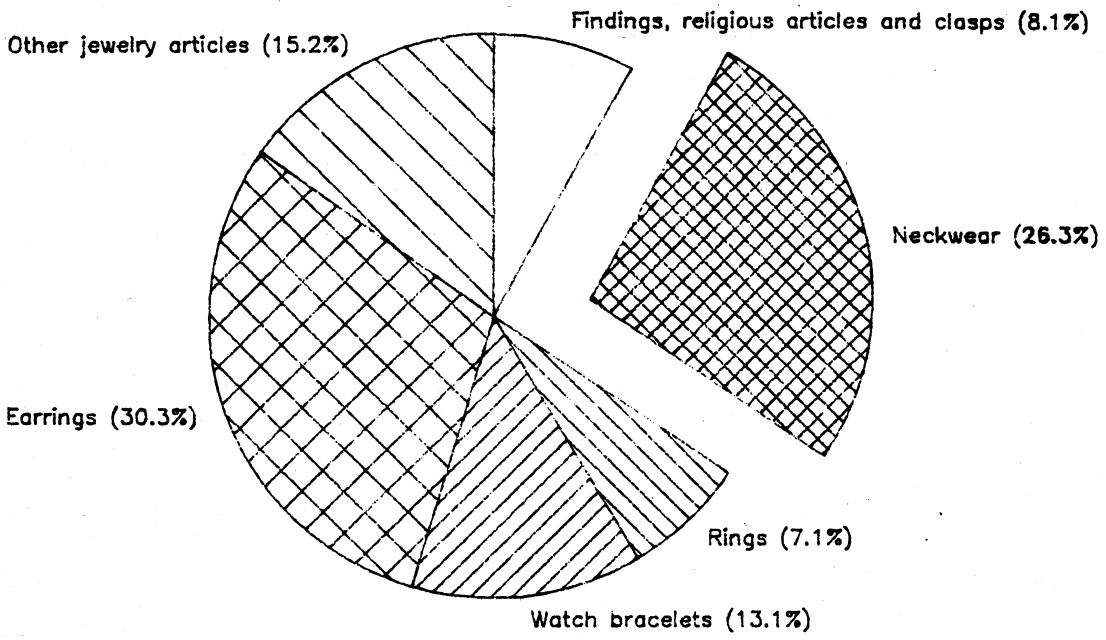
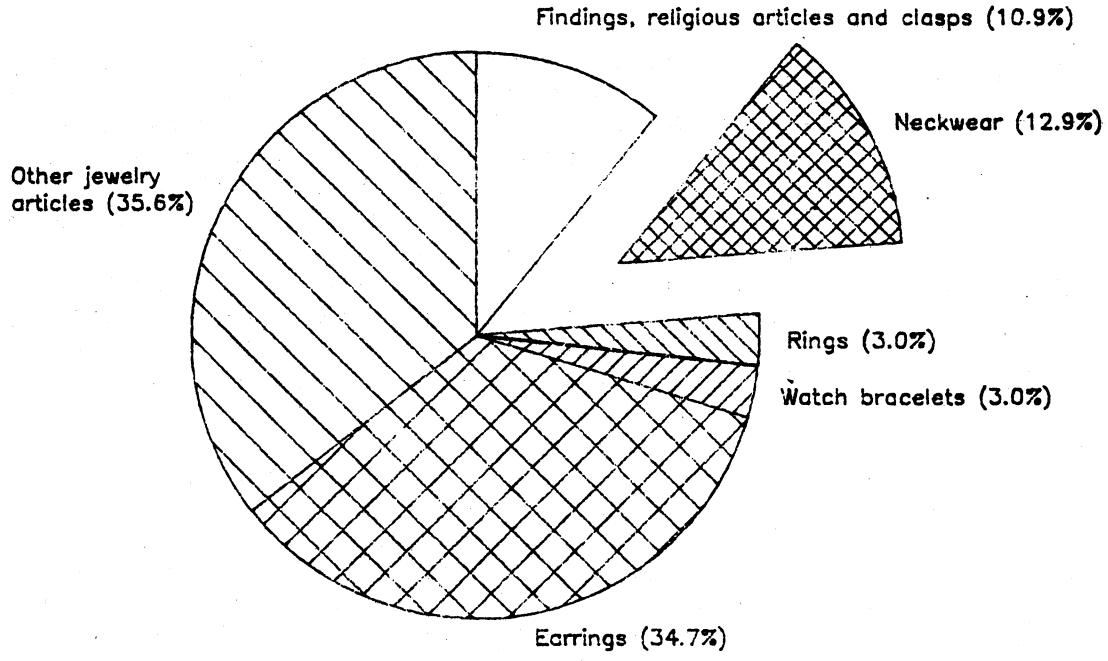


Figure 13. Costume jewelry: U.S. exports, by product, 1985



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

import sporadically generally do so as a one-time attempt to test a product as a potential business venture. Questionnaire data on imports of costume jewelry were insufficient to project industry aggregates.

According to official statistics of the U.S. Department of Commerce, U.S. imports of costume jewelry decreased $16 million from 1981 to 1982, and then showed an average increase of 37 percent annually to 1985 (table 5). The

Table 5.--Costume jewelry: U.S. imports for consumption, by principal sources, 1981-85

Source	1981	1982	1983	1984	1985	1981	1985	Change, 1985 from 1981
	1,000 dollars					Percent		
Taiwan	37,725	37,776	46,910	114,638	116,962	19.6	25.5	210.0
Hong Kong	50,075	50,893	48,711	89,692	113,863	26.0	24.8	127.4
Republic of Korea	23,245	21,874	25,785	45,434	66,960	12.1	14.6	188.1
Japan	34,948	28,013	34,425	51,092	57,733	18.1	12.6	65.2
India	3,451	2,761	4,032	17,992	23,509	1.8	5.1	581.2
Philippines	8,868	3,908	3,670	11,053	14,467	4.6	3.1	63.1
Italy	7,527	6,744	5,233	9,011	13,284	3.9	2.9	76.5
France	6,378	5,586	2,574	5,229	8,392	3.3	1.8	31.6
All other	20,460	19,611	23,066	34,574	44,385	10.6	9.7	116.9
Total	192,677	177,167	194,405	378,713	459,554	100.0	100.0	138.5

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

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

overall increase in imports totaled 139 percent, with the largest increase occurring over the 1983-84 period, when such imports increased 95 percent. Taiwan, Hong Kong, Korea, and Japan were the principal suppliers during the period and together accounted for 76 percent of the value of imports in 1981 and 77 percent in 1985 (figures 14 and 15). Imports from each of the top three suppliers in 1985 (Taiwan, Hong Kong and Korea) more than doubled over the period. Such imports from Taiwan increased $79 million from 1981 to 1985 as it became the largest supplier. Those from Hong Kong increased from $50 million to $114 million as it dropped to the second largest supplier, and those from Korea increased from $23 million to $67 million as it rose to third. Imports from Japan increased 65 percent, from $35 million to $58 million, as it dropped to fourth.

Based on questionnaire responses, watch bracelets accounted for the largest share of total imports in 1981, with 54 percent (figure 16). The vast majority of these were of base metal. Among jewelry articles, neckwear accounted for 16 percent; earrings for 13 percent; religious articles, findings and clasps for 7 percent; rings for 1 percent; and other jewelry articles for 9 percent. The relative composition of overall imports shifted away from watch bracelets over the period as their share declined to 30 percent in 1985, and imports of neckwear increased to 29 percent, the bulk of which was nonmetal (figure 17). The relative share of total imports of

Figure 14. Costume jewelry: U.S. imports, 1981, from major suppliers in 1985

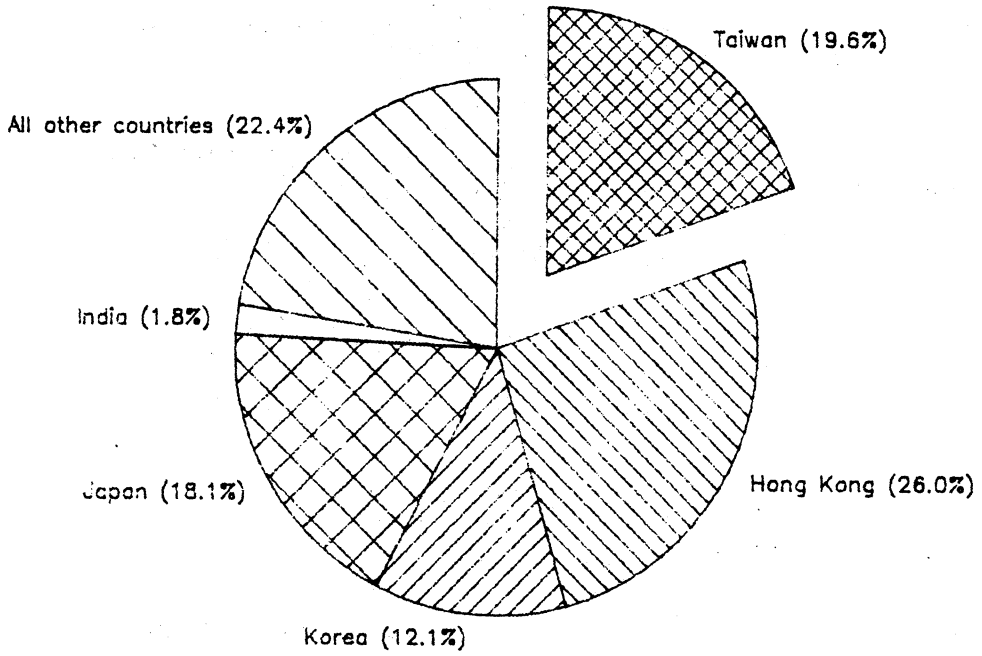
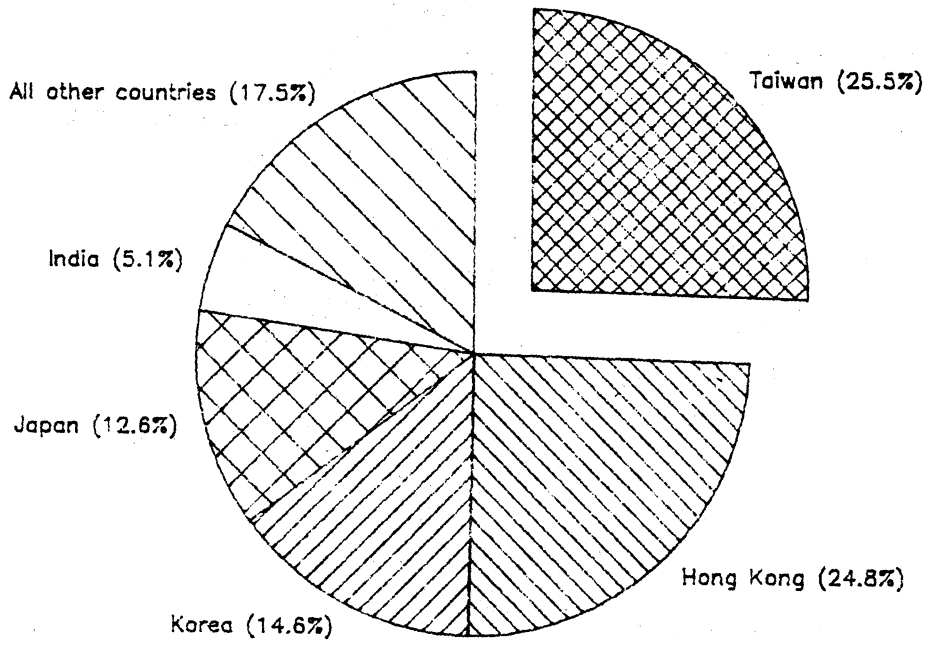


Figure 15. Costume jewelry: U.S. imports, 1985, from major suppliers



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

Figure 16. Costume jewelry: U.S. imports, by product, 1981

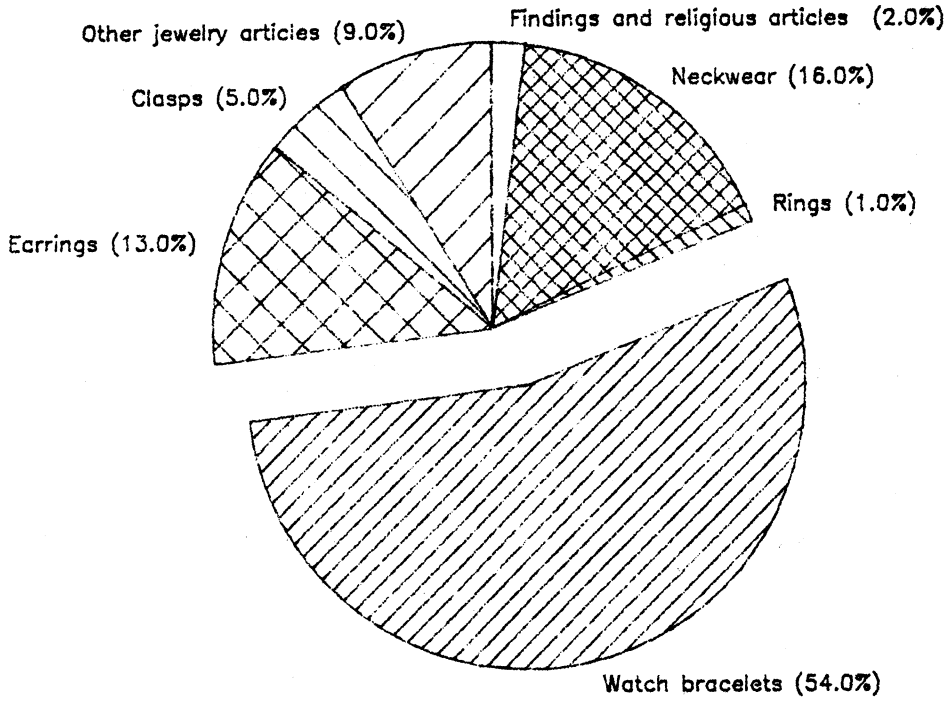
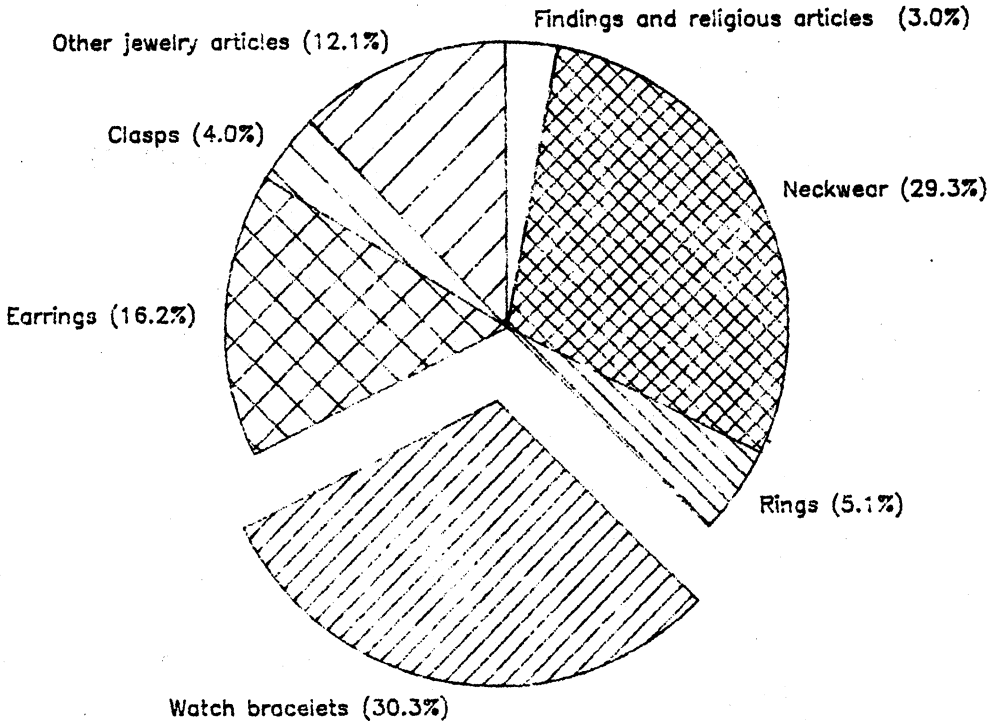


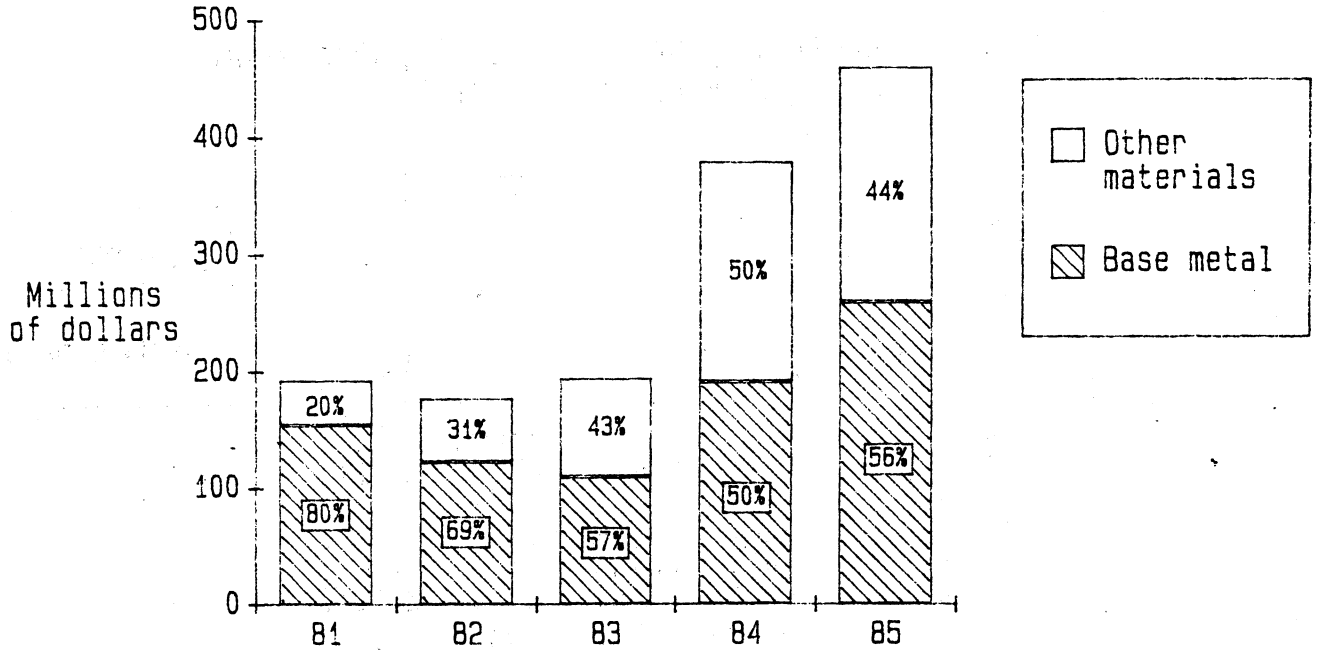
Figure 17. Costume jewelry: U.S. imports, by product, 1985



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

costume jewelry made of base metal decreased from 80 percent in 1981 to 56 percent in 1985 (figure 18). Neckwear, earrings and other jewelry articles accounted for the bulk of the increase in nonmetal jewelry imports.

Figure 18. Costume jewelry: U.S. imports, by material, 1981-85



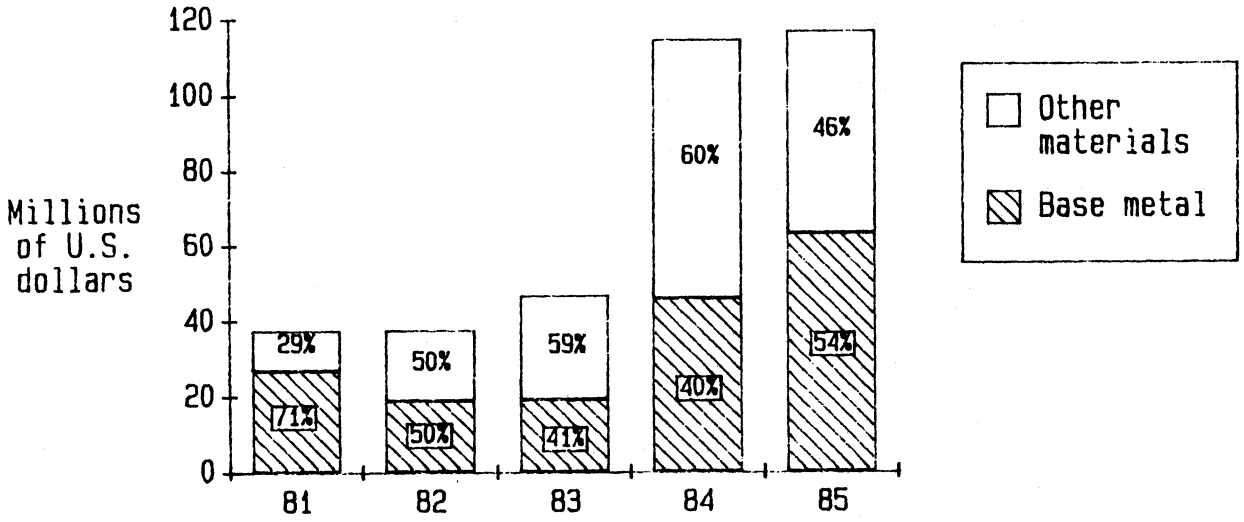
Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

New foreign-made costume jewelry usually gains U.S. market share on the basis of price. The labor-intensive nature of costume jewelry allows major foreign suppliers to produce and market their products at prices below those of U.S. manufacturers. Imports of some types of costume jewelry also benefit from the greater foreign availability of certain raw materials, as in the case of jewelry using rhinestones and glass beads, neither of which is generally available from domestic suppliers. In addition, some U.S. manufacturers import to supplement their domestic lines as well as to exploit market niches not otherwise open to them through domestic production. Foreign suppliers are reportedly more flexible in the minimum quantities required for orders, and allow for longer exclusivity of designs. In general, the cost advantage for imports reportedly allows for greater tolerances on late deliveries, longer lead times, and higher inventory depletion risks.

Imports from Taiwan. Based on questionnaire responses, jewelry of base metal constituted an estimated 71 percent of all imports of costume jewelry from Taiwan in 1981, but declined to 54 percent in 1985 as total imports of

costume jewelry from Taiwan increased more than threefold from 1981 to 1985 (figure 19). Earrings and neckwear combined to account for approximately one-half of total imports in 1985 (figures 20 and 21) and other jewelry

Figure 19. Costume jewelry: U.S. imports from Taiwan, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

articles accounted for approximately 20 percent. The share of rings increased from 5 percent in 1981 to 15 percent in 1985. The bulk of these products were made of base metal. The share of imports of watch bracelets declined from 24 percent to 12 percent over the period; the bulk of these were also made of base metal. Religious articles, findings and clasps, most of which are also base metal, accounted for the remainder in each year.

Sharply increased imports of nonmetal costume jewelry from Taiwan reflected producer ability to supply such products at acceptable quality and low prices. Most of the imports of nonmetal jewelry in 1984 were "twisterbead" necklaces. However, demand for this product declined significantly in 1985 as other articles became more popular.

Imports from Hong Kong. Imports of costume jewelry from Hong Kong increased by 127 percent from 1981 to 1985 as the share accounted for by

Figure 20. Costume jewelry: U.S. imports from Taiwan, by product, 1981

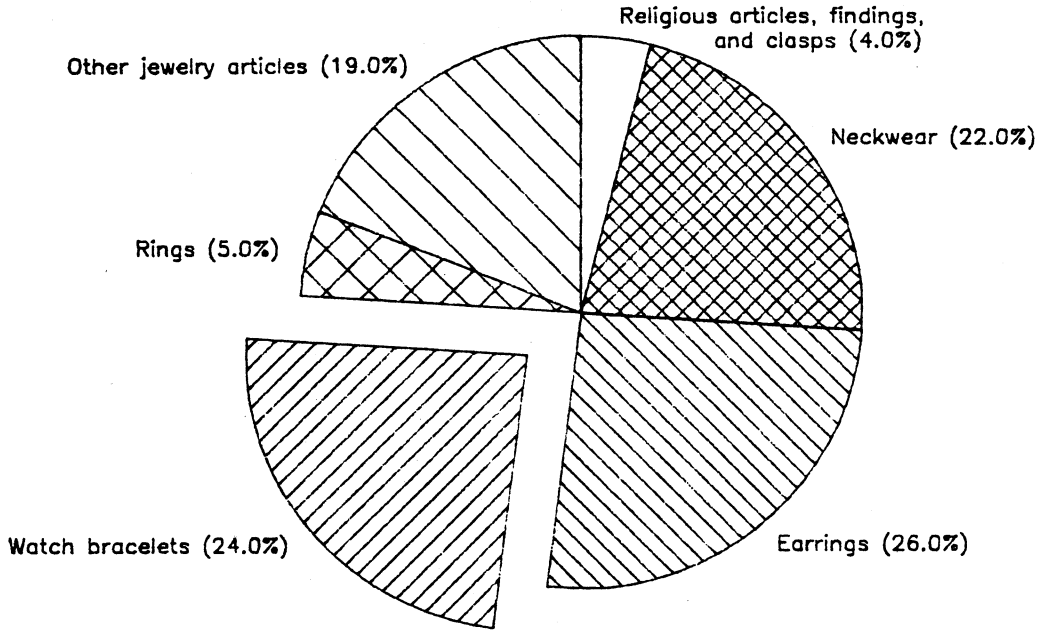
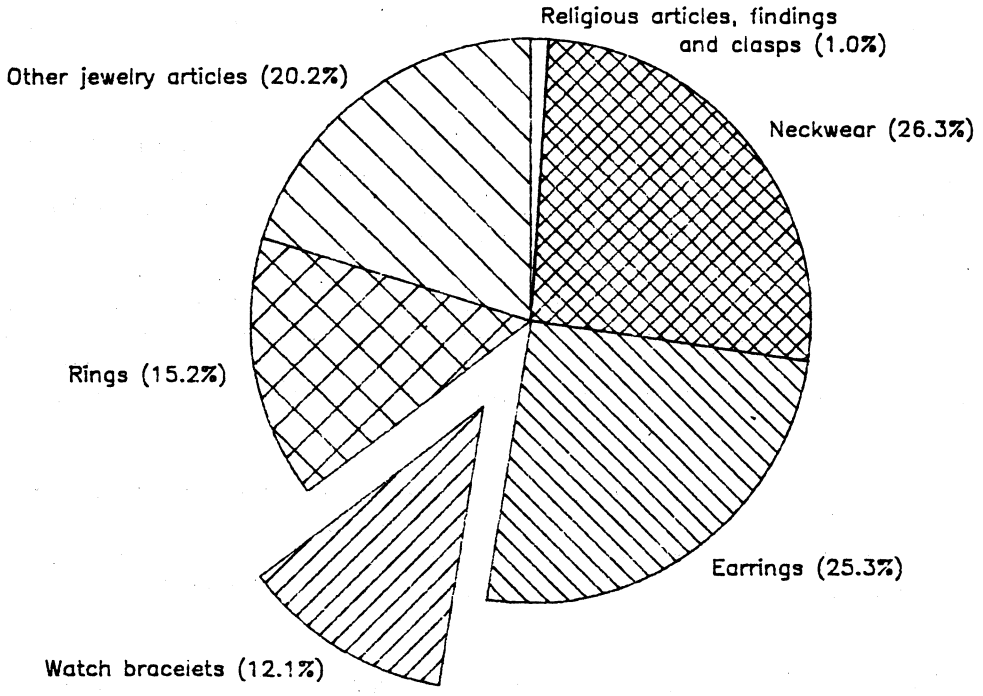


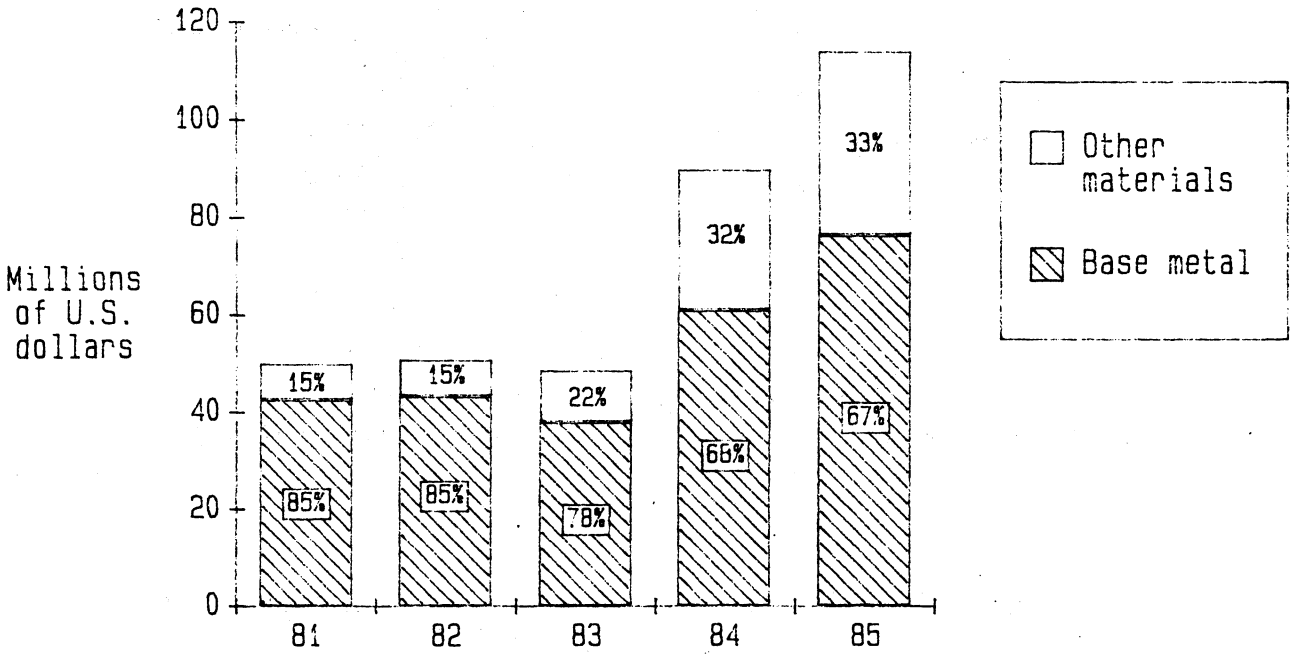
Figure 21. Costume jewelry: U.S. imports from Taiwan, by product, 1985



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

base-metal jewelry declined from 85 percent to 67 percent (figure 22). On the basis of questionnaire responses, watch bracelets accounted for two-thirds of

Figure 22. Costume jewelry: U.S. imports from Hong Kong, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

total imports from Hong Kong in 1981 (figure 23), most of which were base metal. Low production costs have made Hong Kong a leading supplier of metal watch bracelets for original equipment and replacement markets in all major world watch producing and consuming nations.

Earrings and neckwear accounted for approximately 8-9 percent each of total 1981 imports and other jewelry articles accounted for 11 percent. As with the overall trade in costume jewelry, the composition of imports from Hong Kong over the period reflected an increase in nonmetal jewelry, which accounted for 33 percent in 1985.

Watch bracelets continued to be the most important product category of imports from Hong Kong, accounting for 44 percent in 1985 (figure 24). Neckwear was the second largest product category, and accounted for 20 percent of total imports that year. Seventy-five percent of the imports of neckwear were nonmetal goods.

Imports from The Republic of Korea. Imports of all costume jewelry from The Republic of Korea (Korea) decreased slightly between 1981 and 1982, and then registered an average annual increase of 45 percent during 1982-85, for an overall increase of 188 percent. The great bulk of costume jewelry imports

Figure 23. Costume jewelry: U.S. imports from Hong Kong, by product, 1981

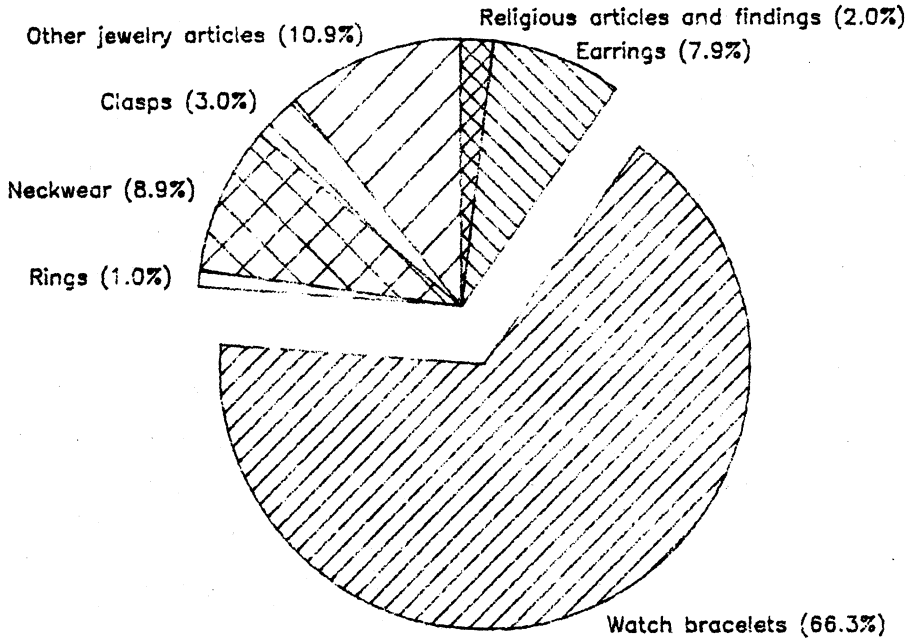
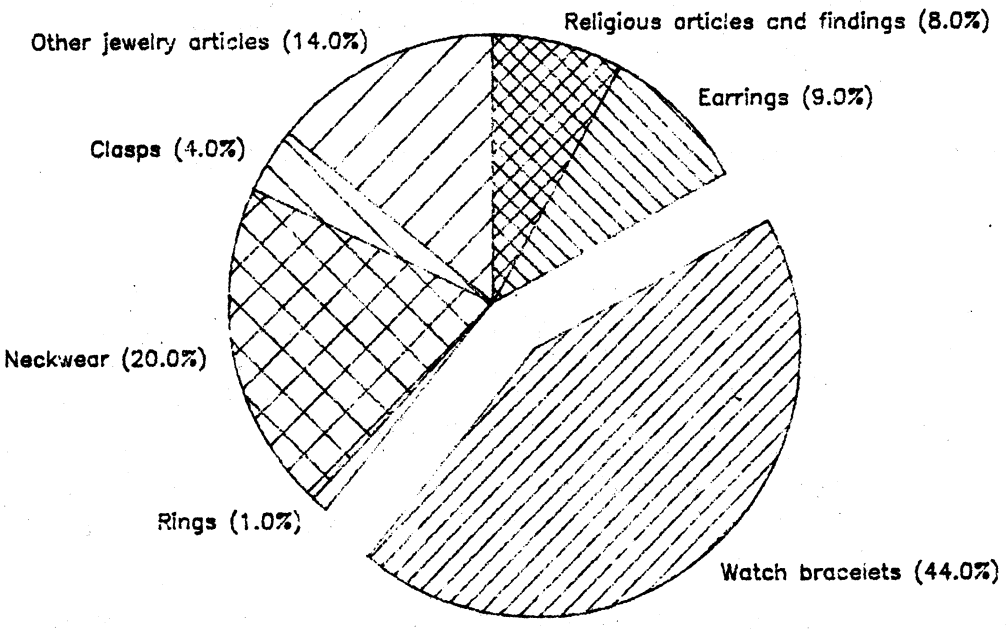


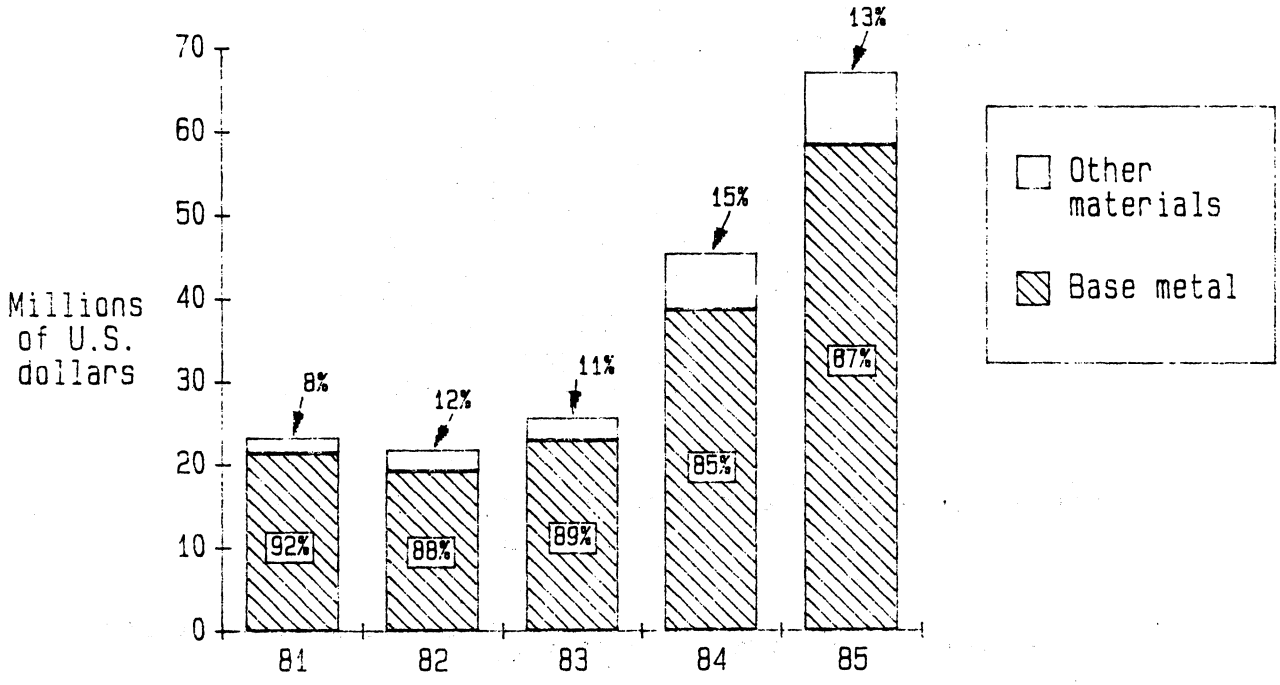
Figure 24. Costume jewelry: U.S. imports from Hong Kong, by product, 1985



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

from Korea, according to questionnaire responses, are made of base metal, but the relative portion of base-metal costume jewelry decreased slightly from 92 percent of the total in 1981 to 87 percent in 1985 (figure 25). The concentration on base metal products is reportedly due, in part, to lower materials costs in Korea.

Figure 25. Costume jewelry: U.S. imports from Korea, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

In 1981, over one-half of total costume jewelry imports from Korea were accounted for by neckwear and 31 percent by earrings (figure 26). Questionnaire respondents did not report any imports of watch bracelets or clasps from Korea. Although the relative shares of materials did not change significantly by 1985, neckwear imports declined to 47 percent of total imports, while earrings increased to 40 percent (figure 27). The shares of total imports accounted for by the remaining products stayed about the same over the period.

Imports from Japan. Imports of costume jewelry from Japan declined $7 million from 1981 to 1982 and then experienced an average annual increase of 27 percent from 1982 to 1985. According to questionnaire responses, the proportion of base metal costume jewelry from Japan decreased from 82 percent

Figure 26. Costume jewelry: U.S. imports from Korea, by product, 1981

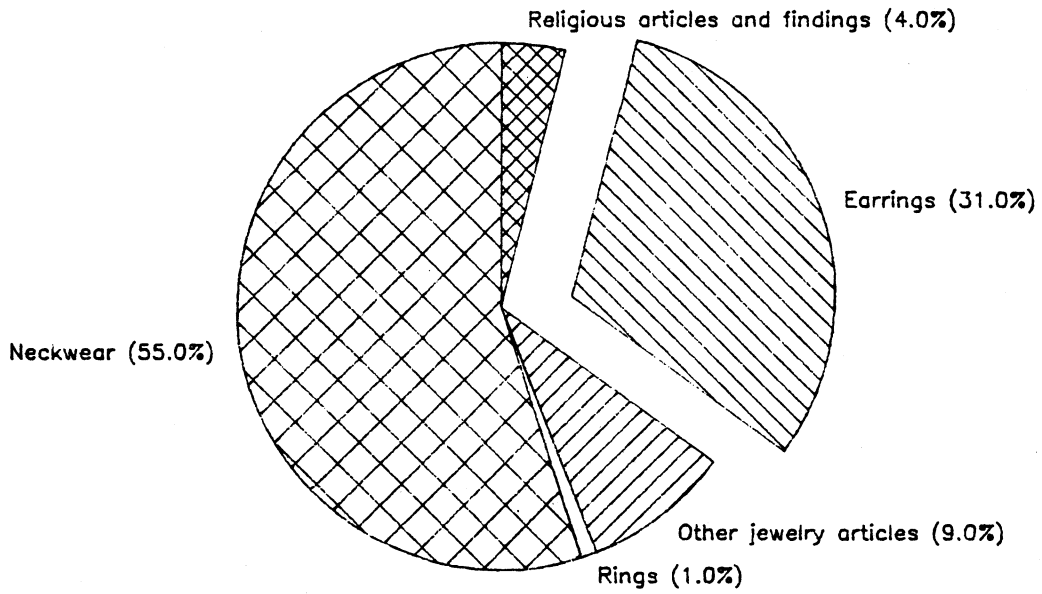
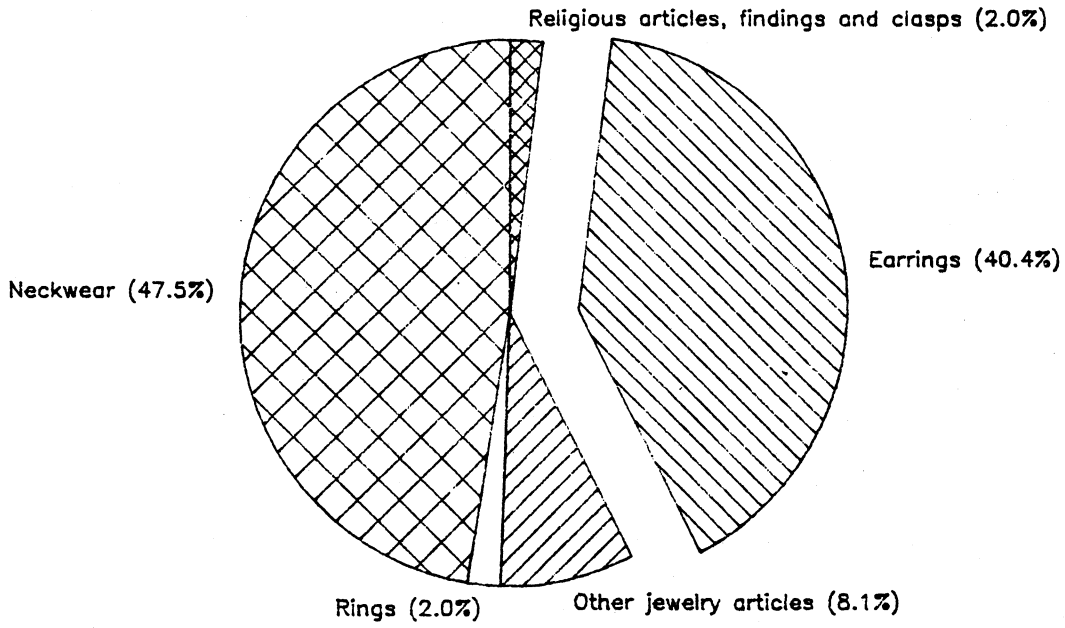


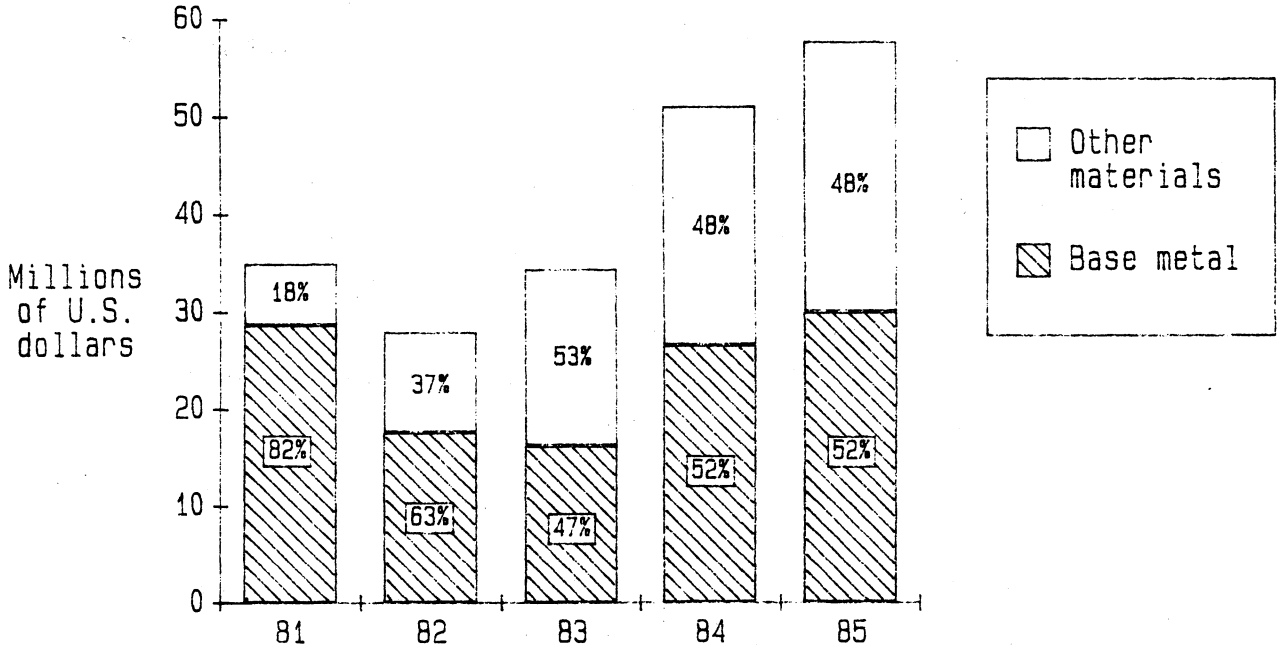
Figure 27. Costume jewelry: U.S. imports from Korea, by product, 1985



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

of the total in 1981 to 52 percent in 1985 (figure 28). In 1981, approximately three-fourths of total imports from Japan were base-metal watch bracelets (figure 29).

Figure 28. Costume jewelry: U.S. imports from Japan, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

The relative share of imports of watch bracelets declined over the period and accounted for 49 percent in 1985 (figure 30). This decline, in part, reflects the increasing importance of Hong Kong as a major supplier of such products. The relative share of imports of neckwear increased to 29 percent in 1985 in part because of the increased demand for such products in the U.S. market. The bulk of such imports in 1985 were nonmetal, principally imitation pearls in 1985, with the remainder split between earrings, findings, and other jewelry articles.

Imports from other countries. Costume-jewelry imports from all other countries decreased from $47 million in 1981 to $39 million in 1983, then rose sharply to $104 million in 1985. Such imports accounted for between 20 percent and 24 percent of total imports during the period. In 1981, the Philippines, Italy, and France accounted for almost one-half of these imports. By 1985, imports from India had risen almost sevenfold to surpass all three and to account for almost one-fourth of the total. Imports from the Philippines, Italy and France combined to account for another 35 percent of the total. Imports from India and the Philippines primarily consist of jewelry articles made from natural materials such as wood, shell, bone, and various minerals. Those from Italy and France are reportedly heavily concentrated in high-end base-metal fashion pieces.

Figure 29. Costume jewelry: U.S. imports from Japan, by product, 1981

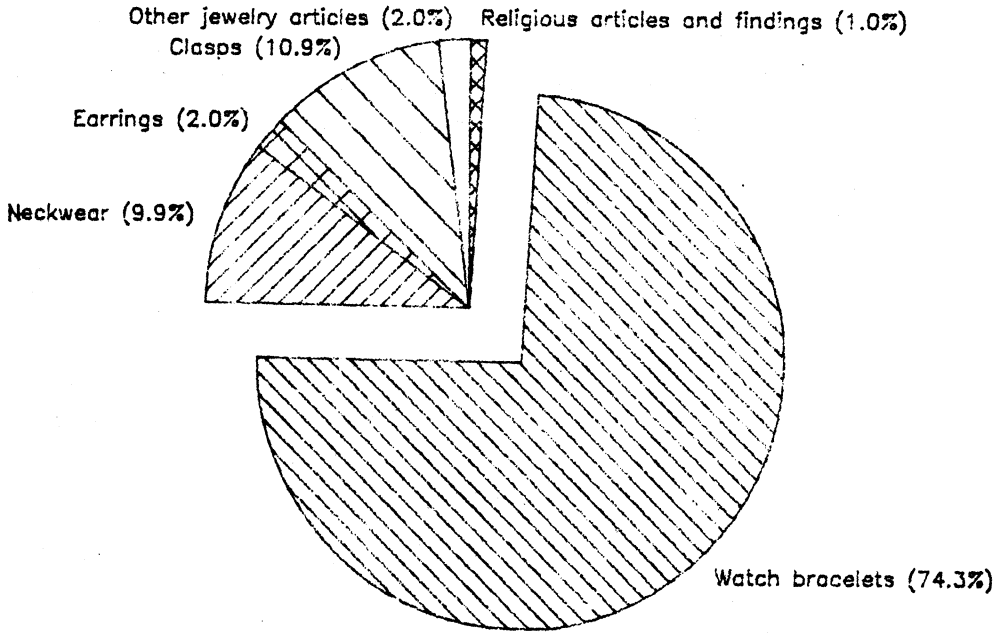
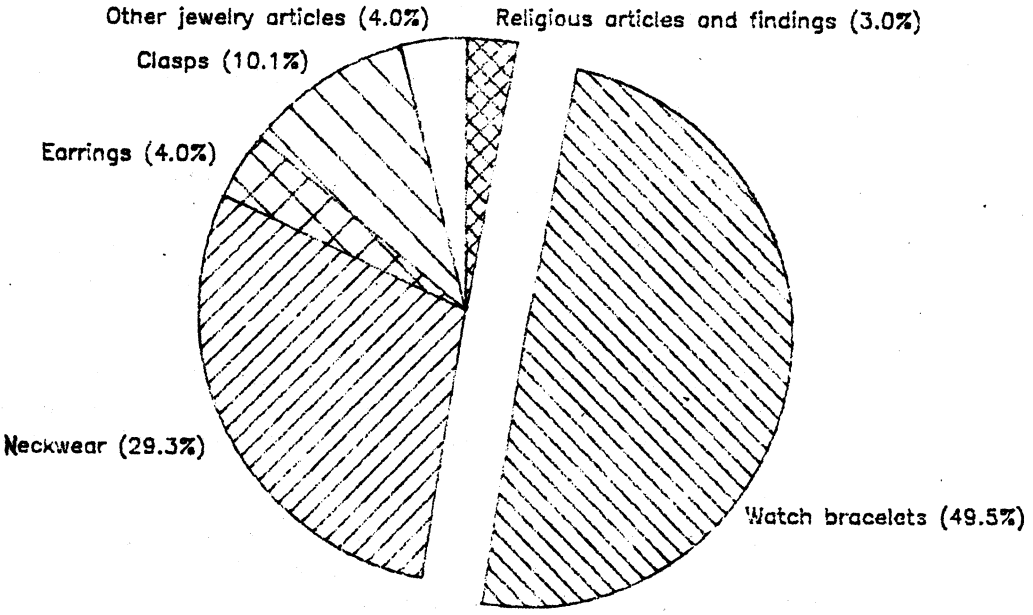


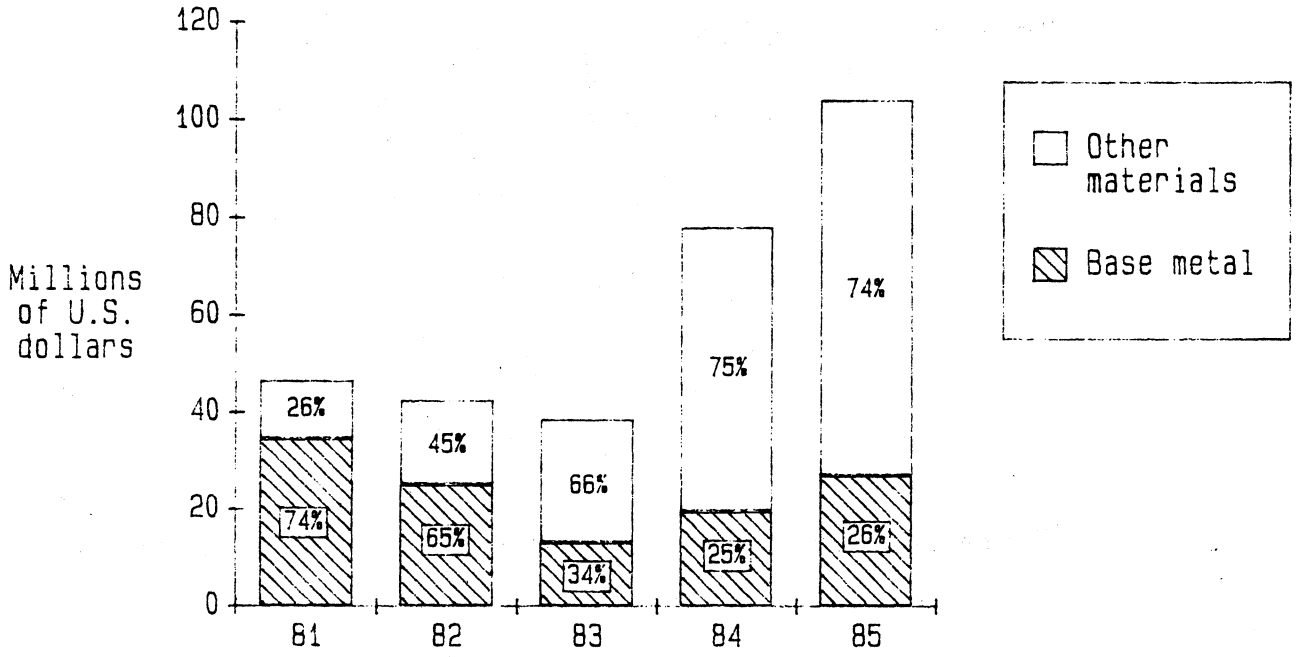
Figure 30. Costume jewelry: U.S. imports from Japan, by product, 1985



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

According to questionnaire responses, the share of base-metal costume jewelry from these countries decreased significantly from 74 percent in 1981 to 26 percent in 1985 (figure 31). In 1981, approximately 72 percent of these imports were watch bracelets, the majority being of base metal (figure 32).

Figure 31. Costume jewelry: U.S. imports from all other countries, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

By 1985, the relative share of watch bracelets declined to 32 percent, almost two-thirds of which were made of materials other than base metal (figure 33). Neckwear became the largest product category of imports and accounted for 39 percent of total imports, the bulk of which were made of nonmetal materials.

Imports under the Generalized System of Preferences. After a slight drop from 1981 to 1982, U.S. imports of costume jewelry under the Generalized System of Preferences (GSP) 1/ more than doubled by 1984 before decreasing

1/ The GSP program affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. scheme of the GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976, and before July 4, 1993. It provides duty-free entry to eligible articles imported directly from designated beneficiary developing countries.

Figure 32. Costume jewelry: U.S. imports from all other countries, by product, 1981

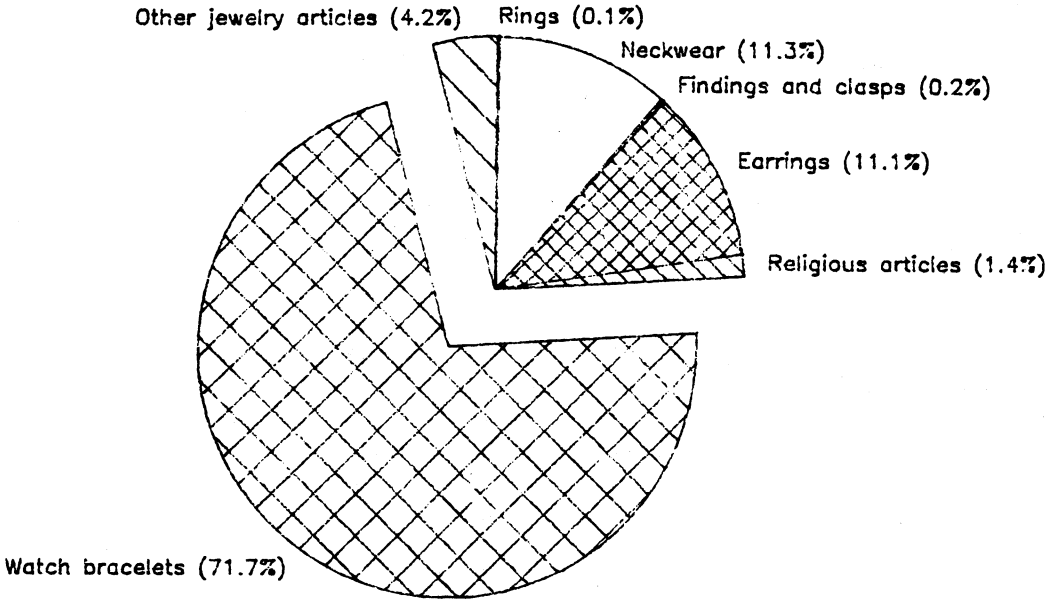
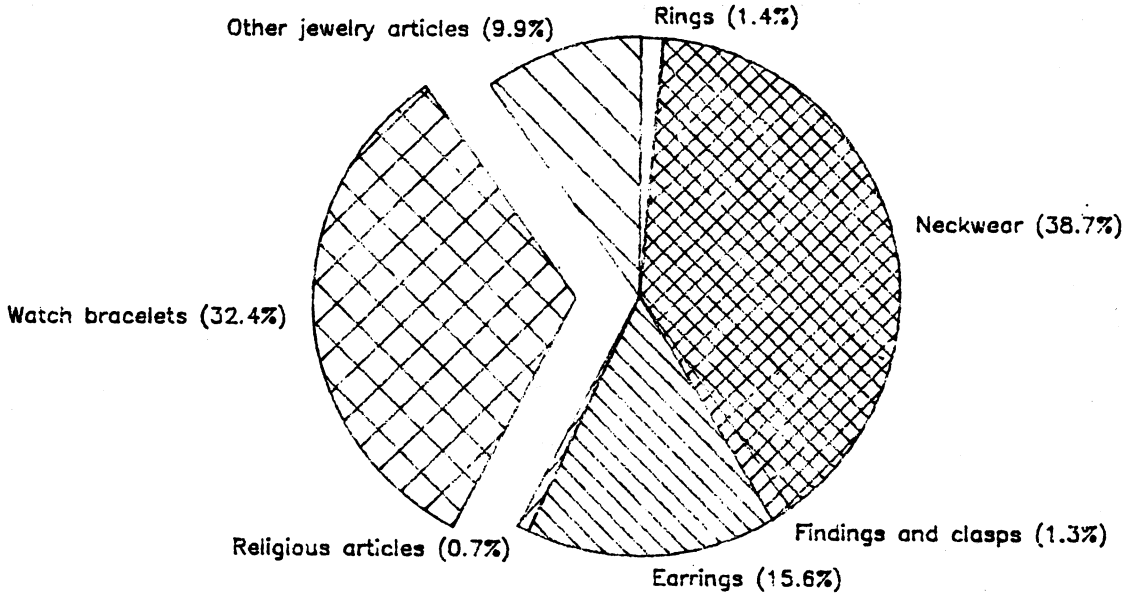


Figure 33. Costume jewelry: U.S. imports from all other countries, by product, 1985



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

10 percent in 1985 (table 6). An increase of 139 percent was registered over the period. The share of GSP imports to total imports of costume jewelry increased from 50 percent in 1981 to 68 percent in 1984 before falling back to 50 percent in 1985.

Table 6.--Costume jewelry: U.S. imports for consumption under the GSP, 1981-85

Country	1981	1982	1983	1984	1985	1981	1985	Change, 1985 from 1981
	1,000 dollars					Percent		
Taiwan	36,605	36,330	45,972	112,932	68,683	37.7	29.6	87.6
Republic of Korea	19,915	21,124	24,978	43,792	65,290	20.5	28.1	227.8
Hong Kong	26,840	28,151	30,921	66,360	50,549	27.7	21.8	88.3
India	3,409	2,723	3,977	17,848	23,021	3.5	9.9	575.3
Philippines	5,995	3,773	3,591	10,755	14,038	6.2	6.0	134.2
Thailand	851	1,035	1,069	1,613	2,455	0.9	1.1	188.5
Mexico	1,956	1,133	892	1,571	1,875	2.0	0.8	-4.1
Malaysia	52	1/	1	23	908	0.1	0.4	1,646.2
All other	1,365	2,222	2,372	3,587	5,248	1.4	2.3	284.5
All countries	96,988	96,491	113,773	258,481	232,067	100.0	100.0	139.3

1/ Less than $500.

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

During the period under review many changes occurred that affected the GSP eligibility of costume jewelry products from beneficiary countries, and it is these changes, rather than any economic reasons, that caused the decline in imports from GSP countries in 1985. A chronological presentation of such changes follows:

Country	TSUS item	1981	1982	1983	1984	1985	1986
Hong Kong	740.30	X	E	E	E	W	W
	740.34	X	E	E	E	W	W
	740.38	N	N	N	N	X	E
Republic of Korea	740.75	X	R	X	R	W	N
Taiwan	740.38	N	N	N	N	X	E

X = Excluded from GSP preferential treatment.
E = Exceeded competitive-need limits, no change in status.
W = Exclusion waived.
R = Redesignated as eligible for preferential tariff treatment.
N = No change in eligibility.

Hong Kong and Taiwan have been ineligible for preferential tariff treatment under the GSP for TSUS item 740.38 since July 1, 1985, because shipments from these countries each equaled or exceeded the competitive-need

limits. 1/ Although imports of watch bracelets, under TSUS item 740.34, and costume-jewelry pieces or parts, under TSUS item 740.30, from Hong Kong exceeded 50 percent of the value of total imports of these products in 1984, the competitive-need limit was waived under the de minimis provision. 2/ Although imports of base-metal jewelry chain, under TSUS item 740.75, from Korea exceeded 50 percent of the value of total imports of the product in 1984, the competitive-need limit was waived under the de minimis provision.

According to official statistics of the U.S. Department of Commerce, the major suppliers of GSP imports were also among the leading suppliers of all costume jewelry during the period. The relative proportion of U.S. imports of costume jewelry under the GSP to total U.S. imports from major GSP countries in 1985 were as follows:

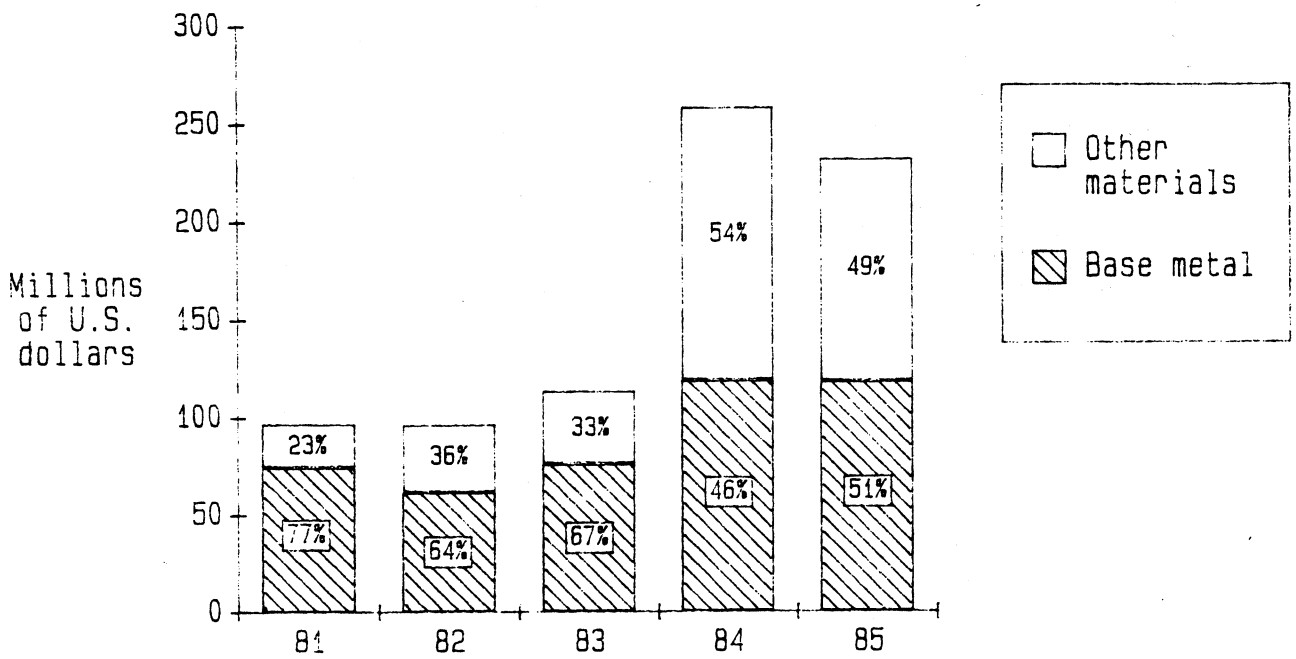
Country	GSP imports (1,000 dollars)	Total imports	Ratio of U.S. imports under the GSP to total (Percent)
Taiwan.....	68,683	116,962	59
Hong Kong.....	50,549	113,863	44
Republic of Korea.....	65,290	66,960	98
India.....	23,021	23,509	98
Philippines....	14,038	14,467	97

Based on information compiled from questionnaires, the share of base metal costume jewelry imported under the GSP decreased significantly from 77 percent in 1981 to 51 percent in 1985 (figure 34). The decrease in relative importance of base metal jewelry was the result of a shift in the composition of articles imported, as well as the exclusion of Taiwan and Hong Kong from eligibility for certain articles. It should be noted that with respect to suppliers such as Taiwan and Hong Kong, the loss of GSP eligibility does not appear to be a major factor in determining their exports of the major jewelry trade items to the United States. Total imports of costume jewelry from both Taiwan and Hong Kong increased in 1985 over those in 1984 in spite of their loss of eligibility on TSUS item 740.38, a major costume jewelry classification.

1/ A country automatically loses its GSP eligibility with respect to a product if U.S. imports from that country either (1) account for 50 percent or more of the value of total U.S. imports of the product; or (2) exceed a certain dollar value, which is annually adjusted in proportion to changes in the nominal Gross National Product (GNP). The competitive-need value limit based on 1985 trade was $69.6 million and is applicable to imports in 1986.

2/ The 50 percent competitive-need limit can be waived by the President if imports of a product do not exceed a value limit that is adjusted annually by a percentage that depends upon the percent of change in the U.S. GNP compared with the GNP in 1979. That value was $8.3 million in 1985.

Figure 34. Costume jewelry: U.S. imports under the GSP, by material, 1981-85



Source: Commission questionnaire responses for import data and official statistics of the U.S. Department of Commerce.

In 1981, approximately 36 percent of these imports were neckwear, the majority being made of base metal (figure 35). Watch bracelets and earrings accounted for 31 percent and 20 percent, respectively; the bulk of these imports were made of base metal.

By 1985, the relative share of watch bracelets declined significantly to 5 percent, over one-half of which were of base metal (figure 36). Neckwear became the largest product category of imports and accounted for 44 percent of the total; the bulk of these imports were made of nonmetal materials. Earrings, over one-half made of base metal, accounted for 30 percent of the totals, and other jewelry articles accounted for 12 percent, over one-half made of base metal.

Chapter 7. Leading Competitive Factors 1/

A representative sample of U.S. producers, importers, and purchasers of costume jewelry was asked to assess the competitive position of U.S.-made costume jewelry versus foreign-made products with regard to eight factors of competition. Respondents were asked to indicate who had the advantage or if they believed that domestic and foreign products were typically equal in a factor. Detailed results of this survey, by product, are provided in appendix E.

1/ Most of the information used in this section of the report was obtained during public industry forums, field interviews with representatives of the U.S., Taiwan and Hong Kong industries, and from responses to questionnaires of the U.S. International Trade Commission.

Figure 35. Costume jewelry: U.S. imports under the GSP, by product, 1981

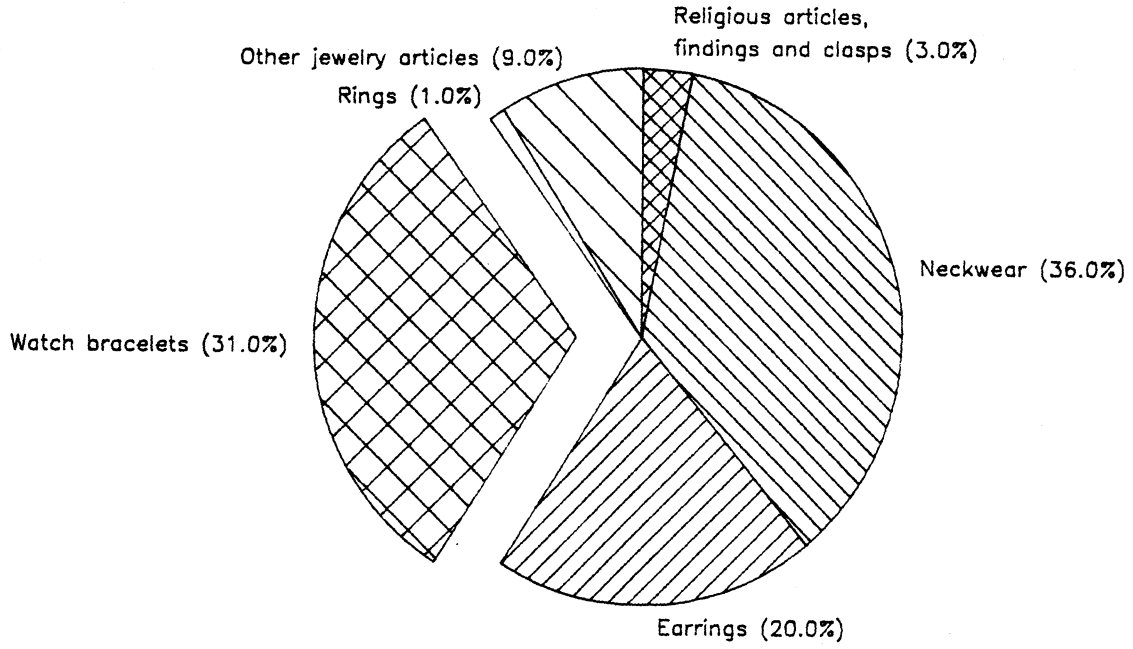
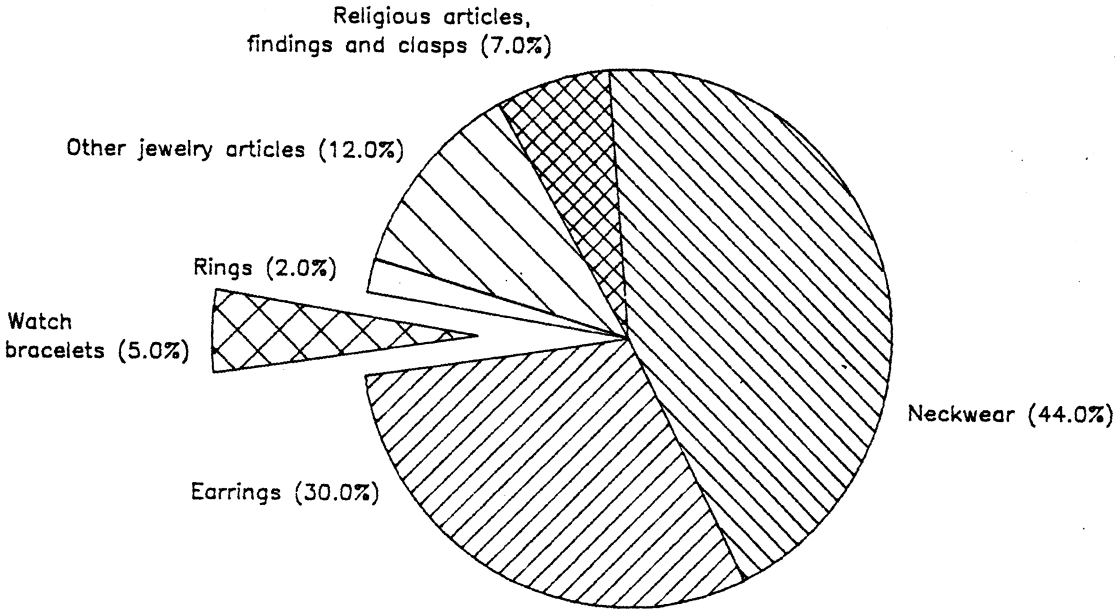


Figure 36. Costume jewelry: U.S. imports under the GSP, by product, 1985



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

All three groups favored domestically produced products by at least a 3 to 1 margin in terms of factors such as product quality, design, overall availability 1/, shorter delivery time, and historical supplier relationship. Nevertheless, they gave foreign-made costume jewelry the overall competitive advantage by better than 5 to 3 and favored foreign suppliers by more than 4 to 1 on lower priced products and 4 to 3 on ability to supply products at various prices. The following tabulation shows the percent of responses given to domestically produced and imported products for each factor. The numbers represent the percent of total responses indicating a preference (in percent):

Country with competitive advantage for all costume jewelry 1/	Overall advantage	Lower price	Various price points	Product quality	Product design	Overall availability	Shorter delivery time	Supplier relationship
Domestic (D).....	31	16	35	59	66	60	75	54
Foreign (F).....	55	66	48	14	11	20	16	14
Equal (S).....	14	18	17	27	23	20	9	32
Ratio (F)/(D).....	1.8	4.1	1.4	0.2	0.2	0.3	0.2	0.3
Ratio (D)/(F).....	0.6	0.2	0.7	4.2	6.0	3.0	4.7	3.9

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

With respect to costume jewelry made of base metal, foreign-produced products were still believed to hold the overall advantage but to a lesser degree. On the basis of individual factors, both foreign and domestic products were given the same advantages as in all costume jewelry, except in the ability to supply various priced products. On the basis of other marketing factors, the advantage held by domestic producers was greater in base metal jewelry than in all costume-jewelry products. Forty-nine percent of respondents indicated that foreign suppliers held the overall competitive advantage. Only 38 percent indicated that domestic producers held the overall competitive advantage. In terms of having a lower priced product, foreign-made products received a 62-percent share. In each of the marketing factors, domestic products received 58-percent or greater shares. An equal number of respondents favored the domestic producers as favored foreign producers (42 percent) in the ability to compete at various prices. The higher relative advantage of domestically produced products for base-metal costume jewelry indicates that the U.S. industry is believed to be more competitive in this sector of the market than in the market as a whole. The following tabulation summarizes responses to Commission questionnaires comparing U.S.-made base-metal products with those imported in the U.S. market, by each factor; the numbers indicate the percent of total responses indicating a preference (in percent):

1/ Overall availability of products refers to an ability to supply what the buyers want, where and when they want it.

Country with competitive advantage for base-metal jewelry 1/	Overall advantage	Lower price	Various price points	Product quality	Product design	Overall availability	Shorter delivery time	Supplier relationship
Domestic (D).....	38	19	42	64	71	64	79	58
Foreign (F).....	49	62	42	10	7	17	12	11
Equal (S).....	13	19	16	26	22	19	9	31
Ratio (F)/(D).....	1.3	3.3	1.0	0.2	0.1	0.3	0.2	0.2
Ratio (D)/(F).....	0.8	0.3	1.0	6.4	10.1	3.8	6.6	5.3

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

For nonmetal costume jewelry, foreign-made products were believed to hold an even greater overall competitive advantage than in all costume jewelry, receiving a 63-percent share of total responses. In terms of each individual factor, the distribution between domestic and foreign products was the same as for all costume jewelry; however, for each factor, foreign-made products received a higher respective share. The largest disparity in responses was registered for lower priced products, in which category foreign-made products were favored in 70 percent of all responses compared with 13 percent received by domestic products. The distribution of these responses indicates that foreign-made costume jewelry made of materials other than base metal are generally believed to be relatively more competitive in this portion of the market than they are in the market as a whole as shown in the following tabulation (in percent):

Country with competitive advantage for nonmetal jewelry 1/	Overall advantage	Lower price	Various price points	Product quality	Product design	Overall availability	Shorter delivery time	Supplier relationship
Domestic (D).....	23	13	27	53	58	55	69	50
Foreign (F).....	63	70	55	18	16	24	21	18
Equal (S).....	14	17	18	29	26	21	10	32
Ratio (F)/(D).....	2.7	5.4	2.0	0.3	0.3	0.4	0.3	0.4
Ratio (D)/(F).....	0.4	0.2	0.5	2.9	3.6	2.3	3.3	2.8

1/Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

7.1 Overall Competitive Advantage

Base metal jewelry. When respondents were asked to indicate whether domestically produced or imported base-metal costume jewelry had an overall competitive advantage, almost half of the responses indicated that imported products had the advantage. Foreign products were considered to have a competitive advantage in over half of all responses from all countries except

Japan, where U.S. products were considered to have an overall competitive advantage by better than 4 to 3, while 17 percent indicated they were typically equal. The overall competitive advantage in base-metal costume jewelry, held by most foreign products, reportedly derives from their low production costs relative to those in the United States. Since demand for base-metal costume jewelry is highly price elastic, any price advantage would translate directly into a selling advantage, as long as the product fits the general need. Rapid gains in U.S. market share by such low-cost producers as Hong Kong and Taiwan, despite the sizeable nonprice advantages attributed to U.S. products, seem to substantiate this point.

The following tabulation summarizes responses to Commission questionnaires sent to U.S. producers, importers, and purchasers of costume jewelry. The numbers show the percent of total responses indicating that a particular foreign source or the domestic industry has an overall competitive advantage in base-metal costume jewelry:

Country with overall advantage in base-metal jewelry 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other countries
Domestic (D).....	38	36	34	48	29	38
Foreign (F).....	49	52	54	35	63	42
Equal (S).....	13	12	13	17	8	20
Ratio (F)/(D).....	1.3	1.4	1.6	0.7	2.2	1.1
Ratio (D)/(F).....	0.8	0.7	0.6	1.4	0.5	0.9

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Nonmetal jewelry. A comparison of the overall competitive position of U.S.-made nonmetal costume jewelry with imports, by countries, follows. It is based on data submitted in response to Commission questionnaires sent to U.S. producers, importers and purchasers of costume jewelry; numbers show the percent of total responses indicating that a particular foreign source or the domestic industry has an overall competitive advantage in costume jewelry made of materials other than base metal:

Country with overall advantage in non-metal jewelry 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other countries
Domestic (D).....	23	14	13	22	2/	31
Foreign (F).....	63	71	72	62	2/	47
Equal (S).....	14	15	15	16	2/	22
Ratio (F)/(D).....	2.7	5.1	5.5	2.8	-	1.5
Ratio (D)/(F).....	0.4	0.2	0.2	0.4	-	0.7

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.
2/ No responses.

Almost two-thirds of all responses indicated that foreign-made products held an overall competitive advantage in nonmetal costume jewelry. When domestically produced products were compared with those made in Taiwan, Hong Kong, and Japan, the foreign products were considered to have a competitive advantage in over half of all responses. In the case of all other countries, the foreign products were considered to have an overall competitive advantage in 47 percent of all responses; 22 percent of all responses indicated the products were equal. The advantage in nonmetal costume-jewelry products reportedly lies in the fact that foreign manufacturers produce products that are generally not available from U.S. producers. Such products are used to fill out a product line at various prices, build inventory, or test a product for general marketability. Foreign producers, particularly in the Orient, reportedly have easier access to natural raw materials, such as different woods and shells, which allow them to produce relatively unique products. Other factors that were reported to give foreign producers an overall advantage included lower production costs and a workforce that can easily be shifted among various products, production processes, and techniques.

7.2 Prices

Direct comparisons of prices of imported and domestically produced costume jewelry were not feasible because these products are heterogeneous even at the most disaggregated level for which data were available. Differences in design, quality, and materials generally account for differences in price. Items classified as costume jewelry range from plastic rings sold in gumball machines to fine custom-designed jewelry. Therefore, it is difficult to define a unit of costume jewelry that is meaningful for price comparisons.

Comparisons of price trends were also not feasible. Although a producer price index of domestically produced costume jewelry is reported by the Bureau of Labor Statistics, no similar data exist for imported jewelry. The staff attempted to calculate a similar index for imported costume jewelry by including a set of questions in the questionnaire asking for prices of narrowly defined product categories. However, questionnaire responses were not adequate to calculate any meaningful price series.

The producer price index of domestically produced costume jewelry, provided in table 7, indicates that the price of domestically produced costume jewelry increased irregularly from 1981 to 1985, in both nominal and real terms. The nominal price of costume jewelry increased 27 percent from January-March 1981 through October-December 1985; price increases exceeded the overall U.S. rate of inflation by roughly 18 percent over the 4-year period.

Table 7.--Nominal and inflation-adjusted producer-price indexes of domestically produced costume jewelry, January 1981-December 1985

Period	Price index	
	Nominal	Real
1981:		
January-March	100.0	100.0
April-June	105.2	102.9
July-September	103.4	100.5
October-December	111.9	108.9
1982:		
January-March	113.6	109.5
April-June	110.4	106.4
July-September	110.5	105.9
October-December	112.1	107.4
1983:		
January-March	112.3	107.5
April-June	117.4	112.0
July-September	111.7	105.6
October-December	113.8	107.0
1984:		
January-March	116.4	108.3
April-June	114.1	105.5
July-September	120.2	111.4
October-December	121.5	112.8
1985:		
January-March	126.9	118.0
April-June	126.6	117.7
July-September	126.2	118.2
October-December	127.0	118.1

Source: Producer Price Indexes provided by the Bureau of Labor Statistics. Prices were deflated using the wholesale price index.

A critical factor affecting the retail price of costume jewelry is the manufacturer's cost, which varies depending on labor, raw materials, purchased components, and overhead. According to industry sources, foreign costs of production are approximately 50-percent lower than those of comparable domestically produced products. In most costume jewelry, the largest production cost is labor. The international transfer of technology has allowed nations with low-cost labor to gain an even greater competitive advantage by reducing costs of production through combining current technologies with low-cost labor. However, low foreign-wage rates by themselves generally tend to outweigh any technological advantage that might be held in the United States. It is noteworthy, however, that questionnaire respondents, by a 2.7 to 1 margin, cited Japanese costume jewelry as having

price advantage over U.S. products, even though Japanese wage rates in miscellaneous manufacturing industries were up to 13 percent higher than comparable U.S. rates. Labor costs, other than wage rates, which affect the competitiveness of U.S. producers include Federal and State unemployment contributions, social security payments, employer-provided health insurance, workmen's compensation, and withholding taxes. Except for workmen's compensation in Hong Kong, there are generally no comparable costs for producers in the developing Asian jewelry-supplying countries.

Table 8 shows an index of estimated monthly compensation of workers in miscellaneous manufacturing industries for selected major costume-jewelry-producing nations. Compensation of employees in the U.S. costume-jewelry industry is estimated to be approximately 95 percent of the level listed for U.S. miscellaneous manufacturing industries. The relative labor costs in miscellaneous manufacturing industries in Taiwan, Hong Kong, and Korea are less than one-half of those in the United States, although those in Japan are roughly similar. Additional overhead costs not counted in the index that U.S. producers must bear include those associated with compliance of Federal and local government regulations for pollution control and worker safety.

Table 8.--Index of estimated monthly compensation of workers in miscellaneous manufacturing industries (ISIC 390) for selected countries, 1980-84 1/

(United States 1980=100.0)

Year	United States	Japan	Hong Kong	Korea	Taiwan 2/	France	West Germany
1980.....	100.0	113.2	23.0	21.4	25.5	91.6	114.3
1981.....	109.3	123.1	24.5	23.2	28.8	83.1	97.1
1982.....	117.5	111.6	48.7 3/	23.9	30.0	75.5	94.6
1983.....	124.7	122.0	43.7 3/	26.3	31.6	75.2	91.0
1984.....	128.8	127.9	44.7 3/	25.7	37.2	69.1	83.1

1/ Foreign currency data were translated using appropriate period average exchange rates as reported in International Financial Statistics, IMF. See table D-1 in app. D for compensation in U.S. dollars.
2/ Taiwan statistics are based on Taiwan Statistical Data Book 1985, Council for Economic Planning and Development.
3/ Series was changed: prior to 1982, March and September of each year.

Source: Yearbook of Labor Statistics, International Labor Office, Geneva 1985, except as noted.

Imports from Taiwan, Hong Kong, Japan, and Korea, the major U.S. suppliers of costume jewelry, are considered to be highly price competitive with domestically produced jewelry. However, any price advantage is also due to other factors, as explained below, which affect the degree of price competitiveness between domestically produced and imported costume jewelry.

An assessment by country of the price competitiveness of U.S.-made costume jewelry with imports in the U.S. market follows. It is based on data submitted in response to Commission questionnaires sent to U.S. producers, importers, and purchasers of costume jewelry; numbers show the percent of

total responses indicating that a particular foreign source or the domestic industry has a pricing advantage:

Country with pricing advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	16	12	12	21	12	26
Foreign (F).....	66	70	74	57	74	49
Equal (S).....	18	18	14	22	14	25
Ratio (F)/(D).....	4.1	5.8	6.2	2.7	6.2	1.9
Ratio (D)/(F).....	0.2	0.2	0.2	0.4	0.2	0.5

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Based on all responses given in the questionnaires, two-thirds indicated that the foreign product had a lower purchase price--a 4 to 1 margin. On a country basis, almost three-quarters of the respondents stated that Hong Kong and Korean products were lower priced. This disparity was slightly less for Taiwan and substantially less for Japan. Although, in all cases, foreign producers appeared to offer lower prices, less than half of the respondents believed that producers from countries not specifically listed here offered lower prices.

The tabulation below shows the breakdown of price advantage by various cost components indicated by respondents. Numbers indicate the percent of total responses indicating a preference:

	Producers 1/			Importers 1/			Purchasers 1/		
Pricing factor	D	F	S	D	F	S	D	F	S
Lower price.....	8	65	27	21	63	16	40	57	3
Due to:									
Lower cost labor....	0	80	20	14	80	6	2/	2/	2/
Lower cost materials.....	3	56	41	21	66	13	2/	2/	2/
Exchange rate advantage.....	23	53	24	24	40	36	2/	2/	2/
Other factors.....	8	70	22	58	30	12	2/	2/	2/

1/ Respondents were asked to compare the competitive positions of U.S.-produced and imported costume jewelry in the U.S. market during 1981-85. They were to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

2/ Causes of lower prices were not asked.

Eighty percent of responses by U.S. producers and importers indicated that the lower cost labor contributed to lower priced foreign product. However, two-thirds of all importers and over one-half of producers indicated that the foreign-made product used lower cost materials. A majority of U.S. producers indicated that foreign-made products also held a pricing advantage because of favorable exchange rates, but importers felt this advantage was less pronounced.

The discrepancies in the answers between producers, importers, and, in the case of overall price advantage, purchasers are instructive. To the extent that some producers import costume jewelry and most importers were not at one time producers, the producers should better be able to gauge price differences than importers, particularly since in a labor-intensive industry such as costume jewelry, the producers always have the option of switching to imports, whereas importers are less likely to start producing in the United States. Furthermore, those most intimately involved in price comparisons are the purchasers. Therefore, it is interesting to note that, although roughly the same proportion of producers and importers rated imported jewelry as enjoying a price advantage and purchasers also gave imported jewelry the advantage, the purchasers only did so at a 4 to 3 margin, compared to an 8 to 1 margin for producers and a 3 to 1 margin for importers. The difference at the purchasers' level can most likely be attributed to added costs accruing to imported jewelry as it passes from the port to the purchaser, which thereby reduce somewhat the ultimate price advantage.

In rating labor costs, both groups responded identically with regard to foreign labor, but no producers gave an advantage to the United States, and 14 percent of the importers did. Most likely the producers were comparing U.S. wages with those of the most prominent low-wage sources, such as Taiwan, Korea, and Hong Kong, and importers were comparing them with their own major source countries, which in some cases included high-wage-rate countries, such as Japan.

Finally, although both producers and importers indicated that foreign products enjoyed an exchange rate advantage over domestic products, importers, who would be more continually aware of exchange rate fluctuations and more immediately affected by recent changes in the dollar's strength, reported a smaller margin.

The following tabulation presents a relative price comparison of U.S.-made base-metal and nonmetal costume jewelry with imports into the U.S. market, by countries. It is based on data submitted in response to Commission questionnaires sent to U.S. producers, importers, and purchasers of costume jewelry; numbers show the percent of total responses indicating that a particular foreign source or the domestic industry has a relative price advantage:

Base metal

Country with pricing advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	19	17	17	29	7	28
Foreign (F).....	62	67	69	47	75	47
Equal (S).....	19	16	15	24	18	25
Ratio (F)/(D).....	3.3	3.9	4.1	1.6	10.7	1.7
Ratio (D)/(F).....	0.3	0.3	0.2	0.6	0.1	0.6

Nonmetal

Country with pricing advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	13	6	7	12	20	25
Foreign (F).....	70	75	80	69	72	50
Equal (S).....	17	19	13	19	8	25
Ratio (F)/(D).....	5.4	12.5	11.4	5.8	3.6	2.0
Ratio (D)/(D).....	0.2	0.1	0.1	0.2	0.3	0.5

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage; "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Korea had the largest price advantage in base-metal products, followed by Taiwan and Hong Kong. The price advantage given to Japan was narrowest of all. The price advantage attributed to foreign competitors in nonmetal jewelry was even greater than in base metal, by 5.4 to 1 compared with 3.3 to 1 for base metal. The greatest advantage was indicated relative to Hong Kong and Taiwan. Korea and Japan were also accorded the advantage, however, to a lesser degree.

Not only did respondents indicate that foreign producers were able to supply lower priced products, but they were also more often rated as having a competitive advantage in the ability to supply products at various prices. This is an important factor in the U.S. market because retail jewelry departments want to carry products at various price ranges. The ability of a supplier to produce products at various prices means that he has the potential for greater repeat business. The following tabulation for all costume jewelry summarizes responses to the query on ability to supply products at various price points (in percent):

Country with ability to supply products at various prices 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	35	31	30	40	36	44
Foreign (F).....	48	52	56	34	51	40
Equal (S).....	17	17	14	26	13	16
Ratio (F)/(D).....	1.4	1.7	1.9	0.9	1.4	0.9
Ratio (D)/(F).....	0.7	0.6	0.5	1.2	0.7	1.1

1/ Respondents were asked to mark "D" if the perceived domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Here the foreign margin narrowed to a 1.4 to 1 overall advantage in the perceived ability to supply products at various prices. Taiwan, Hong Kong and Korea, in over half of the respective responses, were each favored in such an ability but each by less than 2 to 1, while domestic producers were slightly favored against those in Japan and in other countries.

7.3 Product Quality

The quality of jewelry can be measured in different ways. The most important factors are the component materials, craftsmanship, and "aesthetic value" or attractiveness of design. As previously stated, most major materials used in costume jewelry are, by definition, lower valued than those used in precious jewelry. Craftsmanship deals with the quality of production and can be affected by the quality of materials, setting of stones, polishing, extent of rough edges, application of coating materials, and other finishing work. As a result of the rapid international transfer and standardization of jewelry-production technology, both domestic and foreign producers are able to use the same types of manufacturing equipment and processes. Industry sources indicate that most imported costume jewelry was generally inferior in quality to U.S. products. However, the quality of imported costume jewelry has been improving and continues to improve as operations become more efficient and reliable. Currently, members of the U.S. industry acknowledge that the quality of imports varies greatly by country, plant, and even production run.

Domestic costume jewelry was generally rated as having a quality advantage over imports regardless of component material. Responses comparing U.S. nonmetal products with those of Japan were evenly divided between those favoring domestic products, those favoring imports, and those indicating no advantage. The following tabulation summarizes responses to Commission questionnaires considering relative differences in product quality, by material of product (in percent):

Base metal

Country with quality advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	64	70	67	50	73	52
Foreign (F).....	10	7	8	21	4	18
Equal (S).....	26	23	25	29	23	30
Ratio (F)/(D).....	0.2	0.1	0.1	0.4	0.1	0.3
Ratio (D)/(F).....	6.4	10.0	8.4	2.4	18.3	2.9

Other materials

Country with quality advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	53	56	52	34	73	50
Foreign (F).....	18	10	18	33	3	28
Equal (S).....	29	34	30	33	24	22
Ratio (F)/(D).....	0.3	0.2	0.3	1.0	2/	0.6
Ratio (D)/(F).....	2.9	5.6	2.9	1.0	24.3	1.8

1/ Questionnaire respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

2/ Less than 0.05.

Note that for base-metal jewelry, the margin of quality advantage attributed to U.S. producers is greater than the margin of price advantage attributed to competitors overall, by 6.4 to 1 versus 3.3 to 1, and that this margin advantage holds against each competitor. By contrast, in nonmetal jewelry overall and for all countries but Korea, the ratio of foreign price advantage was greater than the ratio of U.S. quality advantage.

7.4 Product Design

Design plays an important role in the purchase of jewelry. It is relatively more important to precious jewelry than to costume jewelry. However, if a costume-jewelry article is not fashionable or appealing, it will not sell. In some situations, within a given price range, design is the most important determinant of a purchase. The design of costume jewelry is normally developed in one of two ways. It can be a copy of a successful design used in precious jewelry or it can be an original design made of cheaper materials as a market test for potential precious jewelry designs. In the former, a proven design is copied in cheaper materials and marketed to the average consumer who can purchase the "look" of the jewelry at a relatively low cost. The success of the design in precious jewelry often determines its success as costume jewelry. Conversely, a successful design in costume jewelry may be a good indicator of the market for a precious counterpart. In the latter, a new design can be tested before mass production begins. Designs can also be tailored to specific materials or prices. Traditionally, European markets, primarily Paris, have been the principal suppliers of future trends

and styles in jewelry products. Designers often travel to European trade shows to view the latest styles in those markets and develop ideas of their own. At the same time, they shop those markets to see what sells.

Based on discussions with representatives of the Taiwan and Hong Kong jewelry industries, most locally originated designs used in the production of costume jewelry in those countries are supplied by buyers. Although some in-house designs are developed and marketed, most original designs are developed for precious materials. The following tabulation presents an assessment of design as a competitive factor in the U.S. market between U.S.-made costume jewelry and that imported, by countries. It is based on data submitted in response to Commission questionnaires sent to U.S. producers, importers, and purchasers of costume jewelry (in percent):

Country with design advantage 1/	All countries	Taiwan	Hong Kong	Japan	Korea	Other
Domestic (D).....	66	70	66	56	79	52
Foreign (F).....	11	6	11	16	3	22
Equal (S).....	23	24	23	28	18	26
Ratio (F)/(D).....	0.2	0.1	0.2	0.3	2/	0.4
Ratio (D)/(F).....	6.0	11.7	6.0	3.5	26.3	2.4

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

2/ Less than 0.05.

Two-thirds of all responses indicated that domestically produced products held a competitive advantage over imports from all countries in product design. Of the major Asian suppliers, Japanese products were considered to be most competitive with those produced domestically and Korean products the least competitive. Costume jewelry from other countries were believed to have better designs than those from selected Asian countries, however, still inferior to domestic.

7.5 Exchange Rates

All four leading exporters to the U.S. experienced currency depreciation against the U.S. dollar in real as well as nominal terms over the 4-year period. The following tabulation shows the percentage yearly changes, period to period, and for the 4-year period:

Country	Oct-Dec 1982 1/	Oct-Dec 1983 1/	Oct-Dec 1984 1/	Oct-Dec 1985 1/	Four year Oct-Dec 1985/1981
Hong Kong					
Nominal...	-12.6	-16.4	+1.1	+0.3	-26.0
Real 2/...	2/	2/	2/	2/	2/
Japan					
Nominal...	-13.3	+10.9	-4.8	+13.8	+4.0
Real 3/...	-14.5	+6.9	-5.5	+14.0	-1.6
Korea					
Nominal...	-7.4	-6.4	-3.0	-8.1	-22.7
Real 3/...	-6.4	-8.7	-2.5	-6.6	-22.3
Taiwan					
Nominal...	-5.9	0	+2.1	-2.1	-5.9
Real 3/...	-5.0	-2.6	+.06	-4.5	-11.1

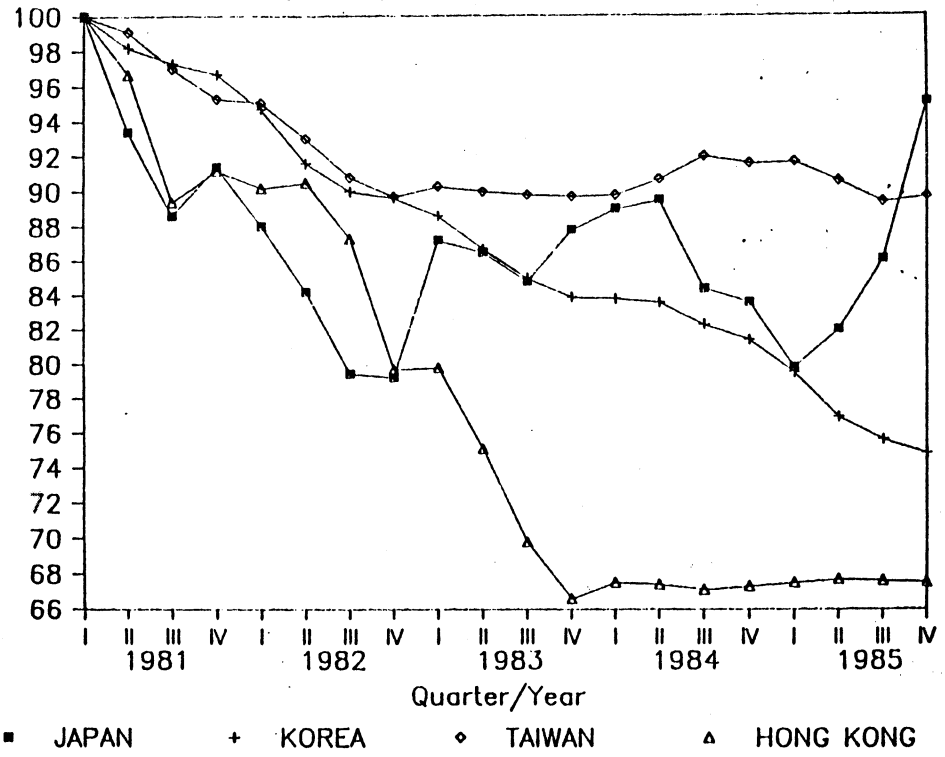
1/ Percentage change from same period preceeding year.
2/ The U.S.$/Hong Kong$ exchange rate is not deflated because data on prices in the two countries are not comparable.
3/Deflated by multiplying the ratio of the foreign wholesale price index to the U.S. wholesale (producer) price index.

Sources: International Financial Statistics, International Monetary Fund, July 1983 and December 1985 editions, and International Monetary Fund.

Taiwan and Hong Kong currencies showed substantial nominal depreciation in the first two and three years, respectively, and then leveled off through the end of 1985. Korea showed a slower but steadier depreciation lasting through the end of 1985, averaging 5.8 percent annual rate in real terms. Japan showed an even faster 8 percent annual average rate of real depreciation through the first quarter of 1985, followed by a steep reversal. The annual average rate of depreciation over the five-year period for the four main competitors ranged from a low of 2.6 percent for Japan to a high of 6 percent for Hong Kong. Quarterly nominal exchange rates, indexed to January-March for 1981=100, are shown in figure 37. An index of exchange rates against the U.S. dollar for the currencies of Japan, Korea, Hong Kong, and Taiwan is provided in appendix F.

Comparing percentage changes in U.S. imports from the leading four competitors with percentage depreciation in real exchange rates, all four show, for the period as a whole, a much faster rate of import expansion than of exchange rate change, ranging from a low annual rate of 13 percent to a high of 20 percent. In fact one sees a roughly inverse relationship between the average rate of exchange rate depreciation and the rate of import growth -- those with the highest real depreciation such as Hong Kong and Japan show lower rates of U.S. import expansion than those of Korea and Taiwan, whose rates fell in 1982-83 and then flattened out. It seems likely that such substantial real exchange depreciations helped the competitiveness of the four lead contenders either in allowing them greater pricing flexibility or in providing greater profit margins in the U.S. market, but they do not relate closely to or appear to account for differences in the comparative rates of growth among competitors and high rates of import growth overall.

Figure 37. Index of major supplier exchange rates versus the U.S. dollar, nominal, quarterly, (January–March 1981=100)



Source: International Financial Statistics, International Monetary Fund, July 1983 and December 1985 editions, and International Monetary Fund.

In that connection, the four-year 8.6 percent annual average rate of growth in U.S. apparent consumption of all costume jewelry was nearly one-fifth faster than the 7.3 percent growth in personal disposable income, while nonmetal jewelry demand grew much more rapidly still. It seems that nonmetal jewelry demand developments have given a new burst to demand in that market segment beyond what either income or exchange rate developments would explain. Moreover, this is a market segment in which U.S. producers have had limited production capability and greater production cost disadvantages than in base metal jewelry. Given the variety of forces affecting both the supply and demand sides of the costume jewelry market during this period, the information collected by this study was not adequate to evaluate the extent to which exchange rate depreciation may have given importers an edge in meeting the growth in U.S. costume jewelry demand in this period. Changes in consumer habits, foreign production and marketing decisions, and changes in U.S. economic conditions may all have played major roles.

7.6 Marketing Techniques

Trade shows are the principal marketing technique used nationwide in the costume-jewelry industry. Different shows often play different roles in the industry. Many shows are held annually during every month except December; the most important ones are held in the spring and fall for the coming fashion and holiday seasons. There are few shows that exclusively show costume jewelry; however, many often include only fine jewelry. Although taking orders at such shows is important to exhibitors, there are many other reasons

to exhibit at and attend them. Among these are the chance to meet with current and potential customers and suppliers in a central location; to provide a means for viewing competitors and competition; to unveil new products or styles and get an immediate market reaction; to view the latest styles and trends of competitors for design input; and to provide exposure and visibility to develop a reputation. For many years these shows primarily showcased the products of U.S. companies. Recently, many foreign suppliers have obtained space in order to enter the mainstream of the U.S. marketplace.

Jewelry trade shows are generally divided between those strictly for retailers and those for suppliers or manufacturing jewelers. Retail jewelry shows, as the name implies, are usually restricted to buyers and representatives of small retailers, large stores or chains of stores. Generally, products exhibited are finished goods and orders are taken for future delivery. However, since these shows are often independently administered by national, regional or local trade associations, sales policies among them differ. In some shows, delivery of products is allowed on the premises, and in others, delivery is strictly forbidden. At still others, delivery is allowed for some exhibitors but restricted for others. For example, some shows only allow delivery by importers.

Trade shows for manufacturing jewelers generally exhibit machinery, new production technologies or techniques, and semiprocessed goods. These shows are usually restricted to manufacturing jewelers or suppliers and often contain exhibitions by foreign machinery producers. In general, sales policies at these shows allow the taking of orders but restrict delivery until either the end of the show or some future delivery date.

The U.S. industry held a competitive advantage over foreign costume-jewelry producers in most facets of marketing during 1981-85. According to questionnaire responses, those advantages were most pronounced with respect to shorter delivery time, overall availability of product, and historical supplier relationships. The following tabulation summarizes responses to Commission questionnaires related to these factors in the U.S. market between U.S.-made costume jewelry and that imported (in percent):

Factor	Distribution of responses for selected marketing factors related to U.S.-made costume jewelry versus that imported, by country with competitive advantage 1/			Ratio	
	Domestic (D)	Foreign (F)	Equal (S)	(F)/(D)	(D)/(F)
Overall product availability	60	20	20	0.3	3.0
Shorter delivery time	75	16	9	0.2	4.7
Historical supplier relationship	54	14	32	0.3	3.9

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Domestically produced goods were heavily favored in all of these factors. However, with respect to having an historical supplier relationship, one-third of all responses indicated that domestic and imported products were equal. This can probably be attributed to new relationships that have developed outside of the traditional distribution channels in recent years. With respect to overall product availability, 60 percent of all responses favored domestic products, but 20 percent indicated that both products were equal. Finally, three-fourths of all responses indicated that domestically produced products held an advantage with respect to having a shorter delivery time.

7.7 Effect of Government Regulations

U.S. producers of costume jewelry report that foreign producers have a competitive advantage in government policies and regulations designed to facilitate exports to the U.S. market or impose additional production costs on U.S. producers. Countries that were cited as benefiting most from these government policies were Taiwan, Hong Kong, and Korea. In addition, an advantage may be enjoyed by foreign producers that relocate to locations that are tax free or have low taxes, such as some Caribbean countries. Furthermore, the U.S. industry has voiced concern about the increasing financial burden of meeting U.S. regulatory requirements, such as those imposed by the EPA and OSHA, which industry representatives believe put the U.S. industry at a competitive disadvantage.

Another difference is in the area of import valuation. U.S. rates of duty are applied against the Customs value of imports, which do not include charges for freight, insurance, and other charges incurred in transportation. Foreign tariff rates are usually applied against a value for imports that does include such charges. Hence, numerically equivalent foreign and U.S. tariff rates are not actually equal. Ad valorem duties in the United States are assessed on lower valued goods and, therefore, a lower duty is collected in the United States than that imposed by foreign Customs service.

Further, the domestic industry alleges that Federal, State, and local government procurement practices for certain articles of costume jewelry, such as uniform insignia, emblems, and medals, place domestically produced products at a competitive disadvantage with imports. The underlying cause of this is the practice of awarding contracts to the lowest bidder. Even in instances where there is a "buy American" policy or certification of compliance with labor and pollution standards is required, according to one questionnaire respondent, compliance is allegedly not investigated effectively, reportedly because of the low unit value of jewelry.

Chapter 8. Tariff Treatment

Finished jewelry articles of nonprecious materials are generally classified as costume or imitation jewelry in all countries. However, in many cases, these classifications do not include unfinished or semiprocessed articles that can be used in the manufacture of jewelry, or, after minor alterations be considered jewelry. For example, beads, which can be made of virtually any material, if drilled and permanently strung or set, are classified by most countries as a finished article of jewelry (a necklace). If these same beads were drilled and exported in bulk, not strung or

permanently set, they would not be considered jewelry; rather most countries would consider them an article of the specific material.

8.1 U.S. Customs Treatment

Imported costume jewelry is classified under TSUS items 740.30, 740.34, 740.35, 740.38, 740.50, 740.60, 740.75, 740.80, and 745.67 1/. Most costume-jewelry articles are classified under TSUS item 740.30 or 740.38, depending on the value of the article. Any article of costume jewelry or personal adornment, valued not over 20 cents per dozen pieces or parts, is classifiable under TSUS item 740.30. Those articles of jewelry or personal adornment valued over 20 cents per dozen pieces or parts are classifiable under TSUS item 740.38. Watch bracelets or straps, made of any material, valued between 20 cents and $5 per dozen are classifiable under TSUS item 740.34; those valued over $5 per dozen are classifiable under TSUS item 740.35. Religious jewelry of a purely devotional character is separately classified under TSUS items 740.50 and 740.60. Rosaries and chaplets are classified under the former, and crucifixes and medals, made of materials other than precious metals, are classified under the latter. Rope, cable, or curb chain produced in continuous lengths, whether or not cut to specific lengths, for use in the manufacture of articles of jewelry or personal adornment are classifiable under TSUS items 740.75 and 740.80. If the chain is valued not over 30 cents per yard it is classifiable under the former; if valued over 30 cents per yard under the latter. Clasps for use in jewelry or other objects of personal adornment, made of materials other than precious metals, are classifiable, along with certain articles not subject to this investigation, under part of TSUS item 745.67.

Table 9 shows the U.S. rates of duty applicable to imports of costume jewelry and articles of personal adornment included in this investigation. The rates of duty listed include those prior to 1980, when the Tokyo Round of Multilateral Trade Negotiations (MTN) achieved staged rate reductions through 1987, the column 1 staged rates for 1986 and 1987 and the column 2 rates. 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 TSUS. 3/ However, products of certain developing countries receive preferential tariff treatment under the GSP, and the Caribbean Basin Economic Recovery Act (CBERA) 4/. Preferential tariff treatment is also granted to imports from

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1/ Selected portions of the TSUS related to these items are presented in Appendix G.

2/ The staged rate reductions negotiated under the Tokyo Round for the United States and selected foreign countries are presented in appendix H.

3/ The only Communist countries currently eligible for MFN treatment are the People's Republic of China, Hungary, Romania and Yugoslavia.

4/ The CBERA affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area, enumerated in general headnote 3(e) of the TSUS, to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67 and implemented by Presidential Proclamation 5133 of Nov. 30, 1983, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after Jan. 1, 1984; it is scheduled to remain in effect until Sept. 30, 1995. It provides duty-free entry to eligible articles imported directly from designated Basin countries.

Table 9.--Costume jewelry: U.S. rates of duty, Pre-MTN, 1986, 1987, and column 2 rates of duty

(Percent ad valorem)

TSUS item No. 1/	Description	Pre-MTN col. 1 rate of duty	Staged col. 1 rate of duty effective with respect to articles entered on or after Jan. 1-- 2/ 1986	1987	Column 2 rate of duty 3/
	Jewelry and other objects of personal adornment not provided for in the foregoing provisions of this part (except articles excluded by headnote 3 of this subpart) and parts thereof:				
740.30A	Valued not over 20 cents per dozen pieces of parts.....	18.0	8.6	7.2	45.0
	Valued over 20 cents per dozen pieces or parts:				
	Watch bracelets:				
740.34A	Valued not over $5 per dozen.....	35.0	16.6	14.0	110.0
740.35	Valued over $5 per dozen.....	35.0	16.6	14.0	110.0
740.38A*	Other.....	27.5	13.1	11.0	110.0
	Religious articles of a purely devotional character designed to be worn on apparel or carried on or about or attached to the person:				
740.50A	Rosaries and chaplets.....	7.5	5.2	4.9	50.0
740.60A	Crucifixes and medals, not of precious metals...	10.0	6.3	5.8	45.0
	Rope, curb, cable, chain, and similar articles produced in continuous lengths, all the foregoing, whether or not cut to specific lengths and whether or not set with imitation pearls or imitation gemstones, of metal or of metal and such pearls or gemstones, suitable for use in the manufacture of articles provided for in this subpart:				
	Other:				
740.75A	Valued not over 30¢ per yard.....	20.0	9.5	8.0	80.0
740.80A	Valued over 30¢ per yard.....	27.5	13.1	11.0	110.0
	Clasps, handbag and similar frames incorporating clasps, and snap fasteners; all the foregoing and parts thereof:				
	Valued over 20¢ per dozen pieces or parts:				
	For jewelry and other objects of personal adornment:				
745.67 (pt)A	Other than of precious metal.....	27.5	13.1	11.0	110.0

1/ The designation "A" means that all beneficiary developing countries are eligible for the Generalized System of Preferences (GSP). "A*" indicates that certain of these beneficiary developing countries, specified in general headnote 3(e) of the Tariff Schedules of the United States Annotated, are not eligible for the GSP.

2/ Rate negotiated in the Tokyo round of the Multilateral Trade Negotiations in Geneva, to be achieved through 8 annual reductions, with the final reduction to be effective Jan. 1, 1987.

3/ Rate provided in the Tariff Act of 1930 and apply to imported products from those Communist countries and areas enumerated in general headnote 3(d) of the TSUS.

least developed developing countries (LDDC's) 1/ as well as to Israel under the U.S.-Israel Free Trade Area Implementation Act of 1985. 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.

Under the proposed Harmonized System, costume jewelry is classified under heading 7117. In general, costume jewelry that is made of base metal is classified under items 7117.11, if the article is either cuff links or studs, or item 7117.19, if it is any other article. Costume jewelry made of other materials is classified under item 7117.90. Specific language for product breaks are included as appendix I.

The customs treatment accorded imports of costume jewelry by the important U.S. jewelry markets and suppliers is presented in appendix J.

8.2 Preferential Tariff Treatment

Most developed countries offer preferential tariff treatment to imports from developing countries under a variety of different national programs. Probably the most widely used is the Generalized System of Preferences. Several countries also offer preferential treatment to nations located in the same region or nations to which the country maintains special ties. According to industry sources, preferential treatment greatly facilitates trade in costume jewelry by reducing the cost of imported products.

The GSP is a preferential tariff program designed to aid developing nations by promoting the development of national industries through exports. The GSP is not a program where all parties extend the same preferences. Rather, it is an international understanding to offer preferential tariff treatment from individual nations to certain countries that they determine to be developing nations. Each offering nation decides for itself how the preferences will be administered, what countries will receive the benefits, and how the benefits or beneficiaries can be changed. Further, these preferences are on a commodity basis and, therefore, a particular offering nation can limit the products that receive such preferential treatment. In some cases a developing country that is also a large supplier of the commodity is excluded from preferential treatment for an otherwise eligible commodity.

1/ The preferential rates of duty designated at the LDDC rates reflect the full U.S. MTN concession rates implemented without staging for particular items and apply to covered products of the LDDC's, enumerated in general headnote 3(e) of the TSUS. Where no rate of duty is designated as an LDDC rate for a particular item, the column 1 rate of duty applies.

2/ The preferential rates of duty under the United States-Israel Free Trade Area Implementation Act of 1985, reflect the full U.S. MTN concession rates implemented without staging for products of Israel, as provided in general headnote 3(e)(viii) of the TSUS. Where no rate of duty is provided for in the "Special" column for products of Israel for a particular tariff item, the rate of duty in column 1 applies.

In practice, most beneficiary developing countries are the same or nearly the same. 1/ However, an offering nation can restrict the commodities receiving preferential treatment to those that do not compete with domestic industries or those that are at or below some predetermined level of imports, or share of total imports of that commodity. By doing this the offering nation can protect its interests and at the same time provide some benefit to developing nations. For example, Canada does not extend preferential treatment to Taiwan for costume jewelry, and the United States recently excluded imports of certain costume jewelry from Taiwan and Hong Kong from GSP eligibility because they exceeded the competitive-need limit. Table J-1 of appendix J shows the preferential tariff treatment for costume jewelry articles offered by selected foreign countries.

8.3 Nontariff Barriers

In addition to tariffs placed on internationally traded costume jewelry, there are several factors that allegedly impede the international flow of goods and the industry considers nontariff barriers (NTB's). Among those that can affect costume jewelry are country-of-origin marking requirements and precious-metal content and coating standards and markings. 2/ There are neither universal international standards that apply to precious metal content or thickness requirements for base-metal costume jewelry nor any standard terminology for differentiating base-metal applications. For example, in the United States it is common to see the fineness of gold shown in terms of karats (i.e., 10 kt., 14 kt.). However, the practice in most European nations is to express fineness in terms of parts of gold per thousand of the total weight of the article. For example, 375 parts per thousand or .375 is the equivalent of a 9 karat metal in the U.S. Therefore, an article that is plated with 10 karat gold--the official minimum requirement in the United States--must have a fineness mark of 10kt. in the United States or .417 3/ in most European markets. In addition to the fineness mark, most countries require either a valid trademark, country of origin, and/or process of manufacture (i.e. "electroplated," "plated," "flashed," etc.). Some countries require no markings at all. This lack of uniform wording puts on manufacturers the burden of marking articles differently according to the regulations that exist in the country of destination.

Furthermore, import licensing requirements allegedly restrict the flow of trade in several markets. According to industry sources, this form of barrier restricts trade in India, Korea, and the Philippines, as well as in several Latin American, African, and other Asian countries.

1/ A list of beneficiary countries eligible for preferential tariff treatment for certain commodities under the U.S. scheme of the GSP is attached as appendix K.

2/ Specific marking requirements for country of origin and precious metal content and coating standards are addressed in the following section.

3/ In most European markets fineness is indicated as a decimal equivalent or in parts per thousand (i.e., .417 or 417).

Chapter 9. Costume Jewelry Marking Standards and Regulations

9.1 Country of Origin and Related Markings

Section 304 of the Tariff Act of 1930 (19 U.S.C. 1304) requires imported products to be labeled "in a conspicuous place as legibly, indelibly, and permanently as the nature of the article will permit in such a manner as to indicate to an ultimate purchaser in the United States the English name of the country of origin of the article." 1/ The importance of design and limited surface area on jewelry articles, often make it impossible to label indelibly the actual piece of jewelry without detracting from its appearance. Therefore, present U.S. Customs Service regulations provide for the use of gummed, stick-on labels or tags to be used on jewelry articles, as appropriate. U.S. industry representatives allege that such stick-on labels are often removed, intentionally or not, after passing through Customs and prior to the ultimate consumer's purchase so that the consumer has no information on whether the item is imported or domestically produced and cannot consider country of origin in a purchasing decision.

Marking requirements for selected U.S. export markets are as follows: 2/

Market	Marking required
France	Obligatory marking of the precious metal content and process of manufacture.
Japan	Marking of precious metal content and process of manufacture.
Switzerland	Trade mark or manufacturer's mark and precious metal content and process of manufacture.
West Germany	Process of manufacture. The fineness of the coating must not be indicated in thousandths, nor in karats, nor in any additional manner.

9.2 Precious-Metal Content and Coating Standards

Requirements for and regulations on content and coating standards of precious metals apply primarily to precious-metal jewelry, which will be included in the second report under this investigation; however, such rules can affect costume jewelry as well. As mentioned above, costume jewelry articles are often coated or plated with precious metal in order to add color, shine, or to hide any raw edges that may exist. It also gives an article the appearance of a higher valued good. Gold and silver are the most common precious metals used as a coating over base metals. There are no

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1/ For a further discussion of marking requirements related to jewelry see Study of Problems and Possible Remedies Concerning Imported Native American-Style Jewelry and Handicrafts, Report to the Congress from the Department of Commerce, July 1985.

2/ For further information see The Jewelry Manufactures Guide to International Markets, MJSA, 1984.

international standards for fineness or thickness of coating related to precious metal content in any jewelry article. Rather, national standards and requirements affect only those products in a particular market. Because these standards and requirements differ widely between countries, they allegedly distort the free flow of trade and serve as an example of NTB's specific to the jewelry industry.

The U.S. Federal Trade Commission (FTC) issues industry guides that are administrative interpretations of laws administered by the FTC and provided for the guidance of the public in conducting its affairs in conformity with legal requirements. 1/ In effect, these guides define unfair trade practices in the U.S. market. For example, the guides indicate that "It is an unfair trade practice to sell or offer for sale any industry product...having the capacity and tendency or effect of deceiving purchasers...as to the presence of gold or gold alloy in the product...". 2/ In doing so they establish the standards and requirements that must be met in order to use the terminology associated with the industry.

The standards for precious-metal fineness and thickness of coating for plated jewelry also vary between countries. Table 10 highlights national precious-metal fineness and coating standards for the United States and selected foreign markets.

9.3 Enforcement of Regulations

Since national standards and requirements can impede the flow of jewelry trade, international and national groups have formed to address the issue. Generally, these organizations deal with all jewelry products and make no distinction between costume and precious jewelry. The primary international body is the International Confederation of Jewelry, Silver, Diamonds, Pearls and Stones (CIBJO). This group includes 16 national industries, mostly from Europe, that meet annually to discuss and set standards for the international jewelry industry. The United States is represented in this body through Manufacturer Jewelers and Silversmiths Association. Topics handled include marking and stamping requirements for precious metals, stone grading, and the reduction of trade barriers on jewelry products. Domestically, the Jewelers Vigilance Committee works to preserve the integrity of the jeweler to the consumer and to maintain fair competition and standards for the entire industry. According to industry sources, the Committee works closely with the Federal Trade Commission to establish guides and procedures for the domestic jewelry industry.

As stated above, the basic statutory requirements concerning country of origin are set forth in Section 304 of the Tariff Act of 1930. The U.S. Customs Service enforces country-of-origin marking requirements on all imported merchandise at the time of importation. If Customs discovers at the time of entry that merchandise is not properly marked, the merchandise may be held and not released to the importer until it is properly marked. More commonly, the merchandise will be released on the assurance that the proper marking will be applied and the posting of a bond to assure such marking.

1/ 16 CFR Part 17, Application of Guides in Preventing Unlawful Practices.
2/ 16 CFR 23.5.

Table 10.—Costume jewelry: Precious-metal fineness and coating standards for plated jewelry in selected countries

Country	Item Description	Standards
United States.....	Gold Electroplate	A minimum gold coating of not less than 10 karat fineness, the minimum thickness throughout of which is equivalent to 7 millionths of an inch of fine gold.
	Gold Flashed or Washed	When the coating meets the minimum fineness, but not the minimum thickness.
	Heavy Gold Electroplate	When the minimum fineness is met and the thickness throughout is equivalent to 100 millionths of an inch of fine gold.
	Silver Plate	All surfaces of the product or part contain a coating of silver which is of substantial thickness. 1/
France.....	Plaque Or (Gold plated)	The minimum fineness of the gold used for plating must be 12 karat (500 parts gold per thousand) and the minimum thickness of the plating 3 microns.
	Flashed	The same minimum fineness with a plating thickness of between 0.0 and 0.5 microns.
	Dore (rolled)	The same fineness and a minimum thickness of between 0.5 and 3 microns.
	Plaque (plated)	The same fineness of metal and a minimum thickness of more than 3 microns.
Great Britain.....	2/	
	Gold or Platinum Plated	At least 0.5 microns of fine gold or platinum on the surface.
	Silver Plated	At least 0.2 microns of silver on the surface.
	Flashed	Articles with less than these thicknesses.
Switzerland.....	Gold Plated (double waren)	A minimum fineness of at least 9 karat (375 parts of gold per thousand) and a thickness of at least 8 microns.
West Germany.....	Rolled Gold (double)	A minimum thickness of coating of 10 microns.
	Gold Plated (plaque)	A minimum thickness of coating of 3 microns.
	Rolled (dore)	A minimum thickness of coating of 3 microns.
	Gilt	A minimum thickness of less than 3 microns.
Italy.....	Dorato, Placato, Laminato	They can be used without requirement of thickness.
Japan.....	Rolled Gold Filled	A thickness of 50 microns of 18 karat gold.
	Gold Electroplate	A thickness of 20 microns of 18 karat gold filled.

1/ Substantial thickness means that all areas of the plating be of such thickness as to assure a durable coverage of the base metal to which it has been affixed.
2/ There are no existing laws, but it is permitted to use Gold Plated (plaque) and Rolled Plated (double). Current proposals to amend the Hallmarking Act of 1973 in Great Britain reserves the use of the term gold for articles which are made of any alloy, properly marked, which has a .000 tolerance.

Source: The Jewelry Manufacturers Guide to International Markets, MJSA, 1984.

Improperly marked articles are subject to an additional duty of 10 percent ad valorem (sec. 304(c)). Persons convicted of defacing, removing, altering, covering, or obscuring or obliterating any required mark with the intent to conceal information given by such mark are subject to a fine of up to a $5,000 fine and imprisonment of up to 1 year (sec. 304(e)). If an importer or a domestic industry is unclear as to how a particular imported item is required to be marked, there are procedures set forth in the Customs regulations for obtaining an administrative ruling on the question. 1/

Improper marking may also constitute an unfair trade practice under Section 5 of the Federal Trade Commission Act (15 U.S.C. 45) and section 337 of the Tariff Act of 1930 (19 U.S.C. 1337). Under the FTC act, the FTC has various enforcement remedies, ranging from encouraging industry compliance through education to issuing orders, with the authority to impose civil penalties.

Section 337 is administered by the U.S. International Trade Commission. The Commission may exclude from entry into the United States violating articles and/or may issue cease and desist orders against firms or persons found to be violating Section 337.

Chapter 10. Financial Experience of U.S. Producers

Twenty-five producers supplied usable income-and-loss data on their costume jewelry operations. One firm stopped producing costume jewelry after 1983; therefore, it provided data for 1981 to 1983 only. These firms together accounted for approximately 44 percent of estimated U.S. producers' shipments of costume jewelry in 1985.

10.1 Costume-Jewelry Products

The data for U.S. producers' costume jewelry operations are presented in table 11. Aggregate net sales of costume jewelry declined by 4 percent from 1981 to 1982 and then increased by 30 percent to $537 million in 1985. In comparison, net sales of manufacturing corporations increased 9 percent, from $2,145 billion in 1981 to $2,335 billion in 1984. 2/ Respondents apparently faired better in sales growth, at 24 percent over the 4 years, than the industry as a whole, which showed only a 15 percent growth as measured by the value of shipments.

Operating income on costume-jewelry operations declined by 23 percent from 1981 to 1982 and then increased by 55 percent to $72 million in 1985 for a 20 percent overall increase. Similarly, operating income of all U.S. manufacturing corporations declined by 27 percent from 1981 to 1982 and then rose annually to 1985, showing an overall period increase of 10 percent. The return on sales declined from 14 percent in 1981 to 11 percent in 1982, increased to 13 percent in 1983 and 14 percent in 1984, and then dropped to 13 percent in 1985. These rates of return were roughly double those for all U.S. manufacturing corporations, but the ratios followed a similar pattern,

1/ 19 CFR 175 & 177.
2/ 1986 Statistical Abstract of the United States.

Table 11.--Income-and-loss experience of 25 U.S. producers 1/ on their operations producing costume jewelry, accounting years 1981-85

Item	1981	1982	1983	1984	1985	Percent change, 1985 from 1981
Net sales.....1,000 dollars..	432,865	413,990	459,622	509,444	537,344	24.1
Cost of goods sold.....do....	223,499	226,508	238,412	254,583	278,596	24.7
Gross profit.....do....	209,366	187,482	221,210	254,861	258,749	23.6
General, selling, and administrative expenses.....1,000 dollars..	149,536	141,284	162,767	183,646	187,089	25.1
Operating income.....do....	59,830	46,198	58,443	71,215	71,659	19.8
Interest income or (expense), net do....	(3,384)	(3,042)	(3,210)	(2,875)	(2,837)	-16.2
Other income or (expense), net do....	(589)	375	434	978	618	-
Net income before income taxes do....	55,857	43,531	55,667	69,318	69,440	24.3
Depreciation and amortization expense included above.....do....	4,848	5,565	6,173	6,649	6,928	42.9
Cash flow from operations 2/...do....	60,705	49,096	61,840	75,967	76,368	25.8
As a share of net sales:						
Cost of goods sold.....percent..	51.6	54.7	51.9	50.0	51.8	
Gross profit.....do....	48.4	45.3	48.1	50.0	48.2	
General, selling, and administrative expenses.....percent..	34.5	34.1	35.4	36.0	34.8	
Operating income.....do....	13.8	11.2	12.7	14.0	13.3	
Net income before income taxes do....	12.9	10.5	12.1	13.6	12.9	
Number of firms reporting operating losses.....	6	8	8	4	2	
Number of firms reporting net losses.....	7	6	6	4	1	

1/ One firm stopped producing costume jewelry after 1983. Hence, it provided data for 1981 to 1983 only.
2/ Defined as pretax net income plus depreciation and amortization expense.

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

dropping from 7 percent in 1981 to 5 percent in 1982 and returning to 7 percent in 1984.

Net income before income taxes declined by 22 percent from 1981 to 1982 and then increased by 60 percent to $69 million in 1985 for a 24 percent period gain. As a share of net sales, net income declined from 13 percent in 1981 to 11 percent in 1982 and then increased to 14 percent in 1984 before dropping back to 13 percent in 1985. Compared with net income before taxes for all U.S. manufacturing corporations, the same pattern pertained, as income fell from $158 billion in 1981 to $108 billion in 1982 and then increased to $166 billion in 1984; as a share of net sales, this ratio was lower than that for costume-jewelry producers, remaining about 7 percent over the period.

The reason for the decline in operating income in 1982 appears to be a combination of the drop in sales and an increase in cost of goods sold, which was spurred by an increase in producer prices of 5.8 percent. The latter increased in absolute dollars and also as a share of net sales, from 52 percent in 1981 to 55 percent in 1982. From 1981 to 1982, general, selling, and administrative expenses declined in absolute dollars and also as a share of net sales, from 35 percent to 34 percent. The improvement in operating margins during 1983-84 was due primarily to rising sales and an anomalous drop in cost of goods sold as a share of net sales from 55 percent in 1982 to 52 percent in 1983 and 50 percent in 1984. The decline in the operating margin in 1985 is caused mainly by the increase in cost of goods sold (COGS) relative to sales. Although sales registered a 6-percent increase in 1985, the COGS increased by 9 percent, and COGS as a share of net sales increased to 52 percent in 1985. It should be noted that between 1984 and 1985, producer prices for costume jewelry rose nearly 8 percent. The shift toward direct-to-retailer sales and consequent buildup in inventories by an increasing number of manufacturers would be expected to result in a greater increase in COGS as a share of net sales than was reported. However, this is due to the fact that some of the largest of the 25 respondents supplying financial data already distributed goods in this manner, and therefore showed no relative increase in their COGS.

Interest expense remained about the same at $3 million during 1981-85, and amounted to less than one percent of sales in all 5 years. During 1982-85, U.S. producers reported other income, which ranged between $375,000 and $978,000. Pretax net-income margins followed the same trend as the operating income margins.

Cash flow from operations declined $12 million from 1981 to 1982 and then rose $27 million between 1982 and 1985, for an overall 4-year increase of 26 percent. Adjusted for inflation, cash flow showed a more moderate gain of only 4 percent. Eight firms reported operating losses in 1982 and 1983 compared with six firms in 1981 and four firms in 1984. Only two firms sustained operating losses in 1985.

Since questionnaire respondents reporting financial results showed appreciably greater gains in net sales than the industry as a whole showed in shipments -- by 24.1 percent to 15.5 percent -- net income and cash flow as summarized here for these firms may also show better-than-industry-average results. The same premise is also likely to apply to the following section on capital expenditures.

10.2 Research and Development

U.S. producers' research-and-development expenses derived from questionnaire data are presented in table 12.

Table 12.--Research and development expenses of 19 U.S. producers of costume jewelry, 1981-85

(Value in thousands of dollars; ratio in percent)

Research and development expenses	1981	1982	1983	1984	1985	Absolute change, 1985 from 1981	Percent change, 1985 from 1981
				Value			
Costume jewelry:							
Of base metal.....	2,927	3,260	3,857	3,961	4,638	1,711	58.5
Of materials other than base metal..	277	332	543	428	502	225	81.2
Total.....	3,204	3,592	4,400	4,389	5,140	1,936	60.4
				Ratio			
Research and development to net sales 1/.....	1.2	1.3	1.5	1.3	1.4	0.2	-

1/ The ratios were calculated using the net sales of the 19 respondents to the Commissions' questionnaire to producers that provided useable data on research and development expenses.

Total research and development expenses increased 60 percent during 1981-85. Approximately 90 percent of such jewelry expenses were incurred for costume jewelry of base metal, but the greatest percentage increase over the period, 81 percent, was in R&D expenditures on nonmetal jewelry. Research and development expenses averaged 1.3 percent of net sales for the 4-year period, reaching 1.4 percent in 1985. This compares with an all-industry composite for miscellaneous manufacturing industries of 2.7 percent. 1/ This represents an increase of 60 percent for the period as a whole compared with a 48-percent increase in total research and development funded by all industries during 1981-85. 2/ According to questionnaire responses, such expenses were related to the development of production technologies to improve quality and reduce costs, new products, finishing techniques, in-house design, materials testing, utility and water conservation, and sample production.

10.3 Capital Expenditures

On the basis of questionnaire data, U.S. producers' capital expenditures in connection with costume jewelry are presented in table 13.

1/ Business Week, Jan. 23, 1986, p. 150.
2/ 1986 Statistical Abstract of the United States.

Table 13.--Capital expenditures by 25 U.S. producers of costume jewelry, 1981-85

(Value in thousands of dollars; ratio in percent)

Capital expenditures	1981	1982	1983	1984	1985	Share of total capital expenditures 1981	Share of total capital expenditures 1985	Change, 1985 from 1981
				Value				
Environmental control purposes.....	840	925	170	811	601	10.5	10.1	-28.5
Land and land improvements.....	27	6	19	-	18	0.3	0.3	-33.3
Building and leasehold improvements.....	3,597	1,858	3,281	307	1,930	44.8	32.5	-46.3
Machinery, equipment, and fixtures.....	3,528	3,290	5,605	2,730	3,389	44.1	57.1	-3.9
Total.....	7,992	6,079	9,075	3,848	5,938	100.0	100.0	-25.7
				Ratio				
Ratio:								
Capital expenditures to net sales..percent..	1.8	1.5	2.0	0.8	1.1	-	-	-
Machinery, equipment, and fixtures to net sales percent..	0.8	0.8	1.2	0.5	0.6	-	-	-

Total capital expenditures for costume jewelry fluctuated on a declining trend, dropping 26 percent between 1981 and 1985. Capital expenditures as a percent of net sales did not exceed 2 percent during any year of the period. In absolute value, total capital expenditures were higher in 1981, 1983, and 1985, when large amounts of expenditures were incurred for building and leasehold improvements as well as for machinery, equipment and fixtures. Total purchases of equipment and structures by manufacturing establishments declined 17 percent between 1981 and 1983 and then increased 23 percent to $84 billion in 1984. 1/ Of this, equipment accounted for an average of 79 percent of total purchases over the period.

In July 1983, the Environmental Protection Agency (EPA) issued regulations governing effluent limits for electroplaters that require them to install waste-treatment equipment in factories to remove the hazardous byproducts of their operations. The deadline for compliance with these effluent standards was set for mid-1984.

1/ Ibid.

Capital expenditures for environmental control purposes varied over the period, declining 28 percent overall. According to respondents of Commission questionnaires, these expenditures were primarily for hazardous-waste and waste-water treatment facilities to meet EPA, Occupational Safety and Health Administration (OSHA), and other governmental standards for air and waste water pollution, dust, and safety-control purposes. Equipment included effluent-water settling tanks, exhaust systems, metal-reclamation equipment, dust-control systems, and sewer-drainage systems.

Chapter 11. The Competitive Outlook for the U.S. Industry

The U.S. industry producing costume jewelry is one of the largest and most competitive in the world. As world trade in costume jewelry has expanded internal competition among domestic producers, and international competition between domestic and foreign producers, has grown. Since costume jewelry products are functionally homogeneous, microeconomic trade theory holds that profit-seeking firms, after taking into account quality, design, fashion, and availability, will source products from the lowest-cost supplier. The manner in which these nonprice competitive factors interact with price ultimately determines the outlook for the U.S. industry in domestic and foreign markets.

11.1 U.S. Market

Evidence concerning the nature of these interactions in this industry is contradictory. However, this study identified some U.S. market developments which appear to have important implications for U.S. producer competitiveness. Survey findings helped to identify several newly emerging issues:

1. Does rapid growth in apparent consumption of nonmetal costume jewelry take place directly and extensively at the expense of demand for base-metal jewelry, or does it represent mainly a new market segment for adornment quite separate from "normal" on-going base metal jewelry demand?

Efforts to check whether 1981-85 apparent consumption of base-metal jewelry was in line with previous trends and relationships with such key variables as personal disposal income (PDI) encountered data series which were inconsistent and prevented meaningful comparisons. Apparent consumption for base-metal jewelry for 1981-85 did grow, at a 5.7 percent annual rate in nominal value, but that was less than the 7.2 percent annual PDI growth, and adjustment for inflation indicates a declining level of shipments.

Meanwhile apparent consumption for nonmetal jewelry, only 5 percent of total consumption in 1981, grew at a 41.3 percent annual rate to 15 percent of consumption in 1985. Even so, the absolute increase was less than two-thirds as large as the increase in consumption of base-metal jewelry. Thus the dollar amount is small enough by comparison with changes in consumption of base-metal jewelry and the main period of increase (1984-85) so short that the data do not support a finding of a cross-competitive relationship with base-metal jewelry.

Traditionally in the costume jewelry market, the concept of "pricing points", or product quality-price market segments, holds that different consumers tend to buy at different pricing points, which in effect represent "different products". Following this theory, nonmetal jewelry might be considered a distinctly different product market from base-metal jewelry, and demand could grow independently of that for base-metal jewelry. However, a counter argument might hold that consumer preferences and casual-fashion changes have brought a major shift in consumer habits toward more casual and inexpensive jewelry, representing major "crossover" competition at the expense of demand for base-metal jewelry. What one concludes about the answer to this question makes a difference in what is concluded about the competitiveness of the U.S. costume jewelry industry: should the U.S. industry's position be judged viewing base-metal jewelry as a separate market -- with relatively slow growth in apparent consumption, declining exports, more gradual growth and lower level of import penetration -- or as a cross-competitive part of the whole costume jewelry market with more rapid growth in apparent consumption and higher level and faster growth in import penetration?

2. How are U.S. producer competitive strengths affected by recent developments in apparent consumption?

In base-metal jewelry, study questionnaire responses showed numerically stronger incidence of belief in U.S. producer quality, design and marketing superiorities than the degree of conviction about foreign price advantages. Viewing base-metal jewelry as a market segment largely insulated from nonmetal, one notes an erosion of U.S. producer market share at a rate of one percentage point per year, suggesting that U.S. quality, design and marketing edges may be limiting erosion of domestic market share, despite apparent major U.S.-producer-cost disadvantages.

Viewing base-metal jewelry as the main part of an integrated, heavily cross-competitive market produces a different result, starting with nearly a three percentage point annual erosion in U.S. market share. U.S. producers, after making an initial surge of nonmetal jewelry shipments in 1983, saw their nonmetal market share dwindle from 33 percent in 1983 to 17 percent in 1984-85. Given the extent of foreign competitor advantages in availability of natural materials and low-cost labor, U.S. producers will be hard put to compete effectively or prevent further erosion of market share in nonmetal jewelry. Superior U.S. design and quality are less able to counter the competition in these inexpensive products.

For this reason, it matters a great deal, in assessing U.S. producer competitiveness now and in the near future, whether demand for nonmetal jewelry cross-competes and therefore puts U.S. producers at a progressive disadvantage in the U.S. market; similarly the future trend in nonmetal jewelry consumption becomes important: 1984 recorded a $100 million increase, but the 1985 increase fell sharply to only $12 million. Is the worst behind or ahead for the industry? If there is extensive cross-competition, the answer depends heavily on whether the 1985 increase proves to be a flattening of demand extending into the future, or a temporary setback in a rising trend.

3. Do producer investments, particularly in capital equipment and research and development, improve U.S. industry competitive prospects?

Financial data from ITC questionnaires show that for 1981-85 when exports decreased steadily as a percent of shipments, and import penetration progressed significantly, operating profits held steady at around 48 to 50 percent of net sales, except for the 1982 slump. R&D expenditures held even more steady at between 1.2 and 1.5 percent of net sales; they showed a 60 percent increase over the period. They were not as high as the average for industries in "miscellaneous manufactures", which runs 2.7 percent of sales, but that category includes a number of "high tech" industries.

Industry capital expenditures fell off from over 1.5 percent in 1981-83, to 0.8 and 1.1 percent in 1984-85; from a $5.6 million peak in 1983, they fell to $3.3 million. Capacity utilization was generally improving through 1984, the latest available year, but at 70 percent was still well below all-industry levels nearer 80 percent. At 70 percent of capacity utilization an industry would not usually gain much productivity advantage from new or improved plant and equipment. Study interviews did not identify any significant technology developments that would improve the U.S. competitive advantage. They did indicate that R&D spending concentrated on improving production technologies to improve quality and reduce costs, as well as on new product development, design, finishing, and testing -- areas of U.S. advantage, with spending on nonmetal jewelry more than in proportion to its importance in the production mix. The study did not locate comparable data on foreign competitor investment expenditures, except to learn that many are not burdened by environmental control requirements which accounted for 10 percent of U.S. producer capital expenditures.

Overall, the study identified no clear sign of flagging U.S. industry financial results or investment efforts. However, nonavailability of comparable data on foreign competitor investments prevented an assessment of whether U.S. producer efforts to compete through capital and R&D spending are keeping pace with those of its foreign competition and improving prospects for it to stem or reverse market share erosion in the second half of the 1980's.

One conclusion that appears compelling is that the strength of U.S. demand for nonmetal jewelry is currently subject to great uncertainty and volatility. If it does cross-compete extensively with base-metal jewelry, changes in demand for nonmetal jewelry will have at least as great an impact on U.S. domestic competitiveness and market share in base-metal jewelry as any other variable the study considered. In the near term, if the rate of growth in nonmetal jewelry demand continues to outstrip that for base-metal jewelry, prospects are strong for continued appreciable erosion of U.S. market share in combined market for costume jewelry. If it should level off or decline, prospects are that U.S. producers can minimize the erosion or possibly even regain some of their loss in market share.

However that may be, the U.S. product was consistently rated better than imports in all major nonprice-competitive factors, particularly in base-metal jewelry. Pursuit of these advantages through research and development and other forms of investment is the industry's main hope for sustaining its competitiveness in the U.S. market over the long term.

11.2 Export Markets

According to responses to Commission questionnaires, limited resources have been devoted to the development of U.S. export markets. Historically, limited emphasis placed upon export development has been due to the fact that the domestic industry has benefited from a large domestic market. However, as overall competition in the U.S. market has increased, some firms have reportedly attempted to maintain growth by developing export markets for United States products. Overall, however, the ratio of exports to producers' shipments decreased from 8 percent in 1981 to 4 percent in 1985 and the U.S. has slipped from the largest world exporter of costume jewelry in 1981 to the sixth largest in 1985. Higher relative duty rates for certain products and non-tariff barriers in certain markets reportedly may pose a problem for U.S. exporters, but changes in the world market, particularly changing consumer preferences away from base-metal costume jewelry, appear to be a major factor in declining U.S. export success. The declining dollar might be of some help to exports to major European markets, but because the key Asian producers that have linked their currencies to the dollar receive the same benefits, quality, design, and marketing remain crucial to U.S. export success.

Appendix A

Request Letter from the Senate Committee on Finance

BOB PACKWOOD, OREGON, CHAIRMAN

ANSAS
IOTH JR., DELAWARE
IFORTH, MISSOURI
FEE, RHODE ISLAND
PENNSYLVANIA
ALLOP, WYOMING
NBERGER, MINNESOTA
RMSTRONG, COLORADO
MMS, IDAHO
GRASSLEY, IOWA

RUSSELL B. LONG, LOUISIANA
LLOYD BENTSEN, TEXAS
SPARK M. MATSUNAGA, HAWAII
DANIEL PATRICK MOYNIHAN, NEW YORK
MAX BAUCUS, MONTANA
DAVID L. BOREN, OKLAHOMA
BILL BRADLEY, NEW JERSEY
GEORGE J. MITCHELL, MAINE
DAVID PRYOR, ARKANSAS

WILLIAM DIEFENDERFER, CHIEF OF STAFF
MICHAEL STERN, MINORITY STAFF DIRECTOR

OFFICE OF THE CHAIRWOMAN
USITC

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510

85 DEC 6 P3:31

November 26, 1985

The Honorable Paula Stern
Chairwoman
U.S. International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Madam Chairwoman:

The Senate Committee on Finance requests that the United States International Trade Commission conduct an investigation under Section 332 of the Tariff Act of 1930 on the competitive position of imported jewelry in the U.S. market.

The Commission's investigation should consist of two consecutive reports which examine the conditions of competition that have affected both the costume jewelry and precious metal jewelry (including precious metal chain) segments of the U.S. jewelry industry. The first report should cover costume jewelry of base metals classified in the following TSUSA Items: 740.30, 740.34, 740.35, 740.38, 740.50, 740.60, 740.75, 740.80, and 745.6740. The second report should cover precious metal jewelry (including chain) classified in the following TSUSA Items: 740.11, 740.12, 740.13, 740.14, 740.15, 740.55, 740.66, 745.70, and 745.6720.

The Commission's reports in this investigation should include, to the extent possible, information with respect to the following:

- An analysis of the key economic factors in the U.S. market including U.S. production, trade, consumption inventories and other relevant factors.

- An analysis of the conditions of competition in the U.S. market between domestic and imported products including factors such as price, quality, design and marketing techniques.

- The levels and trends in employment of U.S. jewelry industry.

- Discuss U.S. and foreign government standards and regulations as to the country of origin and precious metal content marking of jewelry including customs procedures for enforcing such standards and regulations, as available.

The final report on costume jewelry should be transmitted to the Committee on Finance not later than ten months after receipt of this request and the report on precious metal jewelry (including chain) as soon as possible thereafter.

Sincerely,

BOB PACKWOOD

Appendix B

Notice of Institution of Investigation No. 332-222
in the Federal Register

[332-222]

Import Investigation; U.S. Jewelry Industry; Competitive Assessment

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation.

SUMMARY: At the request of the Committee on Finance, United States Senate, the Commission has instituted investigation No. 332-222 under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), for the purpose of assessing the conditions of competition affecting U.S. producers of jewelry.

EFFECTIVE DATE: January 8, 1986.

FOR FURTHER INFORMATION CONTACT: Brian E. Garbecki (202-724-1731) or Mark Estes (202-724-0977), General Manufactures Division, U.S. International Trade Commission, Washington, D.C. 20436.

SUPPLEMENTAL: The Commission investigation will examine the U.S. jewelry industry, analyze key economic forces in the U.S. jewelry market and assess the factors of competition in the U.S. market between domestic and foreign products. There will be two consecutive reports issued. The first report will cover the costume jewelry segment of the U.S. industry and is to be transmitted to the Committee on Finance not later than October 6, 1986. The second report will cover the precious metal jewelry segment of the U.S. jewelry industry and is to be transmitted to the Committee on Finance not later than September 8, 1987.

The request specified that the Commission's reports should include, to the extent possible; (1) an analysis of the key economic factors in the U.S. market including U.S. production, trade, consumption inventories and other relevant factors; (2) an analysis of the conditions of competition in the U.S. market between domestic and imported products including factors such as price, quality, design and marketing techniques; (3) an analysis of the levels and trends in employment of U.S. jewelry industry; and (4) a discussion of U.S. and foreign government standards and regulations as to the country origin and precious metal content marking of jewelry including customs procedures for enforcing such standards and regulations, as available.

Written submissions: Interested persons are invited to submit written statements concerning the investigation. Written statements concerning the costume jewelry report should be received by May 9, 1986, and those concerning the precious metal jewelry report should be received by February 27, 1987. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's rules of practice and procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's Office in Washington, D.C.

Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 724-0002.

Issued: January 15, 1986.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 86-1393 Filed 1-23-86; 8:45 am]

BILLING CODE 7020-02-M

[Investigations Nos. 731-TA-271 through 274 (Final)]

Import Investigation; Certain Welded Carbon Steel Pipes and Tubes From India, Taiwan, Turkey, and Yugoslavia

AGENCY: United States International Trade Commission.

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

SUMMARY: The Commission hereby gives notice of the institution of final antidumping investigations Nos. 731-TA-271 through 274 (Final) under section 735(b) of the Tariff Act of 1930 (19 U.S.C. 1673d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of the following welded carbon steel pipes and tubes, which have been found by the Department of Commerce, in preliminary determinations, to be sold in the United States at less than fair value (LTFV):

Standard pipes and tubes [1] from India (inv. No. 731-TA-271 (Final));

Line pipes and tubes [2] from Taiwan (inv. No. 731-TA-272 (Final));

Standard and line pipes and tubes from Turkey (inv. No. 731-TA-273 (Final)); and

Standard pipes and tubes from Yugoslavia (inv. No. 731-TA-274 (Final)).

Unless the investigations are extended, Commerce will make its final LTFV determinations on or before March 10, 1986, and the Commission will make its final injury determinations by April 29, 1986, for the investigation concerning pipes and tubes from Taiwan; April 30, 1986, for the investigations concerning pipes and tubes from India and Yugoslavia; and May 5, 1986, for the investigation concerning the products from Turkey (see sections 735(a) and 735(b) of the act (19 U.S.C. 1673d(a) and 1673d(b))).

For further information concerning the conduct of these investigations, hearing procedures, and rules of general application, consult the Commission's rules of practice and procedure, part 207, subparts A and C (19 CFR part 207), and part 201, subparts A through E (19 CFR part 201).

EFFECTIVE DATES: The effective date for the investigation concerning pipes and tubes from Taiwan is December 30, 1985. The effective dates for the investigations concerning pipes and tubes from India and Yugoslavia is December 31, 1985, and the effective date for the investigation concerning the products from Turkey is January 3, 1986.

FOR FURTHER INFORMATION CONTACT: Abigail Eltzroth (202-523-0289), 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. Information may also be obtained via electronic mail by accessing the Office of Investigations' remote bulletin board system for personal computers at 202-523-0103.

SUPPLEMENTARY INFORMATION:

Background.—These investigations are being instituted as a result of affirmative preliminary determinations by the Department of Commerce that

[1] For purposes of these investigations, the term "standard pipes and tubes" covers welded carbon steel pipes and tubes of circular cross section, 0.375 inch or more but not over 16 inches in outside diameter, provided for in items 610.3231, 610.3234, 610.3241, 610.3242, 610.3243, 610.3252, 610.3254, 610.3256, 610.3258, and 610.4925 of the Tariff Schedules of the United States Annotated (TSUSA).

[2] For purposes of these investigations, the term "line pipes and tubes" covers welded carbon steel pipes and tubes of circular cross section, with walls not thinner than 0.065 inch, 0.375 inch or more but not over 16 inches in outside diameter, conforming to API specifications for line pipe, provided for in items 610.3208 and 610.3209 of the TSUSA.

Appendix C

Survey Design and Methodology

Because of the limited and incomplete nature of available data on the U.S. costume jewelry industry, the Commission found it necessary to employ statistical sampling techniques in order to obtain information requested by the Senate Finance Committee. Questionnaires were developed to generate statistical data on product mix and material of production and sent to representative U.S. producers, importers, and purchasers of costume jewelry. Information was received, verified, and processed such that determining the identification of an individual firm would not be possible in the public report. A complete explanation of the survey design and methodology follows.

The following tabulation shows the estimated total firms (based on the most currently available data), the number of firms surveyed, and the expected response rate:

	Producers	Importers	Purchasers
Estimated total firms.....	1,030	7,486	137
No. to be surveyed.....	120	200	30
Expected response rate.....	90	80	90
Actual response rate 1/.....	70	77	100

1/ Based on the number of questionnaires returned with usable information as a percent of total applicable questionnaires.

The universe of producers was derived from the membership list of the MJSA, augmented with other known jewelry manufacturers obtained from this association's prospective membership file. The universe for the importers' questionnaire was derived from the Customs' Net Import File for the TSUS items covered by the Commission's investigation, covering the period October 1984-September 1985. The Purchasers' universe in turn was obtained by combining ACCENT (January 1986 issue) magazine's list of "Jewelry's Top 100 Retailers" of jewelry and watches, with the list of top purchasers compiled by the MJSA. Stratified random sampling was employed to ensure that the sample was representative of the universe and to minimize overall respondent burden, especially on the smaller firms within the industry.

Respondents for the Producers', Importers', and Purchasers' questionnaires were selected by a stratified random sample based upon the level of employment, customs value of imports, and sales (or purchases) revenue from jewelry and watch sales, respectively. The number and placement of strata were determined to minimize variance within strata, using the cum-square root frequency technique. A random sample was drawn from each stratum, permitting statistical projection to the universe. Sample sizes were chosen to ensure an accuracy of estimation of totals to within approximately $\pm$ 10 percent at the 95 percent confidence level.

Strata, basis of stratification, strata size and number of firms to be sampled within each stratum are summarized below:

Producers

Stratum (# employees)	Stratum size	No. to be surveyed
1800-110	67	60
100-40	212	20
38-2	751	40
Total	1,030	120

Importers

Stratum ($1,000)	Stratum size	No. to be surveyed
11,457.9-575.7	127	105
571.9-114.9	383	23
114.7-0.3	6,976	72
Total	7,486	200

Purchasers

Stratum ($1,000,000)	Stratum size	No. to be surveyed
1/	37	10
508.0-131.0	13	13
114.0-30.6	17	3
29.5-9.5	70	4
Total	137	30

1/ Largest purchasers reported by the MJSA; excluding those already contained in the ACCENT magazine top 100.

The Commission surveyed a stratified sample of the entire relevant universe of producers and importers. However, results for purchasers will be representative only of the larger firms in the industry because of the method of selecting purchases for the sample (see C-2). The questionnaire responses were reviewed by Commission staff for accuracy. Since some responses were either not usable or inapplicable and because of incomplete information on the actual composition of producer and importer groups, our effective sample size was smaller than expected. No adjustments were made to account for the discrepancy between actual and expected response rates because response rates were not substantially different across strata. The following tabulation presents the usable response rate by type of questionnaire:

	Producers	Importers	Purchasers
Applicable questionnaires..	47	104	21
Questionnaires with usable information.....	33	80	21
Usable response rate 1/ percent..	70	77	100

1/ Usable response rate is defined as the number of questionnaires returned with usable information as a percent of total applicable questionnaires.

Responses were sufficient to estimate aggregate industry data for U.S. producers' shipments of costume jewelry by material of chief value. Our estimates are as follows (in thousands of dollars):

Year	Product	Estimated value
1981.....	Base metal	1,028,693
	Other materials	23,973
1982.....	Base metal	1,027,817
	Other materials	27,939
1983.....	Base metal	1,076,094
	Other materials	44,871
1984.....	Base metal	1,141,714
	Other materials	41,683
1985.....	Base metal	1,173,532
	Other materials	42,399

Data collected in the remaining sections of the questionnaires, particularly the financial results, were insufficient to project industry totals within acceptable confidence intervals, but are judged to be illustrative of trends within the industry because responses covered a sufficiently large percentage of the total.

Appendix D

Supplementary Competitor Country Information

The demand for and supply of jewelry in international trade depends on a variety of economic factors and subjective preferences. The importance of personal adornment to many nations' religious practices, cultural beliefs, and social habits subjectively influence the demand for jewelry. Economic factors that influence the demand for jewelry include a country's level of per capita disposable income, costs of basic necessities, and price and availability of substitutable items. Historically, jewelry has been a symbol of wealth, social status, and power; however, since it is considered a luxury good, a relatively healthy economy is necessary to sustain a market.

Following the economic slowdown in the early 1980's, a worldwide economic recovery has increased demand for all luxury goods including jewelry. As a consequence, producers in many countries that previously were not major suppliers in the jewelry trade have become important. Although not the only reasons for a country's rise to importance as a jewelry supplier, the labor-intensive activities and low labor costs that characterize costume-jewelry production have played important roles in the emergence of some nations as jewelry producers. The worldwide transfer of technology, government incentives, and cost advantages, including lower tax rates and lower import duties on raw materials, have provided incentives for the development of costume jewelry industries.

Costume jewelry is generally inexpensive and strongly influenced by the latest style trends motivated by consumer tastes and designer fashions. This fashion element also plays a significant role in the development of some national industries. For example, recent "natural look" styles have contributed to the development of industries in countries such as India and the Philippines with an abundance of or access to a variety of natural materials.

D.1 Hong Kong

Hong Kong is a prominent manufacturing and trading center in both the costume and precious segments of the jewelry market. The Hong Kong costume-jewelry industry distinguishes between imitation jewelry articles and metal watch bands for purposes of statistical reporting and analysis. According to the latest available statistics, total output of the Hong Kong industry producing imitation jewelry, except watch bands, in 1983, was valued at $54 million, of which exports accounted for 63 percent or $34 million. Combined with exports of metal watch bands, this represented 16 percent of world costume jewelry exports in that year. By 1985, exports of costume jewelry increased to $180 million and accounted for just under one-half of Hong Kong's total jewelry exports. Of total costume jewelry exports in 1985, $137 million, or 76 percent, were imitation jewelry articles, and the remaining $43 million, or 24 percent, were metal watch bands.

Imitation jewelry industry. The Hong Kong imitation jewelry industry includes producers of both imitation and ornamental articles of jewelry. Common items produced include pendants, chains, necklaces, bracelets, earrings, rings, and brooches. Most of this jewelry is made of base metals or plastic, although a variety of other materials are also used, including feathers, textiles, shells, wood, rubber, and animal bone. Copper, brass, aluminum, iron, and steel are the basic metals used in the production of jewelry articles and are generally imported from Japan, Taiwan, Korea, and China.

Industry sources indicate that the supply and price of raw materials has been stable. According to the Hong Kong Trade Development Council (TDC) 1/, plastic was the most important material used in imitation-jewelry production during the late 1970's, but has since declined as a result of increasing consumer preference for better quality goods. Competition in the low to medium end of the market is principally from Taiwan and Korea and has reportedly prompted Hong Kong producers to upgrade into higher quality products. Although most producers in Hong Kong use designs specified by buyers, there have been a limited number of original in-house designs successfully marketed. According to the TDC, improvements in in-house design, using both precious and imitation materials, have given Hong Kong producers the opportunity to advance in the world marketplace.

Hong Kong producers have automated some of their production processes in recent years to take advantage of worldwide technological developments. Most metal parts used are produced in large volumes using the "lost wax" casting method, or are stamped from sheet stock. Plastic pieces are usually formed by injection molding. According to industry representatives, casting and molding machinery is purchased from Hong Kong, Japan, Taiwan, West Germany, and to a lesser extent the United States. Once pieces are formed, they then undergo assembly and finishing operations, including stone setting, polishing, and electroplating. Gold, silver, and nickel are the most frequently used plating materials.

Hong Kong is also a major commercial supplier of cloisonne jewelry to world markets. According to Hong Kong trade publications, its jewelry industry is best known for being able to supply high-quality products at competitive prices. They further claim their industry's competitive advantage over European and American manufacturers is based on cost, while its advantage over other Asian countries stems from product quality through craftsmanship.

According to the Hong Kong Census and Statistics Department, estimated producers' shipments of the Hong Kong industry producing imitation jewelry during 1981-83 was as follows (in thousands of U.S. dollars):

Year	Value of Producers' shipments	Index, 1981=100
1981.....	66,820	100.0
1982.....	70,952	106.2
1983.....	54,294	81.3

1/ The Hong Kong Trade Development Council has coordinated trade promotion activities for Hong Kong industries since it was established in September of 1966. The statutory functions of the Council are "(a) to promote, assist and develop Hong Kong's overseas trade, with particular reference to exports; and (b) to make such recommendations to the Government as it sees fit in relation to any measures which it considers would achieve an increase in Hong Kong's trade." The Council maintains 20 overseas offices and its sources of revenue are: "(a) the net proceeds of an ad valorem levy on exports and imports other than foodstuffs; and (b) minor income from miscellaneous sources such as advertising fees." The net proceeds of the levy provided 89.3% of the Council's revenue for 1985. Hong Kong Trade Development Council Annual Report and Accounts, 1984/1985, pages 5-6.

Gross output increased 6 percent from $67 million in 1981 to $71 million in 1982 and then declined 23 percent to $54 million in 1983. The reduction in output for 1983 reflects a worldwide decline in jewelry demand as a result of economic recession in major world markets. Further, the total number of Hong Kong establishments and persons employed in the imitation jewelry industry from June 1981 through September 1985 were as follows:

Period	Establishments	Employees
June 1981.....	370	3,268
June 1982.....	395	2,688
September 1983.....	381	2,832
September 1984.....	364	2,795
September 1985.....	365	2,975
Absolute change, September 1985 from June 1981.....	-5	-293
Percent change, September 1985 from June 1981.....	-1.4	-9.0

The total number of establishments producing imitation jewelry increased from 370 in June 1981 to 395 in June 1982. It has since declined by 8 percent to 365 in September 1985. Many Hong Kong producers utilize an extensive network of subcontractors who perform limited but integral roles in the production of jewelry. There are no statistics regarding subcontractors or their work. In general, subcontracting work includes mold preparation, casting, metal processing, stone setting, polishing, and electroplating. Most of the workshops are small family-owned operations that do not engage in marketing or exporting of their own products. They primarily produce items under special order, which come from foreign as well as local buyers.

Hong Kong producers of costume jewelry are also required to comply with the laws of Hong Kong regarding water and air pollution control and waste disposal ordinances 1/. These laws reportedly affect large factories more than small ones because of the volume of wastes generated. According to discussions with industry representatives and government officials, enforcement of these ordinances are less stringent at the present time because of the low priority given to environmental issues. However, should these issues become important, it is expected that relevant ordinances would be strictly enforced.

The industry is primarily comprised of small firms. According to information supplied by the TDC, approximately 80 percent of the firms producing imitation jewelry and hair ornaments employ fewer than 25 workers. Those firms employing 25 to 50 workers account for 12 percent; those with 51 to 100 workers account for 6 percent; and those with over 100 workers account for 2 percent. Most small factories are heavily dependent on work under contracts from larger firms. Despite their small size, these firms are said to be flexible in switching production lines to and from jewelry articles as required.

1/ Laws of Hong Kong: Air Pollution Control Ordinance, Chapter 311; Water Pollution Control Ordinance, Chapter 358; and Waste Disposal Ordinance, Chapter 354.

Total employment in the imitation jewelry industry fluctuated from June 1981 through September 1985. Overall, employment decreased from 3,268 in June 1981 to 2,975 in September 1985, or by 9 percent. This reflects a decline in the average number of workers per firm from 9 to 8 over the period. Workers reportedly specialize in one task. The average on-the-job training period for various jobs lasts for a minimum of 6 months. A jewelry worker's union has existed in Hong Kong for about 35 years and currently has a membership of approximately 700 members. Local industry representatives estimate the average wages paid for highly skilled workers range from $12,000 to $15,000 per year; for semiskilled workers, from $6,000 to $8,000 per year; and for unskilled workers, approximately $2,000 per year.

In 1982, the Hong Kong Government established a Vocational Training Council and Technical Education and Industrial Training Department in order to ensure that Hong Kong has a comprehensive system of technical education and industrial training suited to its developing needs. In connection with this, a training board for the jewelry industry was established to determine the manpower needs of the industry, prescribe job standards, design training programs, examine financing industrial training, and act as a liaison with the industry, training centers, educational institutions, and government departments. Certain educational institutes currently offer programs in a variety of jewelry applications, including jewelry design and making.

Very few firms in Hong Kong are large enough to sustain a direct sales force. In general, local companies sell to local agents, who in turn deal with foreign buyers. Local agents procure goods from a number of different suppliers in order to obtain a diversified line of products at various price points. These goods are then combined and presented to buyers. Domestic and foreign trade shows are used by agents to meet buyers. The high cost of space at many shows prohibit small producing firms from individual exhibition; therefore, most exhibitors are agents. Local trade shows also offer buyers the opportunity to visit suppliers and view new products or designs.

Current data on costume-jewelry shipments in Hong Kong are not available; however, local industry sources indicate that exports account for approximately 60 percent of total output. Domestic exports of costume-jewelry articles almost quadrupled from $35 million in 1981 to $137 million in 1985. The United States was the leading market for such exports over the period as its share of total exports increased from 18 percent in 1981 to 47 percent in 1985. The total received by the U.S. increased almost tenfold, from $6 million in 1981 to $63 million in 1985. The United Kingdom was the second leading market in 1985, receiving 10 percent of total exports, or $14 million; and China was third, receiving 9 percent of total exports, or $12 million. Local industry sources indicated that exports to China were primarily parts and components for further processing. Approximately three-fourths of Hong Kong costume-jewelry exports are made of base metal, and the remainder are made of other materials, primarily plastic.

Hong Kong re-exports of costume jewelry more than tripled from $2.4 million in 1981 to $7.8 million in 1985. China received the largest value of re-exports in 1985 at $1.7 million, or 22 percent of the total. Japan was the second leading market for re-exports in 1985, receiving $1.1 million, or 14 percent of the total. Saudi Arabia was the third largest market, receiving $822,000, or 11 percent of the total.

Metal watch band industry. According to information from the TDC, the total number of Hong Kong establishments and persons employed in the metal watch band industry from September 1980 through September 1984 were as follows:

Period	Establishments	Employees
September 1980.....	455	8,826
December 1981.....	502	8,379
December 1982.....	411	6,574
December 1983.....	405	5,547
September 1984.....	399	5,496
Absolute change, September 1984 from June 1980.....	-56	-3,330
Percent change, September 1984 from June 1980.....	-12.3	-37.3

The total number of establishments producing metal watch bands in Hong Kong decreased 12 percent, from 455 in September 1980 to 399 in September 1984. Total employment in the industry declined annually from 8,826 in September 1980 to 5,496 in September 1984, or by 38 percent over the period. This reflects a decrease in the average number of workers per firm from 19 to 14 over the period.

Data on shipments of the metal watch-band industry are not available; however, the value of domestic exports of such products increased 10 percent, from $39 million in 1981 to $43 million in 1985. In terms of quantity, the increase was 11 percent, from 67 million units in 1981 to 74 million units in 1985. The unit value of exported metal watch bands remained approximately the same over the period at $0.58 per unit.

The leading markets for Hong Kong watch bracelets correspond to the largest watch-producing nations. Japan was the leading market for metal watch bands in terms of both value and quantity for 1985, receiving $11 million, or 20 million units, 27 percent of the export total. The value of exports to Japan more than tripled from $4 million in 1981; in terms of quantity, exports more than doubled from 9 million units. The average unit value of exports to Japan increased 24 percent, from $0.46 per unit in 1981 to $0.57 per unit in 1985.

In terms of value, Switzerland was the second leading market, receiving $8 million, and the United States ranked third, receiving $7 million. In terms of quantity, Korea was the second leading market, receiving 13 million units, and the United States was ranked third, receiving 10 million units. The unit value of exported metal watch bands to Switzerland in 1985, $3.17 per unit, represented the highest unit value of exports and reflected a 65 percent increase over the corresponding unit value of $1.92 in 1981. The unit value of exports to the United States rose 20 percent, from $0.60 in 1981 to $0.72 in 1985, and that for exports to Korea decreased 55 percent, from $0.73 in 1981 to $0.33 in 1985.

According to the TDC, Hong Kong's domestic metal watch band industry is upgrading its product because of strong competition from Taiwan, Korea, and Japan in the low to medium end of the market. Higher priced bands are

generally used in quartz analog models and multifunction digital watches, while lower priced bands, including steel or gold-plated traditional styles, are used in lower-end watches. The growth in the metal watch-band industry has reportedly provided the impetus for the development of Hong Kong's watch industry.

D.2 Taiwan

Taiwan is one of the fastest growing suppliers of costume jewelry to world markets. The industry began significant commercial production about 15 years ago and concentrates on low-end, high volume goods. Raw materials, semiprocessed and finished goods are sold locally as well as exported to foreign industries and markets. Approximately 60 to 70 percent of total output in Taiwan is for export. Taiwan rose from the fourth leading exporter of costume jewelry in 1981 to second in 1985. Exports in 1981 were valued at $52 million and accounted for 8 percent of world exports. By 1984, such exports almost doubled, reaching $101 million, or 15 percent of world exports. Taiwan exports of costume jewelry amounted to $115 million in 1985.

The Taiwan costume jewelry industry produces a variety of articles. Rings, earrings, neck chains, pendants, and bracelets are most commonly produced. Materials used in production include wood, glass, plastic, shells, and enamel along with the basic metals of brass, copper, steel, and various alloys. The most popular nonmetal material used in imitation jewelry is cubic zirconia because it is easily dyed to look like rubies, sapphires, and emeralds. One of the five factories producing cubic zirconia in the world is located in Taiwan.

Electroplating is very popular in Taiwan, and thicknesses of 0.02 microns to 2 microns can be applied at an estimated cost of $0.38 per micron. Very thin gold plating is most commonly used to keep costs low. According to discussions with industry representatives, Taiwan producers of costume jewelry who electroplate are also required to comply with laws regarding water and air pollution control and waste disposal. However, enforcement of these laws are reportedly less stringent at the present time because of the cost involved in prosecuting violators.

Base metals are procured through local importers, principally from Japan. Production of plastic jewelry is very competitive and the raw materials are procured through local importers from Japan and Australia. Glass and synthetic stones are imported from Switzerland and Austria. Industry sources indicate that the supply and costs of raw materials have been stable.

Cloisonne items are a major export item for the costume jewelry industry of Taiwan. Jewelry articles produced in cloisonne range from necklaces to rings; however, earrings are more often exported than any other type of cloisonne jewelry. The many producers of cloisonne jewelry in Taiwan are small scale and specialize in certain production processes. Processes such as enameling, firing, and polishing are usually done in-house and stamping and plating is subcontracted. End products are then electroplated with nickel, silver, or gold. Some findings are imported from the United States but most copper plates and cloisonne powder come from Japan. Enamel used in cloisonne is imported from Japan, the United States, and Europe. Many Taiwan firms are licensed to make products for U.S. companies as novelty and promotional items.

As previously mentioned, Taiwan's costume jewelry industry supplies a diverse range of products. Along with Japan and Italy, it has become an important supplier of coral to world markets, processing approximately 60 percent of the world's coral. Taiwan is also a major producer and exporter of beads, both in terms of quantity and quality. A variety of materials are used to make semiprecious beads, including onyx, rose quartz, and lapis. Lower quality artificial beads are made of plastic, glass, and numerous other natural minerals. Beads are usually exported in bulk and packaged in poly bags. Some exports, however, are finished and ready for sale.

Most Taiwan producers specialize in high volume, low-cost items. There are more than 600 manufacturers and subcontractors involved in costume-jewelry production. According to information supplied by the China External Trade Development Council (CETDC) 1/, approximately 61 percent of firms engaged in the production of costume jewelry have a capital base valued at or below $125,000; 17 percent valued between $125,000 and $250,000; 14 percent valued between $250,000 and $750,000; and 8 percent valued over $750,000. The industry relies heavily on a network of subcontractors who are flexible and can produce other items when the demand for jewelry is slack. In Taiwan, most labor-intensive operations, such as assembly, casting, plating, and coating operations are subcontracted to small factories. Polishing is generally done in-house by tumbling. Items are generally packaged for delivery by the exporter.

Domestic competition is strong because the majority of factories are small family-run operations under contract to larger firms. However, one satellite factory may well produce goods for two competing companies. Most jewelry is produced on order, and large inventories are not maintained because fashions change rapidly. The lost-wax method of casting is most widely used to produce large quantities of metal component parts; however, electronic and hand presses are used to stamp out metal parts from flat stock. Plastic jewelry and parts are made by injection molding. Industry representatives estimate the average annual cost for labor ranges from approximately $2,500 to $4,000 per year, depending on skill level. Training for a caster lasts about 6 months.

Low production costs allow Taiwan to compete with other nations in the region on the basis of price. According to local industry sources, Taiwan products are generally comparable in quality and price to regional competitors. Further, producers in Hong Kong have a competitive advantage in design, and those in Korea have an advantage in access to raw materials. However, Taiwan products have a slight advantage over those produced in Korea because of design and craftsmanship. Finally, Thailand is a fast growing competitor to Taiwan with an abundant low-cost labor force; however, product quality is said to be very low.

Approximately 60 percent of Taiwan exports are shipped directly to and while the remainder pass through trading companies. These companies usually buy products from many satellite companies that specialize in one item and then package a variety of pieces for any target market. Most costume-jewelry

1/ The CETDC was established in 1970 and is a nonprofit, independent organization, supported by the government and business associations in Taiwan for the promotion of export and import trade. The Council maintains 28 overseas branch offices and 43 commercial offices worldwide.

designs are supplied by the buyer, and in-house designs are generally based on magazine pictures or on samples obtained overseas.

According to official Taiwan trade statistics, exports of costume jewelry more than doubled, from $52 million in 1981 to $115 million in 1985. Base-metal jewelry accounted for approximately 55 percent of total exports of costume jewelry in 1985. This is a decrease from a 60-percent share in 1981. An estimated 48 percent of base-metal jewelry in 1985 was made of copper, 9 percent of iron or steel, and 2 percent was made of aluminum. The remainder was made of various metal alloys. Much of the exports of copper jewelry includes that which is cloisonne. The United States, Taiwan's leading market for costume jewelry, increased its share of total exports from 58 percent in 1981 to 73 percent in 1985. The total value shipped to the United States increased from $30 million in 1981 to $84 million in 1985. The share of base-metal jewelry shipped to the United States decreased from 60 percent in 1981 to 57 percent in 1985.

Canada and Japan were the second and third largest markets for Taiwan costume jewelry exports in 1985, receiving $4 million or 4 percent of total exports each. Approximately 70 percent of the costume jewelry shipped to Canada, and 80 percent of that shipped to Japan, in 1985, was made of base metal.

D.3 The Republic of Korea

Korea has been a major supplier of base metal costume jewelry to world markets since 1981. Korea was the sixth leading exporter of costume jewelry in 1981 and accounted for $50 million, or 8 percent of total world exports. By 1984, Korea rose to the third leading supplier, exporting $72 million, or 11 percent of world exports. In 1985, Korean exports of costume jewelry to world markets amounted to $101 million.

The Korean industry supplies a broad range of products, including raw materials, semiprocessed goods, and finished goods. It is primarily a cottage industry relying heavily on subcontractors and outworkers, generally housewives or people who work at home, to manufacture component parts and perform operations such as assembly and plating. This type of sourcing requires little capital outlay by manufacturers. According to the latest available statistics, total output of the Korean costume jewelry industry in 1985 was valued at $124 million, of which exports accounted for 82 percent or $101 million. Almost three-fourths of exported costume jewelry from Korea in 1985 was made of metal; 40 percent was made of plated or rolled metal, 35 percent was made of base metal, the remaining 25 percent was made of other materials.

According to industry publications, the Korean industry has captured a market niche by supplying a variety of products to its customers. As a whole, the industry supplies all products, from molds, samples, and raw materials to finished goods. Korea faces strong regional competition from Hong Kong and Taiwan in most costume-jewelry products. Designs are primarily supplied by buyers; however, some in-house designs are marketed. Common items produced include beads (imitation pearl, shell, silk, and wood), chains, necklaces, bracelets, and earrings. A variety of other materials are also used in production including shells, wood, and plastic; however, producers concentrate on textile and base metals because of lower costs and greater availability.

According to industry reports, Korean producers do not concentrate on plastic items because the price of plastic in Korea is higher than in competing nations, principally Taiwan. Copper, brass, and steel are most often used and are generally imported from Japan or purchased locally. Industry reports indicate that supply has been stable with slight price fluctuations.

There are few fully integrated production firms in Korea; parts and components are usually procured through a subcontracting network. Many small subcontracting firms produce parts and components and supply them to outworkers for assembly. Outworkers include other contractors as well as housewives who work on a piece-work basis. Flatforms are usually stamped by machines such as electronic or hand presses, or are molded by injection or casting. Most production machinery is imported from West Germany or Japan. Once the pieces are assembled, other contractors are used for plating, coating, and polishing. Gold, silver, and copper are most often used for plating materials. Final packaging is usually done by exporters.

It is difficult to provide accurate data on the number of establishments in the industry since no complete records on subcontractors are kept. According to the Korean Federation of Handicrafts Cooperative (KFHC), there are approximately 200 exporters and 350 subcontractors involved in the production of costume jewelry. Available data do not differentiate between manufacturers and exporters of costume jewelry. Total output increased 81 percent, from $69 million in 1981 to $125 million in 1985. It is estimated that 75 percent of Korea's total production of costume jewelry is made of base metal.

The five largest exporters account for approximately 15 percent of total exports, indicating a very low concentration ratio in the industry. Approximately 33,000 workers are employed in all phases of this industry, including manufacturers, exporters, and subcontractors. Industry representatives estimate the average wages of production workers are approximately $2,500 per annum.

According to the KFHC, the main source of Korea's competitiveness in the U.S. market lies in the benefits it receives through the GSP program. Very few firms in Korea are large enough to sustain a direct sales force; however, it is estimated that 60 percent of total exports are sold through direct sales, the remaining 40 percent are passed through trading houses. Aggressive marketing by exporters targeted to the U.S. market, promotes the industry as a supplier of a variety of quality products on a timely basis. Prices for individual products depend upon the component material and the size of the order. The KFHC also controls exports of certain costume jewelry by inspection of final goods to ensure that products meet acceptable standards. The leading market for costume jewelry during 1981-85 was the United States. The total value of such products shipped to the United States more than tripled from $18 million in 1981 to $61 million in 1985, the share of the total to the United States increased from 41 percent in 1981 to 67 percent in 1985.

According to official Korean trade statistics through November of each respective year, exports of costume jewelry more than doubled, from $44 million in 1981 to $91 million in 1985, of which metal jewelry accounted for 75 percent of total exports. Of that total, 35 percent was made of base metal and 40 percent was made of plated or rolled metal; the balance of 25 percent was made of other materials. The composition of exports to the

United States changed over the period as well. In 1981, base-metal jewelry accounted for 46 percent of total exports to the United States while 42 percent was plated and rolled metal; the balance was made of other materials. By 1985, the relative shares of these materials were exactly the same as the shares for overall Korean exports. Costume jewelry exports of other materials to the United States experienced the largest growth over the period, increasing from $1 million in 1981 to $13 million in 1985.

Korea's other major markets differ according to the component material of the products exported. The United Kingdom was the second leading market in 1985 for costume jewelry made of plated or rolled metal, receiving 7 percent of total exports of such products, or $3 million. This was a 24 percent increase in value from $2 million in 1981, but an overall decrease in share from 11 percent in 1981. In costume jewelry made of base metal, Japan was the second leading market, receiving 8 percent of the total of such exports or $3 million. This was a 39-percent increase in value from $2 million in 1981 and a decrease in share from 9 percent in 1981. Hong Kong was the second leading market for costume jewelry made of other materials, receiving 14 percent of total exports of such products, or $3 million. This was a significant increase from the $213,500 worth of such exports registered in 1981, and an increase in share from 4 percent.

D.4 West Germany

There are over 300 firms in West Germany that produce costume jewelry, and it is estimated that approximately 50 percent of total output is exported. The industry concentrates on medium-priced products constructed from a variety of materials. The primary articles produced include rings, necklaces, bracelets, pendants, brooches, and earrings. The industry emphasizes high quality in marketing its products and claims that advanced technology helps it to keep competitive with products of nations with lower wages.

West Germany was ranked from the third to the fifth largest exporter of costume jewelry in the world market during 1981-85. According to official German trade statistics, domestic exports of costume jewelry increased 10 percent, from $61 million in 1981 to $67 million in 1985. In 1985, Germany accounted for 8 percent of world exports of costume jewelry. German exports of watch bracelets declined 28 percent from $8 million in 1981, accounting for 13 percent of total costume jewelry exports, to $6 million, or 8 percent of costume jewelry exports in 1985. Exports of all other costume-jewelry articles increased 16 percent, from $53 million in 1981 to $62 million in 1985.

In 1981, 89 percent of exported jewelry articles were made of base metal. The relative share of base metal annually declined over the period to 81 percent in 1985.

France was the leading market for exports of costume-jewelry articles from Germany during 1981-85. The value of exports to France increased 17 percent, from $10 million in 1981 to $11 million in 1985. The relative share of exports to France increased slightly from 16 percent in 1981 to 10 percent in 1985. Switzerland was the second leading market in 1985, receiving $8 million, or 12 percent of total exports. The United Kingdom and the Netherlands were the third and fourth leading markets in 1985, receiving $6 million each, or approximately 10 percent of total exports each.

The United States was the fifth largest market for German exports of costume jewelry in 1985. Exports to the United States more than doubled, from $2 million in 1981, or 4 percent of total exports, to $5 million in 1985, or 8 percent of total exports. Ninety-three percent of jewelry articles exported to the United States in 1981 were made of base metal. By 1985, this share had declined to 70 percent.

D.5 Japan

Japan was a consistent supplier of costume jewelry to world markets during 1981-85 and was ranked from the fifth to the seventh leading exporter over the period. The Japanese costume-jewelry industry promotes itself as a supplier of medium- to high-end products. In an attempt to increase its market share in major western markets, the industry is reportedly upgrading its products to further penetrate the high end of the market. Major local markets, such as Tokyo and Osaka, are used to test original designs that producers hope will succeed in export. There are many manufacturers of costume jewelry in Japan and local competition is strong. According to industry reports, the Japanese believe that design and fashion orientation are the most important factors in the success of a jewelry product. However, producers use aggressive marketing while emphasizing low prices in order to maintain existing market shares. Japanese producers tend to avoid the low-end of the market because of small profit margins.

The industry produces a variety of articles ranging from neckwear to rings; however, the most commonly produced articles are earrings, necklaces, brooches, and beads. Major materials include imitation pearls (glass, plastic, and mother of pearl), wood, plastic, quartz, rhinestone, shell, and base metal. Base metals most often used in production include iron, steel, and copper. Most raw materials are procured locally and cost and supply are reportedly steady. Imported materials generally come from the Philippines, Hong Kong, Thailand, Malaysia, India, Taiwan, and Africa. Popular plating metals include gold, silver, and rhodium. The bulk of base metal jewelry is produced by casting. Designs for the majority of products are obtained from buyers, and jewelry is marketed under their labels. According to the Japanese Census of Manufactures, the total number of establishments producing costume jewelry, by article of production, during 1981-83 were as follows:

Year	Costume jewelry	Imitation pearls	Parts	Total
1981.....	661	80	228	969
1982.....	614	76	239	929
1983.....	663	83	248	994
Absolute change, 1983 from 1981....	2	3	20	25
Percent change, 1983 from 1981....	0.3	3.8	8.8	2.6

According to available statistics, the total number of establishments producing costume jewelry in Japan increased 3 percent, from 969 in 1981 to 994 in 1983. The growth in establishments came in manufacturers of costume-jewelry parts. Of the establishments producing costume jewelry in 1983, an estimated 69 percent employed between 4 and 9 people; 18 percent

employed between 10 and 19 people; 12 percent employed between 20 and 99 people; and 1 percent employed over 100 people. Total industry employment in 1983 was approximately 18,000. Japanese producers subcontract a large portion of manufacturing operations, including mold preparation, casting, stone-setting, and electroplating. Most of the subcontracting workshops are small operations that do not engage in marketing or exporting on their own.

According to the latest available statistics from the Japanese Census of Manufactures, total ouput of the industry producing costume jewelry by article of production, during 1981-83 was as follows (in thousands of U.S. dollars):

Year	Costume jewelry		Imitation pearls		Parts		Total	
	Value	Index	Value	Index	Value	Index	Value	Index
1981...	372,641	100.0	27,395	100.0	73,423	100.0	473,459	100.0
1982...	308,266	82.7	25,770	94.1	76,681	104.4	410,718	86.7
1983...	337,202	90.5	30,071	109.8	80,660	109.8	447,933	94.6

Total output decreased from $473 million in 1981 to $448 million in 1983, or by 5 percent. The decrease in output can be attributed to the reduction in the number of finished costume-jewelry producers. This reduction reportedly was the result of a shakeout in the industry caused by a decline in demand for jewelry by major markets. Exports are estimated to account for 10 percent of total output.

According to official Japan trade statistics, domestic exports of costume jewelry increased 24 percent, from $50 million in 1981 to $62 million in 1985. In 1984, exports from Japan accounted for 8 percent of world exports. Watch bracelets (made of iron or steel, copper, and other base metals) accounted for 45 percent of total costume jewelry exports in 1985. Of the jewelry items exported, 72 percent were necklaces, 11 percent were bracelets, and 17 percent were other jewelry articles.

The United States was the leading market for Japanese exports of costume jewelry during 1981-85. The value of exports to the U.S. more than doubled, from $18 million in 1981 to $39 million in 1985. The relative share of exports to the United States increased from 36 percent in 1981 to 63 percent in 1985.

The composition of costume-jewelry exports over the period changed along with the growth in value. An estimated 44 percent of total costume-jewelry exports in 1981 were made of base metal, 11 percent were made of imitation pearl, 4 percent were made of plastic, and 41 percent were made of other materials. The relative share of base metal annually declined over the period until by 1985 it was 16 percent. The share of exports made of imitation pearl grew to 30 percent; that made of plastic grew to 8 percent, and that made of other materials grew to 46 percent.

Hong Kong was the second leading market in 1985, receiving $3 million, or 4 percent of the total. Canada was the third leading market receiving $2 million, or 4 percent of total exports.

The composition of costume-jewelry exports by product material to the U.S. market changed significantly during 1981-85. In 1981, 72 percent of total costume-jewelry exports were made of base metal, and 28 percent were

made of other materials. By 1985, the relative share of base-metal exports decreased to 39 percent. This shift in material can be attributed to a change in the overall composition of articles exported to the United States. In 1981, 60 percent of all articles were metal watch bands, 34 percent were necklaces, 2 percent were bracelets, and 4 percent were other jewelry articles. By 1985, metal watch bands accounted for only 35 percent of total exports; necklaces grew to account for 57 percent; bracelets were 3 percent, and other jewelry articles were 5 percent. Of the $18 million worth of necklaces exported to the United States in 1985, 65 percent were made of imitation pearls.

Table D-1.--Estimated monthly compensation of workers in miscellaneous manufacturing industries (ISIC 390) for selected countries in U.S. dollars, 1980-84 1/

(In dollars)

Year	United States	Japan	Hong Kong	Korea	Taiwan 2/	France	West Germany
1980.....	874	989	201	187	223	801	999
1981.....	955	1,076	214	203	252	726	849
1982.....	1,027	975	426 3/	209	262	660	827
1983.....	1,090	1,066	379 3/	230	276	657	795
1984.....	1,126	1,118	391 3/	225	325	604	726

1/ Foreign currency data were translated using appropriate period average exchange rates as reported in International Financial Statistics, IMF.
2/ Taiwan statistics are based on Taiwan Statistical Data Book 1985, Council for Economic Planning and Development.
3/ Series was changed: prior to 1982, March and September of each year.

Source: Yearbook of Labor Statistics, International Labor Office, Geneva 1985, except as noted.

Appendix E

Assessment by U.S. Producers, Importers, and Purchasers, of the Competitive Position of Domestically Produced Costume Jewelry Versus that of Foreign-made Products, by Selected Competitive Factors

Table E-1.--Assessment of competitive position by U.S. producers, importers, and purchasers, of domestically produced costume jewelry versus that imported, by types of respondent and competition factors

(In percent)

Country with advantage 1/	Overall advantage	Lower price	Various price points	Product quality	Product design	Overall availability	Shorter delivery time	Supplier relationship
				Producers				
Domestic (D).....	9	8	13	50	69	77	95	60
Foreign (F).....	83	65	67	15	9	12	2	4
Equal (S).....	8	27	20	35	22	11	3	36
				Importers				
Domestic (D).....	36	21	41	61	64	48	61	44
Foreign (F).....	47	63	44	15	14	27	24	24
Equal (S).....	17	16	15	24	22	25	15	32
				Purchasers				
Domestic (D).....	48	40	49	67	66	68	88	71
Foreign (F).....	39	57	34	7	5	15	13	5
Equal (S).....	13	3	17	26	29	17	4	24

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Table E-2.--Assessment of the overall competitive position by U.S. producers, importers, and purchasers, of domestically produced costume jewelry versus that imported, by selected countries

Product	Distribution of responses indicating overall competitive advantage of U.S.-made costume jewelry versus products made in--1/														
	Taiwan			Hong Kong			Japan			Korea			Other		
	D	F	S	D	F	S	D	F	S	D	F	S	D	F	S
Rings.....	33	63	4	33	59	9	54	46	0	51	40	9	55	31	14
Earrings.....	28	60	12	28	56	16	43	39	18	27	64	9	35	47	18
Neckwear.....	15	66	19	16	75	9	32	48	20	19	74	7	24	62	14
Watch bracelets...	28	48	24	19	55	26	26	48	26	47	53	0	43	21	36
Religious articles....	45	44	11	43	48	9	55	45	0	39	50	11	50	29	21
Findings.....	31	50	19	28	66	6	44	39	17	36	56	8	50	17	33
Clasps.....	25	61	14	19	66	15	28	44	28	35	65	0	35	36	29
Other jewelry articles....	21	67	12	22	66	12	28	50	22	34	56	9	40	42	18

Table E-3.--Assessment of the ability to supply products at various price points by U.S. producers, importers, and purchasers, for domestically produced costume jewelry versus that imported, by selected countries

Product	Distribution of responses reflecting the ability to supply products at various price points between U.S.-made costume jewelry and products made in--1/														
	Taiwan			Hong Kong			Japan			Korea			Other		
	D	F	S	D	F	S	D	F	S	D	F	S	D	F	S
Rings.....	33	52	15	33	50	17	50	38	12	48	39	13	56	33	11
Earrings.....	28	56	16	33	54	13	45	24	31	31	58	12	45	35	20
Neckwear.....	23	54	23	25	58	17	40	26	34	22	63	15	38	48	14
Watch bracelets...	39	50	11	28	60	12	29	53	18	40	40	20	33	50	17
Religious articles....	50	39	11	43	48	9	55	45	0	39	44	17	50	42	8
Findings.....	38	45	17	31	59	10	38	38	24	44	44	12	63	25	12
Clasps.....	29	54	17	22	69	9	31	38	31	53	35	12	33	54	13
Other jewelry articles....	29	57	14	30	57	13	32	36	32	34	53	13	43	38	19

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Table E-4.--Assessment of product quality by U.S. producers, importers, and purchasers, for domestically produced costume jewelry versus that imported, by selected countries.

Product	Distribution of responses indicating an advantage due to product quality of U.S.-made costume jewelry versus products made in--1/														
	Taiwan			Hong Kong			Japan			Korea			Other		
	D	F	S	D	F	S	D	F	S	D	F	S	D	F	S
Rings.....	64	11	26	65	12	23	61	26	13	84	0	16	52	22	26
Earrings.....	64	11	25	69	8	23	53	21	26	73	6	21	58	24	18
Neckwear.....	66	3	31	62	11	27	42	31	27	62	11	27	56	26	18
Watch bracelets...	45	10	45	38	21	41	26	26	47	67	0	33	42	8	50
Religious articles....	72	6	22	71	5	24	55	27	18	78	0	22	33	25	42
Findings.....	74	3	23	61	10	29	35	26	39	83	0	17	56	6	38
Clasps.....	61	4	35	42	23	35	22	22	56	73	0	27	40	20	40
Other jewelry articles....	57	14	29	60	15	25	38	28	34	72	0	28	46	30	24

Table E-5.--Assessment of product design by U.S. producers, importers, and purchasers, for domestically produced costume jewelry versus that imported, by selected countries.

Product	Distribution of responses indicating an advantage due to the product design of U.S.-made costume jewelry versus products made in--1/														
	Taiwan			Hong Kong			Japan			Korea			Other		
	D	F	S	D	F	S	D	F	S	D	F	S	D	F	S
Rings.....	70	6	24	69	7	24	69	22	9	90	0	10	54	19	27
Earrings.....	71	6	23	73	8	19	62	6	32	76	4	20	57	23	20
Neckwear.....	67	6	27	66	11	23	54	13	33	70	9	21	59	21	20
Watch bracelets...	60	5	35	48	21	31	37	32	31	80	7	13	46	18	36
Religious articles....	83	6	11	81	5	14	73	27	0	89	0	11	36	18	46
Findings.....	74	3	23	61	10	29	50	18	32	80	0	20	60	0	40
Clasps.....	69	4	27	58	15	27	47	24	29	75	0	25	42	29	29
Other jewelry articles....	71	12	17	68	12	20	58	13	29	81	0	19	43	31	26

1/ Respondents were asked to mark "D" if the domestic product typically enjoyed a competitive advantage, "F" if the foreign product enjoyed the advantage, or "S" if the domestic and foreign products were typically equal in an area.

Appendix F

Exchange Rate Indexes

Table F-1.--Exchange rates against the U.S. dollar for the currencies of Japan, The Republic of Korea, Taiwan, and Hong Kong, nominal and real, quarterly, 1981-1985, indexed (January-March 1981 = 100)

Year	Quarter	Japan U.S.$/Yen Nominal	Japan U.S.$/Yen Real 1/	Korea U.S.$/Won Nominal	Korea U.S.$/Won Real 1/	Taiwan U.S.$/NT$ Nominal	Taiwan U.S.$/NT$ Real 1/	Hong Kong U.S.$/HK$ Nominal	Hong Kong U.S.$/HK$ Real 1/
1981	January-March.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	2/
	April-June.....	93.4	92.2	98.2	101.2	99.1	97.5	96.7	2/
	July-September....	88.6	87.8	97.3	102.1	97.0	89.4	89.4	2/
	October-December...	91.4	90.4	96.7	101.6	95.3	90.4	91.2	2/
1982	January-March.....	88.0	86.7	94.7	99.4	95.1	91.9	90.2	2/
	April-June.....	84.2	83.1	91.6	97.1	93.0	90.2	90.5	2/
	July-September....	79.4	78.8	90.0	95.4	90.8	87.4	87.3	2/
	October-December...	79.2	77.3	89.6	95.1	89.7	85.9	79.7	2/
1983	January-March.....	87.2	84.6	88.6	94.4	90.3	84.9	79.8	2/
	April-June.....	86.5	82.9	86.7	91.4	90.0	85.0	75.1	2/
	July-September....	84.8	80.7	85.0	88.4	89.8	84.2	69.8	2/
	October-December...	87.8	82.6	83.9	86.8	89.7	83.7	66.6	2/
1984	January-March.....	89.0	82.9	83.8	86.2	89.8	83.2	67.5	2/
	April-June.....	89.5	82.7	83.6	85.6	90.7	84.0	67.4	2/
	July-September....	84.4	78.8	82.3	85.3	92.0	84.8	67.1	2/
	October-December...	83.6	78.1	81.4	84.6	91.6	84.2	67.3	2/
1985	January-March.....	79.8	74.9	79.5	82.8	91.7	83.7	67.5	2/
	April-June.....	82.0	76.4	76.9	80.1	90.6	81.9	67.7	2/
	July-September....	86.1	79.9	75.6	79.4	89.4	80.9	67.6	2/
	October-December...	95.1	89.0	74.8	79.0	89.7	80.4	67.5	2/

1/ Deflated by multiplying the ratio of the foreign wholesale price index to the U.S. wholesale (producer) price index.
2/ The U.S.$/Hong Kong$ exchange rate is not deflated because data on prices in the two countries are not comparable.

Sources: International Financial Statistics, International Monetary Fund, July 1983 and December 1985 editions, and International Monetary Fund.

Appendix G

Selected Portions of the Tariff Schedules of the United States Annotated, 1986

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty		
				1	Special	2
		PART 6. - JEWELRY AND RELATED ARTICLES; CAMEOS; NATURAL, CULTURED, AND IMITATION PEARLS; IMITATION GEMSTONES; BEADS AND ARTICLES OF BEADS Subpart A. - Jewelry and Related Articles Subpart A headnotes: 1. This subpart covers jewelry and other objects of personal adornment, small articles ordinarily carried in the pocket, in the handbag, or on the person for mere personal convenience, certain religious articles, and certain parts and materials. This subpart does not cover -- (i) luggage (see part 1D of this schedule), (ii) watches (see part 2E of this schedule), (iii) brushes (see part 8A of this schedule), (iv) cigar or cigarette lighters or articles in which cigar or cigarette lighters are incorporated as integral parts (see part 9B of this schedule), (v) pens or pencils (see part 10 of this schedule), (vi) hand fans (see part 13A of this schedule), or (vii) manicure implements, pocket knives, and similar articles (see part 3E of schedule 6). 2. For the purposes of this subpart -- (a) the term "jewelry and other objects of personal adornment" (items 740.05 through 740.38), includes rings, ear-rings and clips, bracelets (including watch bracelets and identification bracelets), necklaces, neck chains, watch chains, key chains, brooches, tie pins and clips, collar pins and clips, cuff links, dress-studs, buttons, buckles and slides, medals, military, fraternal and similar emblems and insignia (including those prescribed for military, police, or other uniforms), fobs, pendants, hair ornaments (including barrettes, hair-slides, tiaras, and dress combs), and similar objects of personal adornment, but does not include -- (i) articles described in headnote 2(b) of this subpart, (ii) religious articles of a purely devotional character, or (iii) textile "motifs" as defined in headnote 2(a) of part 4B of schedule 3; and				

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty 1	Special	2
		(b) the term "small articles ordinarily carried in the pocket, in the handbag, or on the person for mere personal convenience" (items 740.05 through 740.15) includes cigar and cigarette cases and holders, spectacle cases, coin purses, card cases, powder boxes, pocket combs, lipstick holders, money clips, and similar articles ordinarily carried in the pocket, in the handbag, or on the person for mere personal convenience, but does not include -- (i) articles described in headnote 2(a) of this subpart, (ii) religious articles of a purely devotional character.				
		3. Items 740.30 through 740.38 cover articles described in headnote 2(a) of this subpart, except buttons, buckles, and slides, and hair ornaments (see parts 7A and 8A of this schedule).				
		4. Small articles ordinarily carried in the pocket, in the handbag, or on the person for mere personal convenience, which are not covered by the provisions of items 740.05 through 740.15, are provided for elsewhere in the schedules (e.g., see parts 1D, 8A, and 9B of this schedule).				
		5. The term "mixed link" in item 740.12 refers to a chain composed of two or more styles or types of link.				

		Jewelry and other objects of personal adornment, and small articles ordinarily carried in the pocket, in the handbag, or on the person for mere personal convenience, all the foregoing, and parts thereof, of precious metal (including rolled precious metal), of precious stones, of natural pearls, of precious metal (including rolled precious metal) set with semiprecious stones, cameos, intaglios, amber, or coral, or of any combination of the foregoing:				
740.05	00	Of silver (including rolled silver) and valued not over $18 per dozen pieces or parts.....	Doz.....	27.5% ad val.	Free (A,E,I)	110% ad val.
		Other:				
		Of precious metals:				
		Necklaces and neck chains, almost wholly of gold:				
740.11	00	Rope.....	X.....	7.2% ad val.	6.5% ad val.(D) Free (A*,E)	80% ad val.
740.12	00	Mixed link.....	X.....	7.2% ad val.	6.5% ad val.(D) Free (A*,E)	80% ad val.
740.13	00	Other.....	X.....	7.2% ad val.	6.5% ad val.(D) Free (A*,E)	80% ad val.
740.14	00	Other.....	X.....	7.2% ad val.	6.5% ad val.(D) Free (A*,E,I)	80% ad val.
740.15	00	Other.....	X.....	7.2% ad val.	6.5% ad val.(D) Free (A*,E,I)	80% ad val.
740.20	00	Necklaces, valued not over 30 cents per dozen, composed wholly of plastic shapes mounted on fiber string.....	Doz.....	Free		Free

1/ Duty on certain articles temporarily suspended. See item 912.20 in part 1B, Appendix to the Tariff Schedules, and general headnote 3(d)(ii).

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty 1	Rates of Duty Special	Rates of Duty 2
		Jewelry and other objects of personal adornment not provided for in the foregoing provisions of this part (except articles excluded by headnote 3 of this subpart), and parts thereof:				
740.30	00	Valued not over 20 cents per dozen pieces or parts	X.....	8.6% ad val.	7.2% ad val. (D) Free (A,E,I)	45% ad val.
		Valued over 20 cents per dozen pieces or parts: Watch bracelets:				
740.34	00	Valued not over $5 per dozen	Doz.....	16.6% ad val.	14% ad val.(D) Free (A,E,I)	110% ad val.
740.35	00	Valued over $5 per dozen	Doz.....	16.6% ad val.	14% ad val.(D) Free (E,I)	110% ad val.
740.38	00	Other	X.....	13.1% ad val.	11% ad val. (D) Free (A*,E,I)	110% ad val.
		Religious articles of a purely devotional character designed to be worn on apparel or carried on or about or attached to the person:				
740.50	00	Rosaries and chaplets	X.....	5.2% ad val.	4.9% ad val.(D) Free (A,E,I)	50% ad val.
		Crucifixes and medals:				
740.55	00	Of precious metals (including rolled precious metals)	X.....	9% ad val.	7.8% ad val.(D) Free (A,E,I)	65% ad val.
740.60	00	Other	X.....	6.3% ad val.	5.8% ad val.(D) Free (A,E,I)	45% ad val.
		Rope, curb, cable, chain, and similar articles produced in continuous lengths, all the foregoing, whether or not cut to specific lengths and whether or not set with imitation pearls or imitation gemstones, of metal or of metal and such pearls or gemstones, suitable for use in the manufacture of articles provided for in this subpart:				
740.70	00	Of precious metals (including rolled precious metals)	X.....	8.3% ad val.	7% ad val.(D) Free (A,E)	80% ad val.
		Other:				
740.75	00	Valued not over 30¢ per yard	X.....	9.5% ad val.	8% ad val.(D,I) Free (A,E)	80% ad val.
740.80	00	Valued over 30¢ per yard	X.....	13.1% ad val.	11% ad val.(D) Free (A,E,I)	110% ad val.
		Subpart B. - Cameos; Natural, Cultured and Imitation Pearls; Imitation Gemstones; Beads and Articles of Beads				
		Subpart B headnote: 1. For the purposes of the tariff schedules, the term "imitation gemstones" means glass, plastics, or other materials made into shapes suitable for use in jewelry or for other ornamental purposes in a manner similar to natural gemstones, whether or not in imitation thereof, but does not include natural gemstones, synthetic gemstones, reconstructed natural gemstones, or imitation pearls.				
		Natural or cultured pearls and parts thereof, drilled or not drilled, but not strung (except temporarily) and not set:				
741.05	00	Natural	X.....	Free		10% ad val.
741.06	00	Cultured	X.....	2.2% ad val.	2.1% ad val.(D) Free (A,E,I)	10% ad val.
741.10	00	Imitation pearls and imitation pearl beads of all shapes and colors, drilled or not drilled, but not strung (except temporarily) and not set	X.....	9.5% ad val.	8% ad val.(D,I) Free (A,E)	60% ad val.

Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty 1	Special	2
745.60	00	Hooks and eyes	Lb.....	1.1¢ per lb. (including weight of cards, cartons, and immediate wrappings and labels) + 6.4% ad val.	1¢ per lb. (including weight of cards, cartons, and immediate wrappings and labels) + 5.8% ad val.(D) Free (A,E,I)	4.5¢ per lb. (including weight of cards, cartons, and immediate wrappings and labels) + 25% ad val.
		Clasps, handbag and similar frames incorporating clasps, and snap fasteners; all the foregoing and parts thereof:				
		Valued not over 20 cents per dozen pieces or parts:				
		Sew-on fasteners, and parts thereof:				
745.61	00	Of plastics, in clips suitable for use in a mechanical attaching device	X.....	13.8% ad val.	11% ad val.(D,I) Free (E)	60% ad val.
745.62	00	Other	X.....	13.8% ad val.	11% ad val.(D,I) Free (A,E)	60% ad val.
745.65	00	Other	X.....	7.7% ad val.	6.9% ad val.(D) Free (A,E,I)	60% ad val.
		Valued over 20 cents per dozen pieces or parts:				
		For jewelry and other objects of personal adornment:				
745.66	00	Of precious metal except silver (including rolled precious metal except silver)	X.....	7.2% ad val.	6.5% ad val.(D) Free (A,E,I)	80% ad val.
745.67		Other	.....	13.1% ad val.	11% ad val.(D,I) Free (A,E)	110% ad val.
	20	Of silver				
	40	Other				
745.68	00	Other	.....	5.7% ad val.	5.3% ad val.(D) Free (A,E,I)	65% ad val.
		Slide fasteners, and parts thereof including tapes in continuous lengths but not including tapes wholly of textile fibers:				
		Fasteners:				
745.70	00	Valued not over 4 cents each	No.....	16.3% ad val.	15% ad val.(D) Free (A*,E,I)	66% ad val.
745.72	00	Valued over 4 cents each	No.....	15.6% ad val.	15% ad val.(D) Free (E,I)	66% ad val.
745.74		Parts	.....	24.5% ad val.	23% ad val.(D) Free (E,I)	66% ad val.
	50	Sliders, with or without pulls	M.			
	90	Other	X			
745.80	00	Any article described in the foregoing provisions of this subpart, if Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	X.....	Free		
		Subpart B. - Artificial and Preserved Flowers and Foliage; Millinery Ornaments; Trimmings; and Feather Products				
		Subpart B headnotes:				
		1. The provisions of items 748.20 and 748.21 do not include -- (i) articles wholly or almost wholly of glass or ceramics;				

Appendix H

Staged Duty Rate Reductions Under the MTN Applicable to Costume Jewelry for the United States and Selected Foreign Countries

Table H-1.--Costume jewelry: Staged reductions in U.S. rates of duty, by TSUS item, 1980-87

(Percent ad valorem)

TSUS item No. 1/	Description	Staged col. 1 rate of duty effective with respect to articles entered on or after Jan. 1— 2/							
		1980	1981	1982	1983	1984	1985	1986	1987
	Jewelry and other objects of personal adornment not provided for in the foregoing provisions of this part (except articles excluded by headnote 3 of this subpart) and parts thereof:								
740.30A	Valued not over 20 cents per dozen pieces of parts.	16.7	15.3	14.0	12.6	11.3	9.9	8.6	7.2
	Valued over 20 cents per dozen pieces or parts:								
	Watch bracelets:								
740.34A	Valued not over $5 per dozen.....	32.4	29.8	27.1	24.5	21.9	19.3	16.6	14.0
740.35	Valued over $5 per dozen.....	32.4	29.8	27.1	24.5	21.9	19.3	16.6	14.0
740.38A*	Other.....	25.4	23.4	21.3	19.3	17.2	15.1	13.1	11.0
	Religious articles of a purely devotional character designed to be worn on apparel or carried on or about or attached to the person:								
740.50A	Rosaries and chaplets.....	7.2	6.9	6.5	6.2	5.9	5.6	5.2	4.9
740.60A	Crucifixes and medals, not of precious metals..	9.5	9.0	8.4	7.9	7.4	6.9	6.3	5.8
	Rope, curb, cable, chain, and similar articles produced in continuous lengths, all the foregoing, whether or not cut to specific lengths and whether or not set with imitation pearls or imitation gemstones, of metal or of metal and such pearls or gemstones, suitable for use in the manufacture of articles provided for in this subpart:								
	Other:								
740.75A	Valued not over 30¢ per yard.....	18.5	17.0	15.5	14.0	12.5	11.0	9.5	8.0
740.80A	Valued over 30¢ per yard.....	25.4	23.4	21.3	19.3	17.2	15.1	13.1	11.0
	Clasps, handbag and similar frames incorporating clasps, and snap fasteners; all the foregoing and parts thereof:								
	Valued over 20¢ per dozen pieces or parts:								
	For jewelry and other objects of personal adornment:								
745.67 (pt)A	Other than of precious metal.....	25.4	23.4	21.3	19.3	17.2	15.1	13.1	11.0

1/ The designation "A" means that all beneficiary developing countries are eligible for the Generalized System of Preferences (GSP). "A*" indicates that certain of these beneficiary developing countries, specified in general headnote 3(e) of the Tariff Schedules of the United States Annotated, are not eligible for the GSP.
2/ Rate negotiated in the Tokyo Round of the Multilateral Trade Negotiations, to be achieved through up to 8 annual reductions, with the final reduction to be effective Jan. 1, 1987.

Source: Federal Register, vol. 44, No. 241, December 13, 1979, p. 72524-5.

Table H-2.--Costume jewelry: Staged reductions in rates of duty applied by selected foreign countries to U.S. products by tariff items, 1980-87

(Percent ad valorem)

Country/tariff	Description	Staged col. 1 rate of duty effective with respect to articles entered on or after Jan. 1— 1/							
		1980	1981	1982	1983	1984	1985	1986	1987
Japan:									
71.16.100.....	Imitation jewelry, plated w/precious metal.....	16.8	16.8	15.1	13.5	11.9	10.3	8.6 2/	7.0
71.16.211.....	Watch bracelets, of base metal.....	11.0	11.0	10.3	9.6	8.8	8.1	6.6	6.6
71.16.212.....	Necklaces, brooches and pendants, of base metal.	10.8	10.8	10.0	9.2	8.3	7.5	5.8	5.8
71.16.219.....	Imitation jewelry, of base metal, n.e.s...	10.8	10.8	10.0	9.2	8.3	7.5	5.8	5.8
71.16.290.....	Imitation jewelry, n.e.s.....	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
EC:									
71.15B II.....	Other.....	6.7	6.5	6.5	6.0	5.7	5.4	4.9	4.9
71.16A.....	Imitation jewelry, of base metal.....	16.8	15.6	14.4	13.3	12.1	9.7	8.5	8.5
71.16B.....	Imitation jewelry, other than base metal..	10.5	9.5	8.5	8.5	8.5	6.7	6.7	6.7
Canada:									
365051.....	Jewelry findings.....	11.9	11.4	10.8	10.3	9.7	9.1	8.6	8.0
624001.....	Beads, ornaments, etc.....	16.6	15.7	14.8	13.9	12.9	12.0	11.1	10.2
647001.....	Jewelry, of any metal, not otherwise provided for.	23.5	22.1	26.0	19.1	17.6	16.2	14.8 3/	13.3
647002.....	Jewelry, for the adornment of the person, the ornament parts being of tortoise shell.	18.9	17.8	16.7	15.7	14.6	13.5	12.4	11.3
64803.....	Imitation pearls, pierced, split, strung or not, but not mounted or set.	9.6	9.2	8.8	8.4	8.0	7.6	7.2	6.8
65610.....	Cigar and cigarette holders.....	18.9	17.8	16.7	15.7	14.6	13.5	12.4	11.3
69105.....	Communion sets and other religious articles 4/.	Free	Free	Free	Free	Free	Free	Free	Free

1/ Rate negotiated in the Tokyo Round of the Multilateral Trade Negotiations, to be achieved through up to 8 annual reductions, with the final reduction to be effective Jan. 1, 1987.

2/ A temporary duty rate of 5.6 percent ad valorem is currently applicable.

3/ A duty remission order is currently in effect. The difference between the duty paid at the current rate and the final rate is remitted to the importer so that the effective rate is 13.3 percent ad valorem.

4/ These articles were not included in the Tokyo Round of the Multilateral Trade Negotiations. During the period 1980-1987, these articles were duty free.

Source: Compiled from information obtained from the U.S. Department of Commerce.

Appendix I

Selected Portions of the TSUS Converted to the Harmonized System Showing Final MTN Concession Rates of Duty Applicable to Costume Jewelry Articles

CHAPTER 71

NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METALS, AND ARTICLES THEREOF; IMITATION JEWELRY; COIN

Legal Notes 71-1

1. Subject to legal note 1(a) to section VI and except as provided below, all articles consisting wholly or partly—

   (a) Of natural or cultured pearls or of precious or semi-precious stones (natural, synthetic, or reconstructed), or

   (b) Of precious metals or of metals clad with precious metals,

   are to be classified in this chapter.

2. (a) Headings 7113, 7114, and 7115 do not cover articles in which precious metals or metals clad with precious metals are present as minor constituents only, such as minor fittings or minor ornamentation (for example, monograms, ferrules, and rims), and paragraph (b) of the foregoing legal note does not apply to such articles.

   (b) Heading 7116 does not cover articles containing precious metals or metals clad with precious metals (other than as minor constituents).

3. This chapter does not cover—

   (a) Amalgams of precious metals, and colloidal precious metals (heading 2843);

   (b) Sterile surgical suture materials, dental fillings, and other articles of chapter 30;

   (c) Articles of chapter 32 (for example, lustres);

   (d) Handbags and other articles of heading 4202 and articles of heading 4203;

   (e) Articles of heading 4303 or 4304;

   (f) Articles of section XI (textiles and textile articles);

   (g) Footwear, headgear, and other articles of chapter 64 or 65;

   (h) Umbrellas, walking-sticks, and other articles of chapter 66;

   (ij) Abrasive articles of heading 6804 or 6805 or chapter 82, containing dust or powder of precious or semi-precious stones (natural or synthetic); articles of chapter 82 with a working part of precious or semi-precious stones (natural, synthetic, or reconstructed); machinery, mechanical appliances, and electrical articles, and parts thereof, of section XVI. However, articles and parts thereof, wholly of precious or semi-precious stones (natural, synthetic, or reconstructed), remain classified in this chapter, except unmounted worked sapphires and diamonds for mounting in styli (heading 8522);

   (k) Articles of chapter 90, 91 or 92 (scientific instruments, clocks and watches, musical instruments);

   (l) Arms or parts thereof (chapter 93);

   (m) Articles covered by legal note 2 to chapter 95;

   (n) Articles of chapter 96 other than those of headings 9601 to 9606 or 9615; or

   (o) Original sculptures and statuary (heading 9703), collectors' pieces (heading 9705), and antiques of an age exceeding one hundred years (heading 9706), other than natural or cultured pearls or precious or semi-precious stones.

4. (a) The expression "precious metals" means silver, gold, and platinum.

   (b) The expression "platinum" means platinum, iridium, osmium, palladium, rhodium, and ruthenium.

   (c) The expression "precious or semi-precious stones" does not include any of the substances specified in legal note 2(b) to chapter 96.

5. For the purposes of this chapter, any alloy (including a sintered mixture and an inter-metallic compound) containing precious metals is to be treated as an alloy of precious metals if any one precious metal constitutes as much as 2 percent, by weight, of the alloy. Alloys of precious metals are to be classified according to the following rules--

   (a) An alloy containing 2 percent or more, by weight, of platinum is to be treated as an alloy of platinum;

   (b) An alloy containing 2 percent or more, by weight, of gold but no platinum, or less than 2 percent, by weight, of platinum, is to be treated as an alloy of gold;

   (c) Other alloys containing 2 percent or more, by weight, of silver are to be treated as alloys of silver.

   For the purposes of this legal note, metals of the platinum group are to be regarded as one metal and are to be treated as though they were platinum.

6. Except where the context otherwise requires, any reference in the tariff schedule to precious metals or to any particular precious metal includes a reference to alloys treated as alloys of precious metals or of the particular metal in accordance with the rules in legal note 5 above, but not to metals clad with precious metals or to base metals or non-metals coated or plated with precious metals.

7. Throughout the tariff schedule the expression "metals clad with precious metals" means material made with a base of metals upon one or more surfaces of which there is affixed by soldering, brazing, welding, hot-rolling, or similar mechanical means a covering of precious metals. Except where the context otherwise requires the expression also covers base metals inlaid with precious metals.

8. For the purposes of heading 7113, the expression "articles of jewelry" means--

   (a) Any small objects of personal adornment (gem-set or not) (for example, rings, bracelets, necklaces, brooches, earrings, watch chains, fobs, pendants, tie pins, cuff links, dress studs, religious or other medals and insignia); and

   (b) Articles of personal use of a kind normally carried in the pocket, in the handbag, or on the person (such as cigarette cases, powder boxes, chain purses, or pill boxes).

9. For the purposes of heading 7114, the expression "articles of goldsmiths' or silversmiths' wares" includes such articles as ornaments, tableware, toilet-ware, smokers' articles, and other articles of household, office, or religious use.

10. For the purposes of heading 7117, the expression "imitation jewelry" means articles of jewelry within the meaning of paragraph (a) of legal note 8 above (but not including buttons or other articles of heading 9606, or dress combs, hair slides, or the like, and hairpins, of heading 9615), not incorporating natural or cultured pearls, precious or semi-precious stones (natural, synthetic, or reconstructed) nor (except as plating or as minor constituents) precious metals or metals clad with precious metals.

11. For the purposes of subheadings 7106.10, 7108.11, 7110.11, 7110.21, 7110.31, and 7110.41, the expressions "powder" and "in powder form" mean products of which 90 percent or more by weight passes through a sieve having a mesh aperture of 0.5 mm.

12. Notwithstanding the provisions of legal note 4(b), for the purposes of subheadings 7110.11 and 7110.19, the expression "platinum" does not include iridium, osmium, palladium, rhodium, or ruthenium.

13. For the classification of alloys in the subheadings of heading 7110, each alloy is to be classified with that metal, platinum, palladium, rhodium, iridium, osmium, or ruthenium, which predominates by weight over each other of these metals.

Additional U.S. Legal Notes

1. This chapter does not include--

   (a) Recording or transcribing styli, needles, and points (heading 8522);

   (b) Insulated electric conductors (heading 8544); or

   (c) Base metals coated or plated with precious metals or articles thereof.

2. (a) Subchapter II covers precious metals (including such metals when they are chemically pure), their alloys, and their so-called basic shapes and forms, and, in addition, covers metal waste and scrap. Unless the context otherwise requires, the provisions of this subchapter apply to the products described by whatever process made (i.e., whether rolled, forged, drawn, extruded, cast, or sintered) and whether or not such products have been subjected to treatments to improve the properties or appearance of the metals or to protect them from corrosion or other deterioration.

   (b) For the purposes of this legal note, "alloys" are metallic substances consisting of two or more metals, or of one or more metals and one or more non-metals, intimately united, usually by having been fused together and which may or may not have been dissolved in each other when molten; they include sintered mixtures of metal powders and heterogeneous intimate mixtures obtained by fusion, but do not include substances in which the total weight of the metals does not equal or exceed the total weight of the non-metal components.

3. For the purposes of subchapter II, unless the context otherwise requires--

   (a) The term "unwrought" refers to metals, whether or not refined, in the form of ingots, blocks, lumps, billets, cakes, slabs, pigs, cathodes, anodes, briquettes, cubes, sticks, grains, sponge, pellets, shot, and similar primary forms, but does not cover rolled, forged, drawn, or extruded products, tubular products, or cast or sintered forms which have been machined or processed otherwise than by simple trimming, scalping, or descaling;

   (b) The term "semi-manufactured" refers to wrought metal products in the form of bars, rods, sections, plates, sheets, strips, wire, tubes, pipes, and hollow bars, and to powder (other than primary metals in powder form);

   (c) The term "waste and scrap" refers to materials and articles of metals which are second-hand or waste or refuse, or are obsolete, defective, or damaged, and which are fit only for the recovery of the metal content or for use in the manufacture of chemicals, and does not include metals in unwrought form or metal-bearing materials provided for in heading 2616.

4. For the purposes of subchapter III, the term "imitation gemstones" means glass, plastics, or other materials made into shapes suitable for use in jewelry or for other ornamental purposes in a manner similar to natural gemstones, whether or not in imitation thereof, but does not include natural gemstones, synthetic gemstones, reconstructed natural gemstones, or imitation pearls.

5. For the purposes of subheadings 7113.19.25 and 7113.20.25, the term "mixed link" refers to a chain composed of two or more styles or types of link.

6. Coin provided for in heading 7118 which is currently in circulation in any country and is imported for monetary purposes shall be admitted without formal customs consumption entry or the payment of duty. This does not affect any requirements under other provisions of law to the effect that transfers of coin into or through the United States, in an amount exceeding $5,000 on any one occasion, shall be reported as described therein.

(Converted to the Harmonized System and reflecting final MTN concession rates of duty)

Heading	Stat. Suffix	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Preferential	Rates of Duty 2
7117		Imitation jewelry:				
		Of base metals, whether or not plated with precious metals:				
7117.11.00	00	Cuff links and studs.....	X.....	11%		110%
7117.19		Other:				
		Rope, curb, cable, chain, and similar articles produced in continuous lengths, all the foregoing, whether or not cut to specific lengths and whether or not set with imitation pearls or imitation gemstones, suitable for use in the manufacture of articles provided for in this heading:				
7117.19.10	00	Valued not over 33 cents per meter.....	X.....	8%		80%
7117.19.20	00	Valued over 33 cents per meter.....	X.....	11%		110%
7117.19.30	00	Religious articles of a purely devotional character designed to be worn on apparel or carried on or about or attached to the person.....	X.....	5.8%		45%
7117.19.50	00	Other.....	X.....	11%		110%
7117.90		Other:				
7117.90.10	00	Necklaces, valued not over 30 cents per dozen, composed wholly of plastic shapes mounted on fiber string.....	doz.....	Free		Free
		Religious articles of a purely devotional character designed to be worn on apparel or carried on or about or attached to the person:				
7117.90.20	00	Rosaries and chaplets.....	X.....	4.9%		50%
7117.90.30	00	Other.....	X.....	5.8%		45%
		Other:				
7117.90.40	00	Valued not over 20 cents per dozen pieces or parts.....	X.....	7.2%		45%
7117.90.50	00	Valued over 20 cents per dozen pieces or parts.....	X.....	11%		110%
7118		Coin:				
7118.10.00	00	Coin (other than gold coin), not being legal tender.....	X.....	Free		Free
7118.90.00	00	Other.....	X.....	Free		Free

Appendix J

Customs Treatment for Selected Foreign Markets and Suppliers

Although the United States and Canada use their own trade classification systems for purposes of statistical reporting and analysis, most countries use the Customs Cooperation Council Nomenclature (CCCN), also known as the Brussels Tariff Nomenclature (BTN), as the basis for tariff classifications. Other countries use the Standard International Trade Classification (SITC) system. Under the CCCN, costume jewelry is classified under item 71.16. The specific level of detail is administered and determined by individual countries; therefore, some countries' classification schemes provide greater detail than others. For example, most countries that classify costume jewelry under the CCCN scheme specifically provide for costume jewelry made of base metal and that made of other materials. Under the current structure of the TSUS such a breakout does not exist. A discussion of the customs treatment of U.S. exports in major foreign costume jewelry markets follows.

J.1 Canada

The Canadian Customs Tariff Act provides for the classification and rates of duty applicable to imports into Canada. Such imports are assessed duty at various rates depending upon the specific tariff treatment afforded the country of origin. The specific tariff treatments include: a General Tariff, applicable to countries with which Canada has no tariff arrangements; a Most Favored Nation Tariff (applicable to U.S. goods); a General Preferential Tariff, applicable to designated developing countries; a British Preferential Tariff, applicable to certain British countries, colonies, protectorates, territories, or trustees; and a United Kingdom or Ireland Tariff. In addition to duties, a 10 percent excise tax is assessed on all jewelry articles. The product description, tariff item numbers, present rates of duty and the final rates of duty negotiated under the MTN relevant to most Canadian imports of U.S. jewelry are as follows (in percent ad valorem):

Classification	Product description	Current rate of duty	Final 1987 negotiated rate of duty
36505-1	Jewelry findings, not plated or coated for use in the manufacture of jewelry or articles of personal adornment.	8.6	8.0
62400-1	Bead ornaments, etc.....	11.1	10.2
64700-1 1/	Jewelry of any material, for the adornment of the person, not otherwise provided for.	14.8	13.3
64700-2	Jewelry, for the adornment of the person, the ornamental parts being of tortoise shell.	12.4	11.3
64803-1	Imitation pearls, pierced, split, strung or not, but not mounted or set.	7.2	6.8
65610-1	Cigar and cigarette holders.....	12.4	11.3
69105-1	Communion sets and other religious articles.....	Free	Free

1/ A duty remission order is currently in effect. The difference between the duty paid at the current rate and the final rate is remitted to the importer so that the effective rate is 13.3 percent ad valorem.

J.2 Japan

The Japanese Customs Tariff Schedule provides for the classification and rates of duty applicable to imports into Japan. Such imports are assessed duty at various rates depending upon the specific tariff treatment afforded the country of origin. Specific tariff treatments include: a general tariff, a GATT tariff rate, a preferential tariff, and temporary tariff rates. The rate of duty applied to imports from the United States is the lower of the temporary rate and the GATT rate applicable to the particular commodity. In addition to duty paid on U.S. costume jewelry imports, there is a 15 percent commodity tax levied. The product description, tariff item numbers, present rates of duty and the final rates of duty negotiated under the MTN for Japanese imports of U.S. costume jewelry are as follows (in percent ad valorem):

Classification	Product description	Current rate of duty	Final 1987 negotiated rate of duty
71.16.100	Imitation jewelry, plated with precious metals	8.6 1/	7.0
	Other:		
71.16.211	Watch bracelets, of base metal	6.6	6.6
71.16.212	Necklaces, brooches and pendants, of base metal	5.8	5.8
	Other:		
71.16.219	Of base metal	5.8	5.8
71.16.290	Other	12.5	12.5

1/ A temporary tariff of 5.6 percent is in effect and currently applies to imported products.

J.3 The European Community

The European Community (EC) is included herein because the United Kingdom, the Netherlands, France, and West Germany were among the top 10 markets for U.S. costume jewelry exports in 1985. The EC has established tariff treatments applicable to imports from various countries and country groupings. These include: Common Customs Tariff (CCT), applicable to all MFN countries; GSP, applicable to developing countries; Preferential Tariff, applicable to nations with historical ties, such as the European Free Trade Area, Mediterranean nations, and signatories of the Lome Convention; and Communist countries that receive CCT rates under special arrangements. All EC member countries are required to assess the common duty rate to all third country imports; however, no duties are assessed on goods traded between member countries. 1/ Most EC countries also levy a value added tax (VAT) on all products, whether imported or domestically produced. The VAT is administered by individual countries, and rates applied by the major costume jewelry markets are 15 percent in the United Kingdom, 18 percent in the Netherlands, 33.3 percent in France, and 14 percent in West Germany. With regard to international trade, each country has a separate classification

1/ Greece was admitted to the EC in January 1981 and was given until January 1986 to align its duties to the common EC rates.

system for statistical reporting and analysis. For simplification, tariff information on the aggregate Community is presented herein. The product description, tariff item numbers, present rates of duty and final rates of duty negotiated under the MTN for EC imports of U.S. costume jewelry are as follows (in percent ad valorem):

Classification	Product description	Current rate of duty 1/	Final 1987 negotiated rate of duty
71.15	Articles consisting of, or incorporating, pearls, precious or semi-precious stones (natural, synthetic or reconstructed):		
71.15 B	Articles consisting of, or incorporating, precious or semi-precious stones (natural, synthetic or reconstructed): (Made wholly of natural precious or semi-precious stones).		
71.15 B II.	Other.....	4.9	4.9
71.16 A 2/	Imitation jewelry, of base metal.....	8.5	8.5
71.16 B 3/	Imitation jewelry, of other materials.....	6.7	6.7

1/ Final rates under the MTN have been accelerated. Therefore current rates for 1986 reflect final negotiated rates.
2/ Wholly or partly of base metal, whether or not plated with precious metal.
3/ Of at least two materials, no account being taken of materials used only for assembly.

J.4 Hong Kong

Hong Kong is a free port and most imported articles are allowed to enter duty free, including costume jewelry. There is a local sales tax levied on purchases of costume jewelry; however, there are no commodity or other taxes assessed specifically on imported goods. As one of the largest markets for U.S. costume-jewelry exports, we have included the classification and product description for costume-jewelry imports, as follows:

Classification	Product description
897.201	Watch bands, metal (excluding precious metal).
897.202	Imitation jewelry (e.g., rings, bracelets, necklaces) of base metals, glass, or plastics, not incorporating precious or semiprecious materials, other than watch bands.

J.5 Australia

Australia assesses duty on imported goods under a general or preferential tariff. Typically, the United States and other developed countries are subject to the general tariff rates. Developing nations and local trading partners are assessed duty under the preferential rates. The specific duty rates applicable to an import transaction depend upon the commodity and the country involved. For example, imports from Korea are dutiable under the general rates for certain commodities and under the preferential rates for others. The product description, tariff item numbers, and present rates of duty for Australian imports of U.S. costume jewelry are as follows (in percent ad valorem):

Classification	Product description	General rate of duty	Preferential rate of duty
71.16	Imitation jewelry:		
71.16.100	Religious medals.....	2.0	Free
71.16.200	Badges and medals not specified, n.s.a.....	25.0	20.0 1/
71.16.900	Other (including beads, and metal watch bands).....	25.0	20.0 2/

1/ Applicable to all developing countries except Hong Kong and Taiwan.
2/ Applicable to all developing countries except Hong Kong.

J.6 Switzerland

Products imported into Switzerland are assessed duty under general GATT rates or under preferential GSP rates. The GSP rates include provisions for bilateral trade with EC members, European Free Trade Association (EFTA) members, Spain, and developing nations. Most provisions allow for duty exempt status for certain products; however, reduced rates are applied to some products. It should also be noted that Switzerland assesses import duties based on a specific rate per kilogram 1/ of gross weight, instead of on an ad valorem basis as is customary in most other nations.

In addition to the duty, a turnover tax (currently 9.6 percent on a c.i.f. basis) is levied on imported costume jewelry, and in some cases an import tax of 15% is levied. However, if an importer presents a wholesale certificate, there is an exemption from the turnover tax. The product description, tariff item number, and present rate of duty for Swiss imports of U.S. costume jewelry are as follows (per 100 kilograms of gross weight):

Classification	Product description	Current rate of duty	Final 1987 negotiated rate of duty
7116.01	Imitation jewelry.....	3.5 Swiss Francs	3.0 Swiss Francs

1/ One kilogram equals 2.2 pounds.

Table J-1.--Costume jewelry: Preferential tariff treatment offered by selected countries in 1985

Country and item No.	Preferential tariff program	Preferential duty rate
Canada:		
36505-1....	British preferential tariff.....	8.6
	General preferential tariff 1/.....	Free
	United Kingdom and Ireland.....	8.6
62400-1....	British preferential tariff.....	11.1
	General preferential tariff.....	7.0
	United Kingdom and Ireland.....	11.1
64700-1....	British preferential tariff.....	14.8
	General preferential tariff 1/.....	9.5
	United Kingdom and Ireland.....	14.8
64700-2....	British preferential tariff.....	12.4
	General preferential tariff 1/.....	9.0
	United Kingdom and Ireland.....	12.4
Japan:		
71.16.....	Generalized System of Preferences.....	Free
EC:		
71.16.....	Cooperation agreements with Mediterranean countries.....	Free
	European Free Trade Association 2/.....	Free
	Lome Convention II.....	Free
	Generalized System of Preferences 3/.....	Free
Australia:		
71.16.10...	Developing countries.....	Free
71.16.20...	Developing countries 4/.....	20.0
	Papua New Guinea.....	Free
71.16.90...	Developing countries 5/.....	20.0
Switzerland:		
71.16.....	Generalized System of Preferences 6/.....	Free

1/ Eligible developing countries excluding Taiwan.
2/ Sweden, Norway, Austria, Switzerland, Finland and Ireland.
3/ The EC imposes annual-duty free import ceilings per country; imports from Taiwan are excluded.
4/ Eligible developing countries excluding Hong Kong and Taiwan.
5/ Eligible developing countries excluding Hong Kong.
6/ Includes various preferential rates for bilateral arrangements as well. An agreement with Spain provides for reduced rates on certain articles.

Appendix K

List of Beneficiary Countries in the U.S. Generalized System of Preferences

BENEFICIARY COUNTRIES IN THE U.S. GENERALIZED SYSTEM OF PREFERENCES

Independent Countries

Angola
Antigua and Barbados
Argentina
Bahamas, The
Bahrain
Bangladesh
Barbados
Belize
Benin
Bhutan
Bolivia
Botswana
Brazil
Brunei Darussalam
Burkina Faso
Burma
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Chile
Colombia
Comoros
Congo
Costa Rica
Cyprus
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Fiji
Gambia, The
Ghana
Grenada
Guatemala
Guinea
Guinea Bissau
Guyana
Haiti
Honduras
India
Indonesia
Israel
Ivory Coast
Jamaica
Jordan
Kenya
Kiribati
Korea, Republic of
Lebanon
Lesotho
Liberia
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Mauritania
Mauritius
Mexico
Morocco
Mozambique
Nauru
Nepal
Nicaragua
Niger
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Portugal
Romania
Rwanda
Saint Lucia
Saint Vincent and the Grenadines
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Singapore
Solomon Islands
Somalia
Sri Lanka
Sudan
Suriname
Swaziland
Syria
Taiwan
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Tuvalu
Uganda
Uruguay
Vanuatu
Venezuela
Western Samoa
Yemen Arab Republic (Sanaa')
Yugoslavia
Zaire
Zambia
Zimbabwe

Non-Independent Countries and Territories

Anguilla
Bermuda
British Indian Ocean Territory
Cayman Islands
Christmas Island (Australia)
Cocos (Keeling) Islands
Cook Islands
Falkland Islands (Islas Malvinas)
French Polynesia
Gibraltar
Heard Island and McDonald Islands
Hong Kong
Macau
Montserrat
Netherlands Antilles
New Caledonia
Niue
Norfolk Island
Pitcairn Islands
Saint Christopher-Nevis
Sanit Helena
Tokelau
Trust Territory of the Pacific Islands
Turks and Caicos Islands
Virgin Islands, British
Wallis and Futuna
Western Sahara

BENEFICIARY COUNTRIES IN THE U.S. GENERALIZED SYSTEM OF PREFERENCES

Associations of Countries (treated as one country)

Member Countries of the Caribbean Common Market (CARICOM)	Member Countries of the Cartagena Agreement (Andean Group)	Association of South East Asian Nations (ASEAN)
Consisting of:	Consisting of:	Consisting of:
Antigua and Barbuda	Bolivia	Brunei
Bahamas	Colombia	Indonesia
Barbados	Ecuador	Malaysia
Belize	Peru	Philippines
Dominica	Venezuela	Singapore
Grenada		Thailand
Guyana		
Jamaica		
Montserrat		
Saint Christoper-Nevis		
Saint Lucia		
Saint Vincent and the Grenadines		
Trinidad and Tobago		