

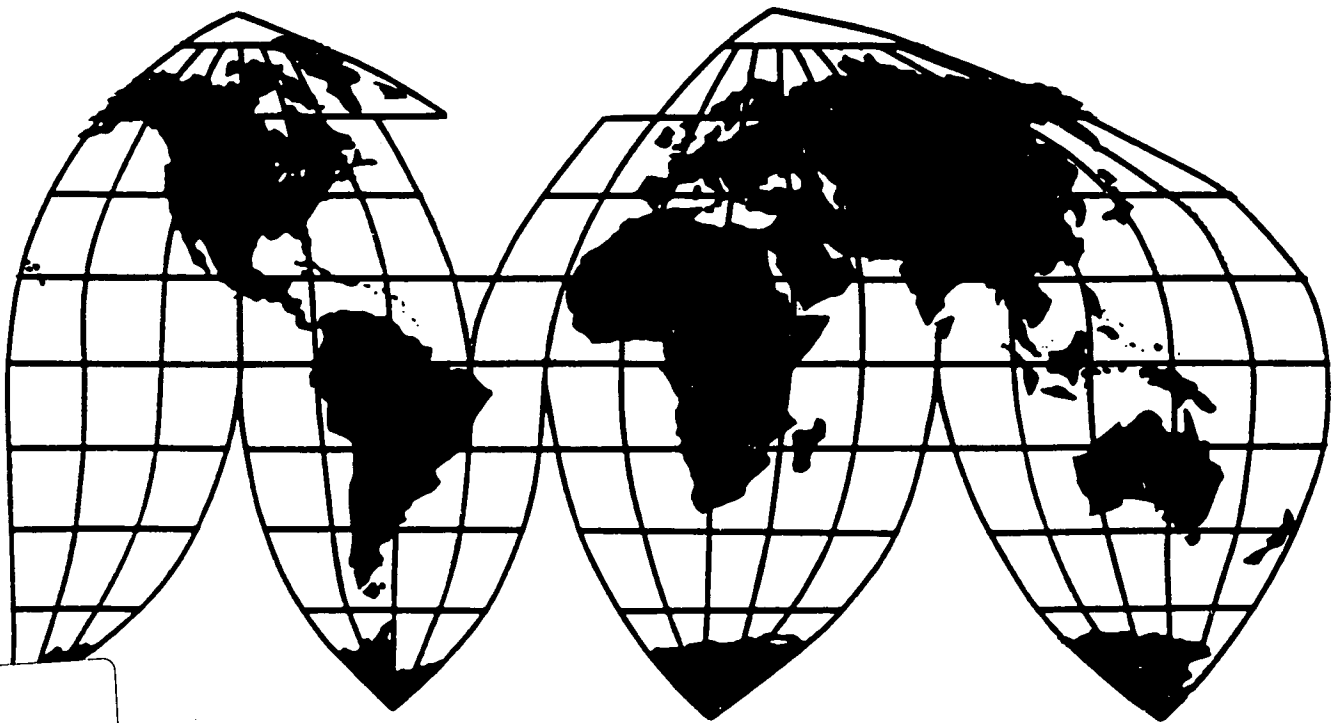
President's List of Articles Which May Be Designated or Modified as Eligible Articles for Purposes of the U.S. Generalized System of Preferences

Report to the President on
Investigation No. 332-356

Publication 2834

December 1994

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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Note.--This report is a declassified
version of the confidential probable
effects advice report submitted to
the President on November 22, 1994

INTRODUCTION

On August 16, 1994, under the authority delegated to the United States Trade Representative (USTR) by the President through Executive Order 11846, as amended, and pursuant to section 332(g) of the Tariff Act of 1930 and in accordance with section 504(c)(3) of the Trade Act of 1974, the USTR requested economic advice as to whether any industry in the United States is likely to be adversely affected by a waiver of the competitive need limits set forth in section 504(c)(1) of the Trade Act of 1974 for Thailand with respect to articles in subheadings 6702.90.65, 7113.11.20, 7113.19.50 and 9403.60.80 of the Harmonized Tariff Schedule of the United States (HTS). The USTR request letter is included in appendix A.

The Commission instituted the investigation on September 2, 1994, and indicated that it would seek to provide its advice no later than November 23, 1994, as requested by USTR.

The Commission notice of investigation is contained in appendix B.¹ All interested parties were afforded an opportunity to provide written comments and information.

¹ The following Federal Register notices were issued by the Commission and by the USTR relating to investigation No. 332-356:

<u>Date</u>	<u>Notice</u>	<u>Subject</u>
Aug. 12, 1994	59 F.R. 41594	USTR notice of GSP review
Sept. 8, 1994	59 F.R. 46659	Notice of ITC investigation

PRESENTATION OF PROBABLE ECONOMIC EFFECT ADVICE

In response to the USTR request for economic advice on whether any industry in the United States is likely to be adversely affected by a waiver of the specified competitive need limits under the U.S. Generalized System of Preferences (GSP), the Commission has provided its advice in the form of commodity digests, as has been done in prior GSP investigations.² Each digest deals with the effect of tariff modification on a single HTS subheading, and advice is provided in terms of the traditional coding scheme noted later in this section.

Each digest contains the following sections:

- I. Introduction
- II. U.S. market profile
- III. GSP import situation, 1993
- IV. Competitiveness profiles, GSP suppliers
- V. Position of interested parties
- VI. Summary of probable economic effect advice

U.S. import/export tables

I. Introduction.--This section provides basic information on the item, including description and uses, rate of duty, and an indication of whether there was a like or directly competitive article produced in the United States on January 3, 1985.

II. U.S. market profile.--This section provides information on U.S. producers, employment, shipments, exports, imports, consumption, import market share, and capacity utilization. When exact information is not obtainable, the best available estimates are provided.

III. GSP import situation, 1993.--This section provides 1993 U.S. import data, including the world total and certain GSP country-specific data.

IV. Competitiveness profiles, GSP suppliers.--This section provides background information on Thailand: its level and significance as a supplier, the elasticities of supply and demand for imports from

²USTR staff asked that the Commission advice be provided in the standard format used in providing economic effect advice even though the advice requested here relates only to the question of whether an industry would be adversely affected by a competitive need limits waiver.

that country,³ and the price and quality of the imports it supplies compared with U.S. and other foreign products. Information is provided on other countries as appropriate.

V. Position of interested parties. -- This section provides brief summaries of written submissions from interested parties.

VI. Summary of probable economic effects. -- This section provides advice on the short-to-near-term (1 to 5 years, 1995-99) impact of the proposed GSP-eligibility modifications in three areas: (1) U.S. imports, (2) U.S. industry, and (3) U.S. consumers. The probable economic effect advice, to a degree, integrates and summarizes the data provided in sections I-V of the digests with particular emphasis on the price sensitivity of import supply and demand. Thus, for example, if the price elasticity of demand in the United States and the price elasticity of supply in the exporting beneficiary country are both relatively high, the elimination of even a moderate-level tariff suggests the possibility of large import increases from the beneficiary country. Appendix C provides a brief textual and graphic presentation on the model used for evaluating the probable economic effects of changes in the GSP. For the products in this report, however, it is not possible to measure such trade shifts precisely.

It should be noted that the probable economic effect advice with respect to changes in import levels is presented in terms of the degree to which GSP modifications will affect U.S. trade levels with the world. Consequently, if GSP beneficiaries supply a very small share of the total U.S. imports of a particular product or if imports from beneficiaries readily substitute for imports from developed countries, the overall effect on U.S. imports could be minimal.

³ Price elasticity is a measure of the changes in quantity supplied or demanded that are brought about as a result of changes in price. The guidelines used for both supply and demand are as follows: The elasticity is low when the percentage change in quantity is less than the percentage change in price, moderate when it is between 1 and 2 times the percentage change in price, and high when it is greater than 2 times the percentage change in price. It should be noted that the elasticity levels ("low, moderate, and high") are estimates based on staff analysis of industry conditions, not on empirical research.

The digests contain a coded summary of the probable economic effect advice. The coding scheme is shown below:

FOR "WAIVER" DIGESTS:

Level of total U.S. imports:

- Code A: Little or no increase.
- Code B: Moderate increase.
- Code C: Significant increase.
- Code N: No impact

Impact on the U.S. industry and employment:

- Code A: Little or negligible adverse impact.
- Code B: Significant adverse impact (significant proportion of workers unemployed, declines in output and profit levels, and departure of firms; effects on some segments of the industry may be substantial even though they are not industrywide).
- Code C: Substantial adverse impact (substantial unemployment, widespread idling of productive facilities, substantial declines in profit levels; effects felt by the entire industry).
- Code N: No impact.

Benefit derived by the U.S. consumer:⁴

- Code A: The bulk of duty savings is expected to be absorbed by the foreign suppliers. The price U.S. consumers pay is not expected to fall significantly.
- Code B: Duty savings are expected to benefit both the foreign suppliers and the domestic consumer.
- Code C: The bulk of duty savings is expected to benefit the U.S. consumer.
- Code N: No impact.

The probable economic effect advice for U.S. imports and the domestic industry is based on estimates of what is expected in the future with the proposed change in GSP eligibility compared with what is expected without it. That is, the estimated effects are independent of and in addition to any changes that will otherwise occur. Although other factors, such as exchange rate changes, relative inflation rates, and relative rates of economic growth, could have a significant effect on imports, these other factors are not within the scope of the USTR request.

⁴ The "U.S. consumer" may be a firm or a person receiving an intermediate good for further processing or an end user receiving a final good.

PROBABLE ECONOMIC EFFECT DIGEST LOCATOR AND OVERVIEW

Note.--Report digests are listed on pages 8 in sequential order by Harmonized Tariff Schedule of the United States (HTS) subheading. This listing provides the following information on the individual digests: a digest title, the proposed action, probable economic effect codes, col. 1 rate of duty, existence of U.S. production on January 3, 1985, and the name of the assigned Commission trade analyst.

HTS subheadings requiring probable economic effect advice and listing of digests

HTS sub-headings	Short title	Proposed action	Probable effects	Col. 1 rate of duty 1994	U.S. production of like or directly competitive articles, Jan. 3, 1985	Analyst
<u>6702.9065</u>	Certain artificial flowers	Waiver	***	17%	Yes	Spalding
<u>7113.1120</u>	Certain silver jewelry	Waiver	***	27.5%	Yes	Witherspoon
<u>7113.1950</u>	Certain gold jewelry	Waiver	***	6.5%	Yes	Witherspoon
<u>9403.6080</u>	Certain wooden household furniture	Waiver	***	2.5%	Yes	Spalding

Note.--The underlined HTS subheading is the digest number.

COMMODITY DIGESTS

DIGEST NO. 6702.90.65

CERTAIN ARTIFICIAL FLOWERS

Certain Artificial Flowers

I. Introduction

Addition to GSP Removal from GSP _____

Competitive-need-limit waiver Thailand

HTS subheading	Short description	Col. 1 rate of duty (1/1/94) <i>Percent ad valorem</i>	Like or directly competitive article produced in the United States on Jan. 3, 1985?
6702.90.65 ¹	Artificial flowers, plants, bouquets, and parts thereof, not of plastics, feathers, or man-made fibers	17%	Yes

¹ Thailand has been proclaimed by the President as noneligible for GSP treatment for articles included under HTS subheading 6702.90.65.

Description and uses.-- The artificial flowers, plants, and bouquets discussed in this digest are principally made of paper, silk, metal foil, clay, sea shells, and other animal material. These flowers may not be molded, forged, carved, or stamped in one piece. The parts must be assembled together by such processes as binding or gluing.

II. U.S. market profile

Profile of U.S. industry and market, 1989-93

Item	1989	1990	1991	1992	1993
Producers (<i>number</i>)	(¹)	(¹)	(¹)	(¹)	(¹)
Employment (<i>1,000 employees</i>)	(²)	(²)	(²)	(²)	(²)
Shipments (<i>1,000 dollars</i>)	3,000	3,000	2,700	2,800	2,900
Exports (<i>1,000 dollars</i>)	91	117	146	212	270
Imports (<i>1,000 dollars</i>)	³ 1,025	³ 3,039	7,619	11,483	16,169
Consumption (<i>1,000 dollars</i>)	3,934	5,922	10,173	14,071	18,799
Import-to-consumption ratio (<i>percent</i>)	⁴ 26	⁴ 51	⁴ 75	⁴ 82	⁴ 86
Capacity utilization (<i>percent</i>)	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)

¹Virtually all of the production of these artificial flowers is accounted for by artisans working individually.

²Less than 500.

³Estimated.

⁴Not available.

Comment.--U.S. consumption of the subject artificial flowers rose at an average annual rate of close to 50 percent during 1989-93, to \$19 million. The increased popularity of artificial flowers, particularly those for home decorating, rose rapidly in the last few years as improvements in materials and dyes, as well as, greater detailing made these products appear more realistic. Most of the increase in U.S. demand for artificial flowers has been met by imports as the ratio of U.S. imports to consumption rose from 26 to 86 percent during this period and U.S. shipments fell slightly to \$2.9 million. The production of artificial flowers is labor intensive because it involves hand binding or gluing of the parts. U.S. production consists primarily of higher priced artisan items, such as flowers with stained glass petals that are too delicate to ship. There is also a small amount of U.S. production of machine-cut paper flowers. This production is sporadic and usually results when U.S. importers have depleted their stock or small orders are required for promotional items. U.S. imports from Thailand consist principally of paper or silk flowers produced

II. U.S. market profile--Continued

by small-to medium-sized firms employing production line techniques. Producers located in Thailand have access to a significantly lower cost labor force than U.S. producers.

III. GSP import situation, 1993

U.S. imports and share of U.S. consumption, 1993

Item	Imports 1,000 dollars	Percent of total imports	Percent of GSP imports	Percent of U.S. consumption
Grand total	16,169	100	(¹)	86
Imports from GSP countries:				
GSP total	12,219	76	100	65
Thailand ²	8,998	56	74	48
Mexico ³	2,662	16	22	14
Philippines	276	2	2	1
India	155	1	1	1
Other	128	1	1	1

¹ Not applicable.

² Thailand continues to be a GSP designated country, although they lost their eligibility for duty-free treatment for articles in this subheading as of July 1, 1989.

³ As of January 1, 1994, Mexico is no longer a GSP designated country. However, imports continue to enter free of duty under the North American Free-Trade Agreement.

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

Comment.--Thailand was both the top GSP supplier and the leading overall supplier of U.S. imports of artificial flowers and plants of paper, silk, metal foil, and shells in 1993. Combined, Thailand and Mexico accounted for 96 percent of GSP country imports and for 72 percent of total imports of the subject artificial flowers. China was the second largest source of U.S. imports of the articles covered in this digest accounting for 17 percent (\$2.8 million) of the total in 1993. U.S. imports of certain artificial flowers from Mexico enter duty free under the NAFTA.

IV. Competitiveness profiles, GSP suppliers

Competitiveness indicators for Thailand for all digest products

Ranking as a U.S. import supplier, 1993. 1

Price elasticity:

Can the U.S. purchaser easily shift among this and other suppliers? Yes X No

What is the price elasticity of U.S. demand? High X Moderate Low

Can production in the country be easily expanded or contracted
in the short term? Yes X No

Does the country have significant export markets besides the
United States? Yes X No

Could exports from the country be readily redistributed among
its foreign export markets? Yes X No

What is the price elasticity of import supply? High X Moderate Low

Price level compared with--

U.S. products. Above Equivalent Below X

Other foreign products Above Equivalent Below X

Quality compared with--

U.S. products. Above Equivalent Below X

Other foreign products Above Equivalent Below X

Comment.--U.S. producers of artificial flowers and plants of paper, silk, metal foil, and shells do not compete directly with producers located in Thailand. Virtually all of U.S. production is made by individual artisans that sell to local craft fairs. These items are of a higher quality and price than their imported counterparts from Thailand. Most U.S. imports of artificial flowers from Thailand are of inexpensive hand-wrapped paper poinsettia, roses, and irises, and moderately priced artificial flowers of silk. Silk flowers produced in Thailand are of a lower quality and price than those produced in China and Mexico. Chinese producers of silk flowers offer a better quality and a wider variety of flowers than producers located in Thailand. A substantial portion of U.S. imports of silk flowers from Mexico is accounted for by firms hand assembling flowers from top quality U.S.-made parts. Mexico accounts for a modest amount of U.S. imports of paper flowers. Because their production runs are smaller, Mexican producers of paper flowers are not as cost efficient as those in Thailand. However, producers located in Mexico can offer shorter delivery times than Thai producers owing to proximity.

V. Position of interested parties

Support.--The Government of Thailand states that the granting of the waiver of the competitive need limits with respect to the subject articles from Thailand is unlikely to have any adverse effect on the U.S. industry. The Government of Thailand asserts that it has taken numerous actions to improve its protection of intellectual property rights in order to correct the problems that led to the 1989 decision to revoke GSP benefits for artificial flowers from Thailand.

The American Yazaki Corporation (American Yazaki), a Japanese-based automobile parts supplier with manufacturing facilities in North America and Thailand, also indicated support for a waiver of the competitive need limits for each of the products included in this review. American Yazaki states that the GSP program encourages economic growth and permits such developing countries as Thailand to compete more effectively with industrialized nations of the world.

VI. Summary of probable economic effect advice--competitive-need-limit waiver (Thailand)

* * * * *

Table 1.
Digest title: Certain artificial flowers
U.S. imports for consumption, principal sources, 1989-93, January-June 1993-94

Source	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Thailand.....	298	429	2,569	4,007	8,998	4,827	3,835
China.....	487	2,014	1,764	2,964	2,807	1,505	1,223
Mexico.....	18	50	1,291	2,481	2,662	340	1,862
Taiwan.....	67	141	560	811	527	114	366
Philippines.....	16	65	254	388	276	406	116
Hong Kong.....	13	51	108	207	263	113	129
India.....	1/	25	136	119	155	94	95
United Kingdom...	0	2	46	12	136	2	2
Japan.....	2	5	71	43	69	21	29
Korea.....	70	101	434	145	51	43	20
Macao.....	24	92	11	10	41	0	41
Indonesia.....	1	1/	10	7	38	1	4
Czech Republic...	0	0	0	0	35	0	35
Italy.....	1	1	22	23	21	19	14
Haiti.....	4	1	15	10	18	0	9
All other.....	23	63	329	257	72	28	15
Total.....	1,025	3,039	7,619	11,483	16,169	7,512	7,794
GSP Total.....	371	703	4,518	7,226	12,219	5,677	5,966
Percent							
Thailand.....	29.1	14.1	33.7	34.9	55.6	64.3	49.2
China.....	47.5	66.3	23.1	25.8	17.4	20.0	15.7
Mexico.....	1.8	1.7	16.9	21.6	16.5	4.5	23.9
Taiwan.....	6.6	4.6	7.3	7.1	3.3	1.5	4.7
Philippines.....	1.6	2.1	3.3	3.4	1.7	5.4	1.5
Hong Kong.....	1.2	1.7	1.4	1.8	1.6	1.5	1.6
India.....	1/	.8	1.8	1.0	1.0	1.3	1.2
United Kingdom...	.0	.1	.6	.1	.8	1/	1/
Japan.....	.1	.2	.9	.4	.4	.3	.4
Korea.....	6.8	3.3	5.7	1.3	.3	.6	.3
Macao.....	2.4	3.0	.1	.1	.3	.0	.5
Indonesia.....	.1	1/	.1	.1	.2	1/	.1
Czech Republic...	.0	.0	.0	.0	.2	.0	.5
Italy.....	.1	1/	.3	.2	.1	.2	.2
Haiti.....	.4	1/	.2	.1	.1	.0	.1
All other.....	2.2	2.1	4.3	2.2	.4	.4	.2
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	36.2	23.1	59.3	62.9	75.6	75.6	76.5

1/ Less than \$500 or less than 0.05 percent.

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

Table 2.
Digest title: Certain artificial flowers
U.S. exports of domestic merchandise, by principal markets, 1989-93, January-June 1993-94

Market	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Mexico.....	48	44	49	67	82	48	45
Argentina.....	0	1/	5	30	44	33	11
Canada.....	7	41	48	46	44	30	18
Brazil.....	1/	1/	1	7	17	16	8
Venezuela.....	1	1	4	18	17	11	8
Taiwan.....	6	2	2	2	14	3	3
Colombia.....	4	2	4	8	5	2	3
Hong Kong.....	3	1	1	4	4	1	1
Korea.....	0	0	2	0	4	1/	4
Japan.....	4	7	8	5	4	1	1
Costa Rica.....	1/	1	1/	1/	2	1/	0
Czech Republic...	0	0	0	0	2	0	1
Russia.....	0	0	0	1	2	1	1
Panama.....	1	2	3	2	2	1	1
Ecuador.....	0	1/	0	1	2	3	1
All other.....	17	16	18	21	23	8	11
Total.....	91	117	146	212	270	161	118
GSP Total.....	60	56	76	144	188	121	84
Percent							
Mexico.....	53.4	37.3	33.9	31.8	30.5	30.0	38.1
Argentina.....	.0	1/	3.1	14.0	16.4	20.8	9.3
Canada.....	7.7	35.0	33.0	21.5	16.2	19.0	15.0
Brazil.....	1/	1/	.7	3.2	6.5	9.7	7.1
Venezuela.....	1.0	.6	3.0	8.7	6.3	6.8	7.2
Taiwan.....	6.2	1.8	1.7	.7	5.3	1.9	3.0
Colombia.....	4.4	2.1	2.5	3.9	2.0	1.4	2.9
Hong Kong.....	3.2	1.2	.7	1.7	1.6	.4	1.0
Korea.....	.0	.0	1.2	.0	1.4	1/	3.3
Japan.....	4.0	5.6	5.7	2.6	1.3	.9	1.0
Costa Rica.....	1/	.6	1/	1/	.9	1/	.0
Czech Republic...	.0	.0	.0	.0	.9	.0	.4
Russia.....	.0	.0	.0	.3	.9	.9	1.1
Panama.....	.9	1.6	2.2	.9	.8	.8	.8
Ecuador.....	.0	1/	.0	.6	.8	2.0	.6
All other.....	18.6	13.7	12.1	10.0	8.4	5.3	9.3
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	65.9	47.9	52.0	68.1	69.5	75.0	71.2

1/ Less than \$500 or less than 0.05 percent.

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

DIGEST NO. 7113.11.20

CERTAIN SILVER JEWELRY

Certain Silver Jewelry

I. Introduction

 Addition to GSP Removal from GSP _____

X Competitive-need-limit waiver Thailand

HTS subheading	Short description	Col. 1 rate of duty (1/1/94) <i>Percent ad valorem</i>	Like or directly competitive article produced in the United States on Jan. 3, 1985?
7113.11.20 ¹	Silver jewelry valued not over \$18 per dozen pieces	27.5%	Yes

¹ Thailand has been proclaimed by the President as noneligible for GSP treatment for articles included under HTS subheading 7113.11.20.

Description and uses.--The jewelry products of silver covered in this digest consist principally of rings, earrings, bracelets, and pendants. Other articles include key chains, collar pins and clips, tie pins and clips, dress studs, and military, fraternal, and similar emblems. Necklaces and neck chains of silver are not included. The subject silver jewelry is used for personal adornment and is generally lower priced than jewelry of gold or platinum.

II. U.S. market profile

Profile of U.S. industry and market, 1989-93

Item	1989	1990	1991	1992	1993
Producers (<i>number</i>)	70	65	70	75	70
Employment (<i>1,000 employees</i>)	2	2	2	2	2
Shipments (<i>1,000 dollars</i>)	199,000	195,000	200,000	205,000	210,000
Exports (<i>1,000 dollars</i>)	2,975	2,867	3,464	4,277	2,903
Imports (<i>1,000 dollars</i>)	12,560	8,878	11,895	14,094	15,701
Consumption (<i>1,000 dollars</i>)	208,585	201,191	208,431	214,817	222,798
Import-to-consumption ratio (<i>percent</i>)	6	5	6	7	7
Capacity utilization (<i>percent</i>)	60	60	60	62	63

Comment.--Since the 1970s, the U.S. market for jewelry has been the world's largest and has continued to grow during the last 5 years. Demand for jewelry is expected to remain stable, with jewelry remaining a favorite gift item. Although classified in the HTS as precious metal jewelry due to silver content, the bulk of these products are generally marketed and distributed in the same manner as higher priced costume jewelry. Domestic manufacturers, the majority of which are firms with 20 or fewer employees, usually purchase raw materials, parts, and services from firms that stamp or cast the metal into rods, rolls, or rough pieces, or firms that manufacture chain or findings (standardized parts used in manufacture or repair). Domestic producers, located principally in the Northeast, rely on a concentration of trained jewelry workers and parts suppliers and tend toward more traditional casting and production methods than foreign suppliers in Thailand, Mexico, and India. U.S. producers of the subject products maintain a competitive advantage over imports of silver jewelry from GSP countries in the styling, overall availability of product, shorter delivery time, and in historical supplier relationships. Domestic products are generally more fashion oriented, whereas most imports of such jewelry are normally considered to be souvenir or keepsake items or jewelry for children.

III. GSP import situation, 1993

U.S. imports and share of U.S. consumption, 1993

Item	Imports 1,000 dollars	Percent of total imports	Percent of GSP imports	Percent of U.S. consumption
Grand total.	15,701	100	(¹)	7
Imports from GSP countries:				
GSP total.	12,617	80	100	6
Thailand ²	8,658	55	69	4
Mexico ³	1,989	13	16	1
India.	762	5	6	(⁴)
Indonesia.	731	5	6	(⁴)
Other.	477	3	4	(⁴)

¹ Not applicable.

² Thailand continues to be a GSP designated country, although they lost their eligibility for duty-free treatment for articles in this subheading as of July 1, 1989.

³ As of January 1, 1994, Mexico is no longer a GSP designated country. However, imports continue to enter free of duty under the North American Free-Trade Agreement.

⁴ Less than 0.5 percent.

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

Comment.--U.S. imports of silver jewelry valued not over \$18 per dozen pieces generally compete with U.S.-made silver jewelry of souvenir quality. U.S. imports from Thailand represent a small share of the value of U.S. consumption. The bulk of imports of these products consist of lighter weight bracelets, rings, and earrings and are generally not considered directly competitive with the more highly styled, heavier U.S.-made products. U.S. imports from Italy are more competitive with U.S. products in terms of styling. Imports from Mexico, which represent about 1 percent of U.S. consumption, enter duty free under the NAFTA.

IV. Competitiveness profiles, GSP suppliers

Competitiveness indicators for Thailand for all digest products

Ranking as a U.S. import supplier, 1993. 1

Price elasticity:

Can the U.S. purchaser easily shift among this and other suppliers? Yes No

What is the price elasticity of U.S. demand? High Moderate Low

Can production in the country be easily expanded or contracted
in the short term? Yes No

Does the country have significant export markets besides the
United States? Yes No

Could exports from the country be readily redistributed among
its foreign export markets? Yes No

What is the price elasticity of import supply? High Moderate Low

Price level compared with--

U.S. products. Above Equivalent Below

Other foreign products Above Equivalent Below

Quality compared with--

U.S. products. Above Equivalent Below

Other foreign products Above Equivalent Below

Comment.--U.S. imports of these products from Thailand consist primarily of rings, earrings, and bracelets and may be set with semiprecious stones. The jewelry industry in Thailand produces a limited number of styles of lower priced products and concentrates on the marketing of such products in the United States. In addition to favorable tax incentives from the Government of Thailand and strong support from Thailand's Export Promotion Board for such production and export, the industry benefits from lower wage rates relative to U.S. producers and suppliers in Italy, abundant raw materials (in the case of gemstones) or ease of access to raw material, and increased use of technology in the production process. The limited number of products manufactured by the Thai industry also results in design costs that are lower than those of producers in the United States and of some other major suppliers. Suppliers in Thailand are generally more competitive in the lower priced segment of the silver jewelry market, which tends to focus on souvenirs, keepsakes, or children's jewelry. Until recently, import restrictions on silver in Mexico, India, and Indonesia have driven up raw material costs for jewelry producers in those countries and contributed to higher international prices for silver jewelry from Mexico, India, and Indonesia than for jewelry of comparable quality from Thailand. Furthermore, producers in Thailand have had a more focused export strategy than competitors in Mexico, India, and Indonesia and have better developed channels of distribution in foreign markets. U.S. production is more significant in the fashion-oriented segment (medium to higher priced, relative to the souvenir sector), with more emphasis on heavier, more intricately styled products and less emphasis on inclusion of gemstones.

V. Position of interested parties

Support.--The Government of Thailand supports a waiver of the competitive need limit for jewelry products since U.S. imports of such jewelry products from Thailand are largely sold in the lower priced jewelry market and are generally not comparable to domestically produced jewelry in appearance, price, or quality.

American Yazaki Corporation (American Yazaki), a Japanese-based automobile parts supplier with manufacturing facilities in North America and Thailand, also indicated support for a waiver of the competitive need limits for each of the products included in this review. American Yazaki states that the GSP program encourages economic growth and permits developing countries, such as Thailand, to compete more effectively with industrialized nations of the world.

VI. Summary of probable economic effect advice--competitive-need-limit waiver (Thailand)

* * * * *

Table 1.
Digest title: Certain silver jewelry
U.S. Imports for consumption, principal sources, 1989-93, January-June 1993-94

Source	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Thailand.....	7,557	4,316	6,060	8,693	8,658	3,961	3,655
Italy.....	2,642	1,993	2,251	1,799	2,026	580	1,052
Mexico.....	1,102	1,255	2,077	1,741	1,989	851	985
India.....	135	168	266	489	762	433	399
Indonesia.....	324	207	253	317	731	529	218
China.....	330	337	425	453	483	229	160
Hong Kong.....	23	84	97	83	239	64	57
Canada.....	8	0	56	15	128	22	2
Brazil.....	8	0	6	96	101	112	71
Mauritius.....	38	133	39	82	100	133	56
Finland.....	0	0	0	4	63	8	7
Czech Republic...	0	0	0	0	58	122	0
Poland.....	0	0	0	11	44	29	0
Germany.....	28	14	7	30	43	26	7
Sri Lanka.....	68	63	78	38	42	23	24
All other.....	296	310	278	243	232	122	84
Total.....	12,560	8,878	11,895	14,094	15,701	7,245	6,779
GSP Total.....	9,333	6,317	8,929	11,566	12,617	6,180	5,462
Percent							
Thailand.....	60.2	48.6	50.9	61.7	55.1	54.7	53.9
Italy.....	21.0	22.4	18.9	12.8	12.9	8.0	15.5
Mexico.....	8.8	14.1	17.5	12.4	12.7	11.7	14.5
India.....	1.1	1.9	2.2	3.5	4.9	6.0	5.9
Indonesia.....	2.6	2.3	2.1	2.2	4.7	7.3	3.2
China.....	2.6	3.8	3.6	3.2	3.1	3.2	2.4
Hong Kong.....	.2	.9	.8	.6	1.5	.9	.8
Canada.....	.1	.0	.5	.1	.8	.3	1/
Brazil.....	.1	.0	.1	.7	.6	1.5	1.0
Mauritius.....	.3	1.5	.3	.6	.6	1.8	.8
Finland.....	.0	.0	.0	1/	.4	.1	.1
Czech Republic...	.0	.0	.0	.0	.4	1.7	.0
Poland.....	.0	.0	.0	.1	.3	.4	.0
Germany.....	.2	.2	.1	.2	.3	.4	.1
Sri Lanka.....	.5	.7	.7	.3	.3	.3	.4
All other.....	2.4	3.5	2.3	1.7	1.5	1.7	1.2
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	74.3	71.2	75.1	82.1	80.4	85.3	80.6

1/ Less than \$500 or less than 0.05 percent.

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

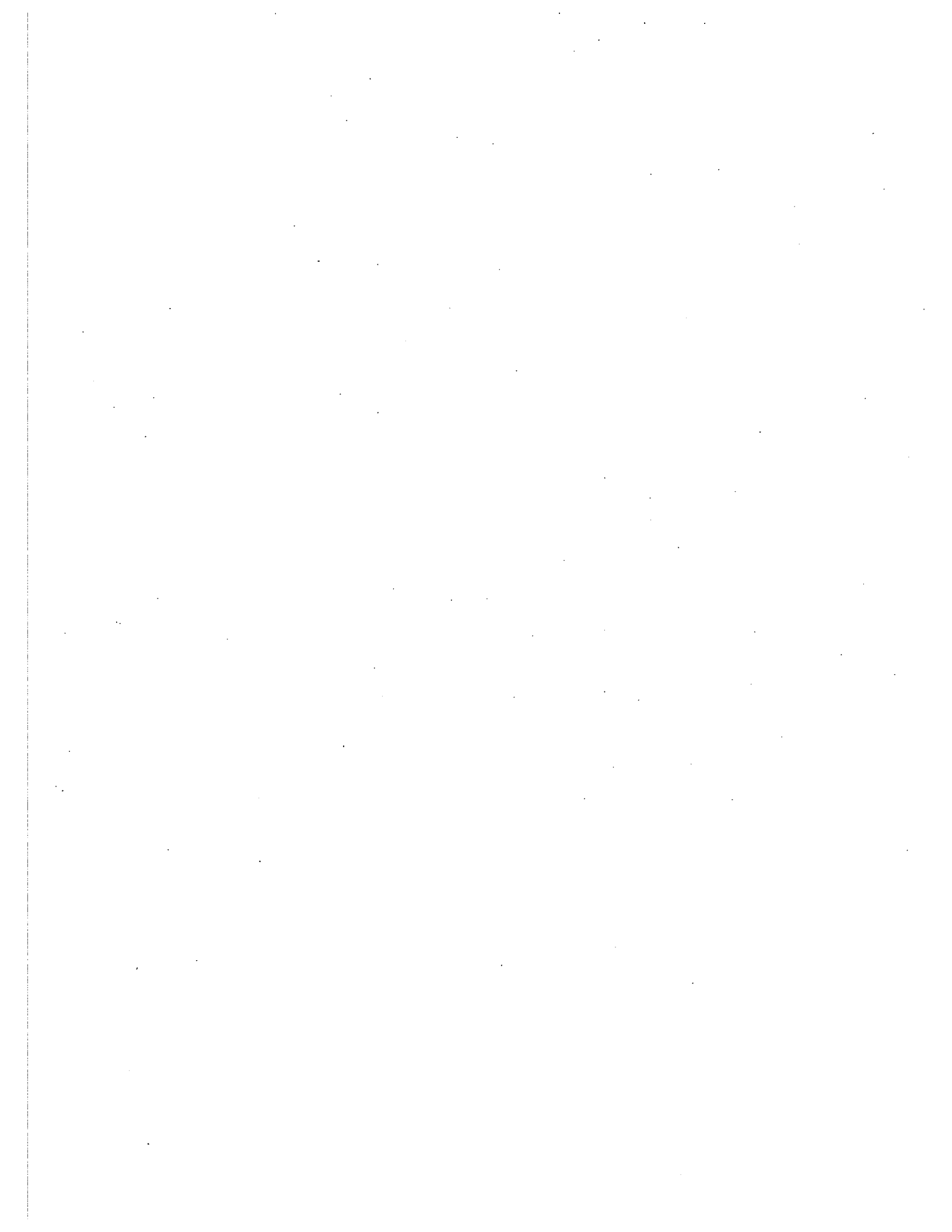
Table 2.
Digest title: Certain silver jewelry
U.S. exports of domestic merchandise, by principal markets, 1989-93, January-June 1993-94

Market	1989	1990	1991	1992	1993	January-June	
						1993	1994
Value (1,000 dollars)							
Germany.....	189	134	303	456	448	168	262
Japan.....	1,568	1,102	1,587	1,908	420	185	253
Canada.....	127	72	159	164	289	251	110
Hong Kong.....	238	158	61	163	267	114	157
United Kingdom...	155	277	174	96	216	88	149
Netherlands Ant..	36	228	336	133	188	74	118
Colombia.....	1	10	66	116	154	79	62
Russia.....	0	0	0	25	95	12	52
Taiwan.....	9	15	9	45	81	11	64
Bermuda.....	44	11	26	29	70	38	40
France.....	26	51	50	227	69	12	44
Jamaica.....	19	31	56	40	56	6	28
Thailand.....	188	267	63	125	51	10	34
Australia.....	10	26	22	40	50	14	34
Aruba.....	13	118	96	58	41	9	36
All other.....	352	368	457	651	407	180	234
Total.....	2,975	2,867	3,464	4,277	2,903	1,253	1,677
GSP Total.....	371	774	756	730	700	263	425
Percent							
Germany.....	6.4	4.7	8.7	10.7	15.4	13.4	15.6
Japan.....	52.7	38.4	45.8	44.6	14.5	14.8	15.1
Canada.....	4.3	2.5	4.6	3.8	9.9	20.0	6.5
Hong Kong.....	8.0	5.5	1.8	3.8	9.2	9.1	9.4
United Kingdom...	5.2	9.7	5.0	2.2	7.5	7.0	8.9
Netherlands Ant..	1.2	8.0	9.7	3.1	6.5	5.9	7.0
Colombia.....	1/	.4	1.9	2.7	5.3	6.3	3.7
Russia.....	.0	.0	.0	.6	3.3	1.0	3.1
Taiwan.....	.3	.5	.2	1.1	2.8	.9	3.8
Bermuda.....	1.5	.4	.8	.7	2.4	3.1	2.4
France.....	.9	1.8	1.4	5.3	2.4	1.0	2.6
Jamaica.....	.6	1.1	1.6	.9	1.9	.5	1.6
Thailand.....	6.3	9.3	1.8	2.9	1.8	.8	2.0
Australia.....	.3	.9	.6	.9	1.7	1.1	2.0
Aruba.....	.4	4.1	2.8	1.4	1.4	.7	2.2
All other.....	11.8	12.8	13.2	15.2	14.0	14.4	13.9
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	12.5	27.0	21.8	17.1	24.1	21.0	25.3

1/ Less than \$500 or less than 0.05 percent.

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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



DIGEST NO. 7113.19.50

CERTAIN GOLD JEWELRY

Certain Gold Jewelry

I. Introduction

Addition to GSP Removal from GSP _____

Competitive-need-limit waiver Thailand

HTS subheading	Short description	Col. 1 rate of duty (1/1/94) <i>Percent ad valorem</i>	Like or directly competitive article produced in the United States on Jan. 3, 1985?
7113.19.50 ¹	Precious metal jewelry, except necklaces	6.5%	Yes

¹ Thailand has been proclaimed by the President as noneligible for GSP treatment for articles included under HTS subheading 7113.19.50.

Description and uses.--The jewelry products covered in this digest include precious metal articles of such personal adornment such as rings, bracelets, earrings, pendants, brooches, and tie pins and clips. Gold, by far, is the most commonly used precious metal for these products, although platinum, other metals of the platinum group (e.g. iridium, osmium, or rhodium), or precious metal alloys clad or plated with gold may also be used.

II. U.S. market profile

Profile of U.S. industry and market, 1989-93

Item	1989	1990	1991	1992	1993
Producers (<i>number</i>)	375	370	370	375	380
Employment (<i>1,000 employees</i>)	12	12	11	11	11
Shipments (<i>1,000 dollars</i>)	1,395,000	1,380,000	1,370,000	1,390,000	1,405,000
Exports (<i>1,000 dollars</i>)	57,264	39,843	44,903	59,191	58,350
Imports (<i>1,000 dollars</i>)	1,363,434	1,452,829	1,480,870	1,751,379	1,921,068
Consumption (<i>1,000 dollars</i>)	2,701,170	2,792,986	2,805,967	3,082,188	3,267,718
Import-to-consumption ratio (<i>percent</i>)	50	52	53	57	59
Capacity utilization (<i>percent</i>)	65	63	63	65	65

Comment.--Since the 1970s, the U.S. market for all precious jewelry has been the world's largest and has grown steadily over the last 5 years. Demand for precious jewelry is based on its value as articles of personal adornment, in part, and on its value as a store of wealth. Precious jewelry has historically retained its value when money or other assets have not, thus creating speculative demand during periods of economic uncertainty. Demand for jewelry is expected to remain stable with jewelry remaining a favorite gift item. Domestic manufacturers, the majority of which are firms with 40 or fewer employees, are somewhat specialized and usually purchase raw materials, parts, and services from suppliers, such as chain manufacturers, stampers, casters, and findings (standardized parts used in manufacture or repair) manufacturers. Domestic producers, located principally in the Northeast, rely on a concentration of trained jewelry workers and parts suppliers and tend toward more traditional casting and production methods than those used by some major foreign suppliers. U.S. producers of the subject products maintain a competitive advantage over most types of precious metal jewelry in the medium-to-high price range (other than from Italy) in the styling, overall availability of product, shorter delivery time, and in historical supplier relationships. Imports of precious jewelry from Hong Kong tend to be more competitive in the

II. U.S. market profile--Continued

medium-to-high price precious metal jewelry that contains gemstones. The precious metal jewelry industry in Thailand concentrates on production of a limited number of products, most of which contain gemstones, and generally supply the lower price range of the U.S. jewelry market.

III. GSP import situation, 1993

U.S. imports and share of U.S. consumption, 1993

Item	Imports 1,000 dollars	Percent of total imports	Percent of GSP imports	Percent of U.S. consumption
Grand total	1,921,068	100	(1)	59
Imports from GSP countries:				
GSP total	792,211	41	100	24
Thailand ²	228,493	12	29	7
Israel ³	169,653	9	22	5
India ⁴	126,826	7	16	4
Dominican Republic	63,982	3	8	2
Other	203,257	11	26	6

¹ Not applicable.

² Thailand continues to be a GSP designated country, although they lost their eligibility for duty-free treatment for articles in this subheading as of July 1, 1988.

³ Israel has been declared ineligible for GSP benefits under this HTS subheading.

⁴ India has been declared ineligible for GSP benefits under this HTS subheading.

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

Comment.--U.S. imports of certain gold jewelry from GSP countries represent nearly one-fourth of U.S. consumption of these products. A substantial portion of the imports from the GSP countries are subject to reduced duties or duty-free entry under other preferential tariff programs. Imports from Israel (22 percent of imports from GSP eligible countries in 1993) enter duty-free under the U.S.-Israel Free-Trade Area Implementation Act. Imports from the Dominican Republic and Costa Rica (11 percent of GSP imports) are entitled to duty-free entry under the Caribbean Basin Economic Recovery Act (CBERA). Imports of such jewelry products from other GSP suppliers, such as Bolivia and Peru (6 percent of GSP imports), qualify for duty-free entry under the Andean Trade Preference Act (ATPA).

Italy was the major supplier of U.S. imports of gold jewelry, other than necklaces in 1993 and accounted for 39 percent of the value of total imports. The precious jewelry industry in Italy effectively competes worldwide on the basis of styling and quality. U.S imports of the subject jewelry from Italy consist principally of gold bracelets and rings. Products from GSP countries generally compete more effectively in terms of price, and the product selection is generally limited. The bulk of such jewelry products from Thailand are rings, earrings, and bracelets that contain gemstones, whereas most imports from Israel and the Dominican Republic are bracelets. These products tend to be simpler in style and lighter in weight than those from Italy and those produced in the United States.

IV. Competitiveness profiles, GSP suppliers

Competitiveness indicators for Thailand for all digest products

Ranking as a U.S. import supplier, 1993. 2

Price elasticity:

Can the U.S. purchaser easily shift among this and other suppliers? Yes No

What is the price elasticity of U.S. demand? High Moderate Low

Can production in the country be easily expanded or contracted
in the short term? Yes No

Does the country have significant export markets besides the
United States? Yes No

Could exports from the country be readily redistributed among
its foreign export markets? Yes No

What is the price elasticity of import supply? High Moderate Low

Price level compared with--

U.S. products. Above Equivalent Below

Other foreign products Above Equivalent Below

Quality compared with--

U.S. products. Above Equivalent Below

Other foreign products Above Equivalent Below

Comment.--U.S. imports of these products from Thailand consist primarily of rings, earrings, and bracelets. Most of these products are set with gemstones. The jewelry industry in Thailand produces limited styles of lower priced products and concentrates on the marketing of such products in the United States. In addition to favorable tax incentives from the Government of Thailand for such production and export, the industry benefits from lower wage rates relative to some other suppliers, abundant raw materials (in the case of gemstones) or ease of access to raw material, and increased use of technology in the production process. The limited number of products manufactured by the Thai industry also results in design costs that are lower than those of producers in the United States and of some other major suppliers. Suppliers in Thailand are generally more competitive in the lower priced precious jewelry, and they attempt to provide better and more timely service on their products than other foreign suppliers. Domestic production is more significant in the medium to higher priced jewelry, with more emphasis on precious metal products and less emphasis on gemstones (other than diamonds).

In an effort to reduce production costs and assure better supply and quality control, some U.S. retailers and producers have established joint ventures or assembly operations in Thailand. Certain jewelry parts (principally setting for rings and findings for earrings) are sent to Thailand to be manually assembled or to be incorporated into finished pieces. Some U.S. producers and retailers use Thai facilities to assemble jewelry containing gemstones and thus complement their own product lines.

V. Position of interested parties

Support--The Government of Thailand supports a waiver of the competitive need limit for jewelry products. According to the Thai Government, U.S. imports of such jewelry products from Thailand are largely sold in the lower priced jewelry market and are generally not comparable to domestically produced jewelry in appearance, price, or quality.

American Yazaki Corporation (American Yazaki), a Japanese-based automobile parts supplier with manufacturing facilities in North America and Thailand, also indicated support for a waiver of all competitive need limits for each of the products included in this review. American Yazaki states that the GSP program encourages economic growth and permits developing countries, such as Thailand, to compete more effectively with industrialized nations of the world.

VI. Summary of probable economic effect advice--competitive-need-limit waiver (Thailand)

* * * * *

Table 1.
Digest title: Certain gold jewelry
U.S. imports for consumption, principal sources, 1989-93, January-June 1993-94

Source	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Italy.....	638,305	616,844	613,062	722,908	747,297	314,387	372,870
Thailand.....	133,403	156,886	155,743	180,370	228,493	92,123	92,303
Hong Kong.....	230,004	238,215	200,948	196,648	219,009	96,410	83,558
Israel.....	85,043	101,581	163,109	220,551	169,653	58,852	89,917
India.....	32,980	54,469	81,118	106,227	126,826	46,176	68,500
Dominican Rep....	35,193	48,668	37,873	51,930	63,982	29,853	27,908
Canada.....	10,357	15,054	23,033	21,942	45,109	23,329	17,937
Mexico.....	11,474	14,233	16,297	22,549	31,073	17,573	13,697
Turkey.....	13,335	16,182	16,402	18,676	24,292	12,634	13,750
Bolivia.....	73	1,410	3,647	5,517	23,189	39,483	5,032
Costa Rica.....	6,685	4,809	2,444	5,032	22,935	20,962	4,041
Korea.....	10,030	14,870	15,887	18,507	21,142	9,954	9,062
Malta & Gozo.....	1,397	837	4,495	19,209	20,459	5,384	9,834
Peru.....	16,332	19,646	19,845	18,407	20,341	9,563	10,369
France.....	20,324	22,260	16,214	20,189	19,919	7,101	8,901
All other.....	118,499	126,865	110,753	122,716	137,350	72,994	56,101
Total.....	1,363,434	1,452,829	1,480,870	1,751,379	1,921,068	856,777	883,778
GSP Total.....	381,736	468,085	548,057	706,848	792,211	371,970	361,220
Percent							
Italy.....	46.8	42.5	41.4	41.3	38.9	36.7	42.2
Thailand.....	9.8	10.8	10.5	10.3	11.9	10.8	10.4
Hong Kong.....	16.9	16.4	13.6	11.2	11.4	11.3	9.5
Israel.....	6.2	7.0	11.0	12.6	8.8	6.9	10.2
India.....	2.4	3.7	5.5	6.1	6.6	5.4	7.8
Dominican Rep....	2.6	3.3	2.6	3.0	3.3	3.5	3.2
Canada.....	.8	1.0	1.6	1.3	2.3	2.7	2.0
Mexico.....	.8	1.0	1.1	1.3	1.6	2.1	1.5
Turkey.....	1.0	1.1	1.1	1.1	1.3	1.5	1.6
Bolivia.....	1/	.1	.2	.3	1.2	4.6	.6
Costa Rica.....	.5	.3	.2	.3	1.2	2.4	.5
Korea.....	.7	1.0	1.1	1.1	1.1	1.2	1.0
Malta & Gozo.....	.1	.1	.3	1.1	1.1	.6	1.1
Peru.....	1.2	1.4	1.3	1.1	1.1	1.1	1.2
France.....	1.5	1.5	1.1	1.2	1.0	.8	1.0
All other.....	8.7	8.7	7.5	7.0	7.1	8.5	6.3
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	28.0	32.2	37.0	40.4	41.2	43.4	40.9

1/ Less than \$500 or less than 0.05 percent.

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

Table 2.
Digest title: Certain gold jewelry
U.S. exports of domestic merchandise, by principal markets, 1989-93, January-June 1993-94

Market	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Thailand.....	249	339	3,231	10,668	13,304	3,835	5,159
Canada.....	3,632	2,682	3,791	6,583	11,071	5,814	3,198
Switzerland.....	9,557	4,343	4,223	5,392	6,197	4,238	3,388
Japan.....	15,712	9,989	5,135	6,007	3,457	1,398	2,386
Italy.....	946	344	493	1,116	2,543	1,693	2,183
Germany.....	1,074	854	1,934	2,660	2,486	787	1,294
Dominican Rep....	503	197	407	1,483	2,416	2,033	265
Mexico.....	1,381	4,066	4,307	3,247	2,414	1,223	1,208
United Kingdom...	2,176	1,689	1,797	3,011	2,174	855	984
Hong Kong.....	8,275	2,798	2,647	1,850	1,851	887	1,157
Peru.....	90	64	149	504	1,683	2,020	391
Bolivia.....	3,438	3,770	6,036	4,363	1,071	46	824
Netherlands Ant..	284	780	416	1,040	865	679	508
India.....	227	305	397	337	795	205	450
Korea.....	114	405	398	1,142	723	273	485
All other.....	9,607	7,219	9,540	9,787	5,298	2,419	2,655
Total.....	57,264	39,843	44,903	59,191	58,350	28,407	26,538
GSP Total.....	12,383	13,804	20,510	28,174	25,282	11,420	9,997
Percent							
Thailand.....	.4	.9	7.2	18.0	22.8	13.5	19.4
Canada.....	6.3	6.7	8.4	11.1	19.0	20.5	12.1
Switzerland.....	16.7	10.9	9.4	9.1	10.6	14.9	12.8
Japan.....	27.4	25.1	11.4	10.1	5.9	4.9	9.0
Italy.....	1.7	.9	1.1	1.9	4.4	6.0	8.2
Germany.....	1.9	2.1	4.3	4.5	4.3	2.8	4.9
Dominican Rep....	.9	.5	.9	2.5	4.1	7.2	1.0
Mexico.....	2.4	10.2	9.6	5.5	4.1	4.3	4.6
United Kingdom...	3.8	4.2	4.0	5.1	3.7	3.0	3.7
Hong Kong.....	14.5	7.0	5.9	3.1	3.2	3.1	4.4
Peru.....	.2	.2	.3	.9	2.9	7.1	1.5
Bolivia.....	6.0	9.5	13.4	7.4	1.8	.2	3.1
Netherlands Ant..	.5	2.0	.9	1.8	1.5	2.4	1.9
India.....	.4	.8	.9	.6	1.4	.7	1.7
Korea.....	.2	1.0	.9	1.9	1.2	1.0	1.8
All other.....	16.8	18.1	21.2	16.5	9.1	8.5	10.0
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	21.6	34.6	45.7	47.6	43.3	40.2	37.7

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

DIGEST NO. 9403.60.80

CERTAIN WOODEN HOUSEHOLD FURNITURE

Certain Wooden Household Furniture

I. Introduction

Addition to GSP Removal from GSP _____

Competitive-need-limit waiver Thailand

HTS subheading	Short description	Col. 1 rate of duty (1/1/94) <i>Percent ad valorem</i>	Like or directly competitive article produced in the United States on Jan. 3, 1985?
9403.60.80 ¹	Wooden household furniture other than kitchen, bedroom, or seating	2.5%	Yes

¹Thailand has been proclaimed by the President as non-eligible for GSP treatment for articles included under HTS subheading 9403.60.80

Description and uses.--Wood household furniture for the living room, dining room, and playroom, consist of a broad array of products including bookcases, magazine racks, desks, dining room tables, buffets, occasional tables, home-entertainment cabinets, and china cabinets.

II. U.S. market profile

Profile of U.S. industry and market, 1989-93

Item	1989	1990	1991	1992	1993
Producers (<i>number</i>)	900	880	850	850	880
Employment (<i>1,000 employees</i>)	40	39	38	37	37
Shipments (<i>1,000 dollars</i>)	2,830,000	2,825,000	2,735,000	2,820,000	2,900,000
Exports (<i>1,000 dollars</i>)	134,307	192,070	253,305	293,492	339,720
Imports (<i>1,000 dollars</i>)	990,004	968,622	929,045	973,896	1,162,014
Consumption (<i>1,000 dollars</i>)	3,685,697	3,601,552	3,410,740	3,480,404	3,722,294
Import-to-consumption ratio (<i>percent</i>)	27	27	27	28	31
Capacity utilization (<i>percent</i>)	82	82	81	83	83

Comment.--The U.S. market for wood living room, dining room, and playroom furniture has been fairly stable during the past 5 years as the ratio of imports to consumption climbed slightly to 31 percent. Most U.S. consumption is of fully assembled furniture of solid wood. International trade in this type of furniture is limited by high transportation costs. Foreign competition is stronger in ready-to-assemble (RTA) furniture because transportation costs are significantly lower. U.S. producers are highly efficient manufacturers of both fully assembled and RTA furniture. They have access to large quantities of competitively priced lumber and automated methods of manufacturing.

U.S. producers of RTA furniture compete with those in Thailand on the basis of quality. U.S. manufacturers offer a wider product line than Thai producers do, and many U.S. consumers prefer the high-tech look of the RTA plastic-coated multidensity fiber board (MDF) furniture made by U.S. producers over the RTA furniture of rubber wood provided by Thai producers. Furniture producers in Thailand have access to considerable sources of lumber as well as a highly trained and low-cost labor force. The furniture industries located in the GSP beneficiary countries of Malaysia, Indonesia, and the Philippines are comparable to those in Thailand.

III. GSP import situation, 1993

U.S. imports and share of U.S. consumption, 1993

Item	Imports 1,000 dollars	Percent of total imports	Percent of GSP imports	Percent of U.S. consumption
Grand total	1,162,014	100	(¹)	31
Imports from GSP countries:				
GSP total	335,411	29	100	8
Mexico ²	78,542	7	23	2
Thailand ³	74,905	6	22	2
Malaysia	64,349	6	19	2
Indonesia	50,201	4	15	1
Other	67,414	6	20	2

¹ Not applicable.

² As of January 1, 1994, Mexico is no longer a GSP designated country. However, imports continue to enter free of duty under the North American Free-Trade Agreement.

³ Thailand continues to be a GSP designated country, although they lost their eligibility for duty-free treatment for articles in this subheading as of July 1, 1989.

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

Comment.--Thai and other GSP producers in East Asia cannot manufacture RTA furniture comparable to that of MDF furniture that is produced in the United States. MDF is made from a compressed and hardened slurry of soft-wood fibers and glue. East Asian producers do not have a low-cost supply of soft-wood trees (coniferous) that contain the long fibers needed for cost-efficient production of MDF. However, Thai and other East Asian producers have access to reliable sources of rubber wood. U.S. imports of RTA furniture from the GSP countries of Thailand, Malaysia, and Indonesia are generally low to medium priced, as are those from China. U.S. imports from Taiwan are of mid-to-upper priced RTA furniture of rubber wood.

The bulk of U.S. imports of furniture from Canada and Mexico is of fully assembled wood furniture. The fully assembled furniture provided by Mexico is of such labor-intensive articles as highly carved cabinets and chests of drawers. U.S. imports from Canada are of such highly finished styles as "modified European contemporary" furniture. Canadian producers can provide this type of furniture to the U.S. market at a lower price than their European competitors because they have greater access to lumber and significantly lower transportation costs owing to proximity. Generally, Mexican producers cannot compete with Canadian producers because their wood finishes tend to be cloudy; quality control standards are not as strict; and the level of manufacturing technology is low. The Mexican furniture industry's competitive strength lies in its access to a highly skilled yet lower cost labor force and in its proximity to the United States. U.S. imports of furniture from Mexico enter duty free.

IV. Competitiveness profiles, GSP suppliers

Competitiveness indicators for Thailand for all digest products

Ranking as a U.S. import supplier, 1993. 5

Price elasticity:

Can the U.S. purchaser easily shift among this and other suppliers? Yes X No

What is the price elasticity of U.S. demand? High X Moderate Low

Can production in the country be easily expanded or contracted
in the short term? Yes X No

Does the country have significant export markets besides the
United States? Yes X No

Could exports from the country be readily redistributed among
its foreign export markets? Yes X No

What is the price elasticity of import supply? High X Moderate Low

Price level compared with--

U.S. products. Above Equivalent Below X

Other foreign products Above Equivalent Below X

Quality compared with--

U.S. products. Above Equivalent Below X

Other foreign products Above Equivalent Below X

Comment.--U.S. producers of fully assembled, wood living-room, dining-room, and playroom furniture generally do not compete with Thai furniture producers. U.S.-made fully assembled furniture pieces are considered permanent display items, whereas U.S. imports of RTA furniture of rubber wood from Thailand are usually lower priced and transportable pieces of furniture.

Thai RTA furniture-manufacturing methods are not as automated as those used in the United States, but labor costs in Thailand are significantly lower. Many U.S. consumers prefer the high-tech look of RTA furniture of plastic-coated MDF made by U.S. producers to the natural look of rubber wood RTA furniture made in Thailand.

Furniture produced in Thailand is of lower quality and price than that produced in Taiwan, Canada, Mexico, and the EU. U.S. imports from Canada, Mexico, and the EU, which accounted for 60 percent of trade, are mostly of mid-to-upper priced, fully assembled furniture. This type of furniture is of a higher quality and price than that provided by producers located in Thailand. RTA furniture producers located in Taiwan have offset their rising labor costs by investing in the most advanced and highly sophisticated wood-working machinery available. Rising labor and material costs have forced Taiwan producers to shift a significant portion of their lower priced production operations to China. Producers in China, Malaysia, and Indonesia, which account for 18 percent of the trade, offer RTA rubber wood furniture that is of comparable quality and price to that produced in Thailand. Methods of manufacture are comparable, as are material and labor costs.

V. Position of interested parties

Support.--The Government of Thailand states that the granting of the waivers of the competitive need limits with respect to the subject articles from Thailand is unlikely to have any adverse effect on the relevant U.S. industries. The Government of Thailand asserts that it has taken numerous actions to improve its protection of intellectual property rights in order to correct the problems that led to the 1989 decision to revoke GSP benefits for certain wood furniture. Thailand accounts for only a small portion of U.S. imports of living room, dining room, and playroom furniture.

The American Yazaki Corporation (American Yazaki), a Japanese-based automobile parts supplier with manufacturing facilities in North America and Thailand, also indicated support for a waiver of the competitive need limits for each of the products included in this review. American Yazaki states that the GSP program encourages economic growth and permits developing countries, such as Thailand, to compete more effectively with industrialized nations of the world.

VI. Summary of probable economic effect advice--competitive-need-limit waiver (Thailand)

* * * * *

Table 1.
Digest title: Certain wooden household furniture
U.S. imports for consumption, principal sources, 1989-93, January-June 1993-94

Source	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Taiwan.....	400,887	354,271	356,088	343,634	354,026	154,257	163,933
Canada.....	94,205	88,395	84,836	106,375	146,362	82,207	62,701
China.....	17,807	23,056	31,268	49,977	99,200	68,954	37,626
Mexico.....	61,660	74,487	75,113	72,998	78,542	37,243	39,312
Thailand.....	33,251	35,834	44,139	54,811	74,905	33,315	32,519
Malaysia.....	6,226	13,638	26,034	37,988	64,349	45,376	23,949
Italy.....	66,077	69,229	54,374	48,393	54,504	34,506	24,155
Denmark.....	58,320	65,044	49,171	55,987	50,945	26,909	24,590
Indonesia.....	2,869	7,952	14,664	24,330	50,201	28,704	20,297
United Kingdom...	24,635	27,059	26,987	25,145	25,950	14,910	11,694
Singapore.....	30,331	24,250	20,997	17,643	22,494	11,843	11,422
Philippines.....	8,401	10,682	14,572	16,261	20,588	11,407	9,015
Brazil.....	8,225	8,736	7,437	12,225	14,011	9,529	6,867
France.....	11,238	12,613	10,494	12,894	12,521	7,079	5,454
Germany.....	22,438	18,290	13,501	9,342	11,103	6,677	4,426
All other.....	143,435	135,086	99,371	85,894	82,315	42,211	39,818
Total.....	990,004	968,622	929,045	973,896	1,162,014	615,128	517,777
GSP Total.....	175,513	206,181	224,868	253,835	335,411	183,015	146,948
Percent							
Taiwan.....	40.5	36.6	38.3	35.3	30.5	25.1	31.7
Canada.....	9.5	9.1	9.1	10.9	12.6	13.4	12.1
China.....	1.8	2.4	3.4	5.1	8.5	11.2	7.3
Mexico.....	6.2	7.7	8.1	7.5	6.8	6.1	7.6
Thailand.....	3.4	3.7	4.8	5.6	6.4	5.4	6.3
Malaysia.....	.6	1.4	2.8	3.9	5.5	7.4	4.6
Italy.....	6.7	7.1	5.9	5.0	4.7	5.6	4.7
Denmark.....	5.9	6.7	5.3	5.7	4.4	4.4	4.7
Indonesia.....	.3	.8	1.6	2.5	4.3	4.7	3.9
United Kingdom...	2.5	2.8	2.9	2.6	2.2	2.4	2.3
Singapore.....	3.1	2.5	2.3	1.8	1.9	1.9	2.2
Philippines.....	.8	1.1	1.6	1.7	1.8	1.9	1.7
Brazil.....	.8	.9	.8	1.3	1.2	1.5	1.3
France.....	1.1	1.3	1.1	1.3	1.1	1.2	1.1
Germany.....	2.3	1.9	1.5	1.0	1.0	1.1	.9
All other.....	14.5	13.9	10.7	8.8	7.1	6.9	7.7
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	17.7	21.3	24.2	26.1	28.9	29.8	28.4

Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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

Table 2.
Digest title: Certain wooden household furniture
U.S. exports of domestic merchandise, by principal markets, 1989-93, January-June 1993-94

Market	January-June						
	1989	1990	1991	1992	1993	1993	1994
Value (1,000 dollars)							
Canada.....	31,999	79,308	107,208	114,815	123,803	59,472	56,315
Saudi Arabia.....	13,240	14,535	20,619	26,754	38,268	15,638	20,432
Mexico.....	15,628	17,352	23,046	33,226	36,260	24,402	17,070
Japan.....	14,876	15,276	17,418	20,469	21,501	14,925	12,254
Russia.....	0	0	0	2,047	10,940	2,118	6,168
Germany.....	3,690	5,582	6,930	9,758	9,189	3,421	4,788
United Kingdom...	7,787	8,991	7,148	9,430	7,631	3,216	3,962
Kuwait.....	1,802	654	5,142	5,710	6,254	3,589	3,026
France.....	4,482	4,196	12,496	6,767	5,967	2,303	3,379
Norway.....	16	72	225	1,900	4,831	2,407	1,975
Netherlands.....	927	1,055	1,823	2,154	4,327	633	2,310
Venezuela.....	102	785	1,671	2,574	3,684	1,373	1,768
Bermuda.....	2,733	4,025	3,726	3,258	3,634	1,519	1,869
United Arab Em...	322	929	1,731	3,710	3,518	2,031	1,845
Bahamas.....	4,716	3,373	3,204	2,391	3,102	512	799
All other.....	31,988	35,936	40,917	48,531	56,809	37,306	26,928
Total.....	134,307	192,070	253,305	293,492	339,720	174,865	164,888
GSP Total.....	33,440	40,767	47,276	60,601	76,057	47,641	34,847
Percent							
Canada.....	23.8	41.3	42.3	39.1	36.4	34.0	34.2
Saudi Arabia.....	9.9	7.6	8.1	9.1	11.3	8.9	12.4
Mexico.....	11.6	9.0	9.1	11.3	10.7	14.0	10.4
Japan.....	11.1	8.0	6.9	7.0	6.3	8.5	7.4
Russia.....	.0	.0	.0	.7	3.2	1.2	3.7
Germany.....	2.7	2.9	2.7	3.3	2.7	2.0	2.9
United Kingdom...	5.8	4.7	2.8	3.2	2.2	1.8	2.4
Kuwait.....	1.3	.3	2.0	1.9	1.8	2.1	1.8
France.....	3.3	2.2	4.9	2.3	1.8	1.3	2.0
Norway.....	1/	1/	.1	.6	1.4	1.4	1.2
Netherlands.....	.7	.5	.7	.7	1.3	.4	1.4
Venezuela.....	.1	.4	.7	.9	1.1	.8	1.1
Bermuda.....	2.0	2.1	1.5	1.1	1.1	.9	1.1
United Arab Em...	.2	.5	.7	1.3	1.0	1.2	1.1
Bahamas.....	3.5	1.8	1.3	.8	.9	.3	.5
All other.....	23.8	18.7	16.2	16.5	16.7	21.3	16.3
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GSP Total.....	24.9	21.2	18.7	20.6	22.4	27.2	21.1

1/ Less than \$500 or less than 0.05 percent.

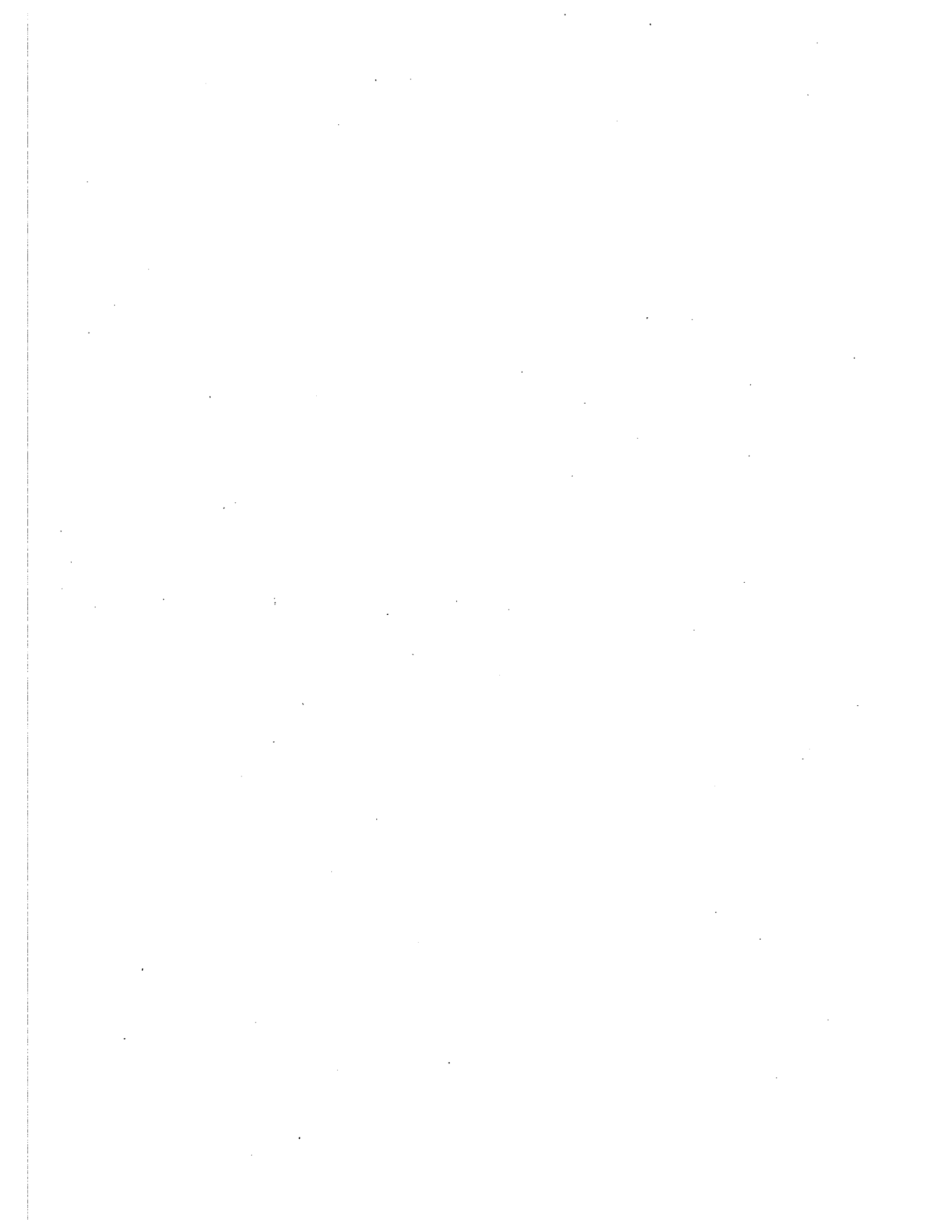
Note.--Because of rounding, figures may not add to totals shown. German trade data for 1989 include data only for the former Federal Republic of Germany (West Germany). German trade data for 1990-94 include data from West Germany in addition to data from the former German Democratic Republic (East Germany) and Berlin.

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



APPENDIX A

United States Trade Representative's Request



THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20508

AUG 16 1994

The Honorable Peter S. Watson
Chairman
International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Chairman Watson:

In 1989, Thailand lost some benefits under the Generalized System of Preferences (GSP) after the President determined that Thailand does not provide adequate and effective intellectual property right (IPR) protection. On August 12, 1994, the Trade Policy Staff Committee initiated a review process to consider whether any of the GSP benefits that were lost by Thailand in 1989 should be restored because of Thai progress on IPR protection.

In order to restore certain of the lost GSP benefits to Thailand, the President would have to grant Thailand a waiver of the so-called competitive need limits under section 504(c)(3) of the Trade Act of 1974 (19 U.S.C. 2464(c)(3)). Section 504(c)(3) requires the President to receive economic advice from the International Trade Commission prior to granting a waiver of the competitive need limits.

Accordingly, under authority delegated by the President, I am hereby requesting that the Commission provide advice, pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) and in accordance with section 504(c)(3), on whether any industry in the United States is likely to be adversely affected by a waiver of the competitive need limits that are set forth in section 504(c)(1) of the Trade Act of 1974 (19 U.S.C. 2464(c)(1)) for Thailand with respect to the articles in subheadings 6702.90.65, 7113.11.20, 7113.19.50 and 9403.60.80 of the Harmonized Tariff Schedule of the United States (HTS).

It would be greatly appreciated if the requested advice could be provided by November 23, 1994. To the maximum extent possible, it would be greatly appreciated if the economic advice, statistics (profile of the United States industry and market and United States import and export data) and any other relevant information could be provided separately and individually for each of the four HTS subheadings in this review.

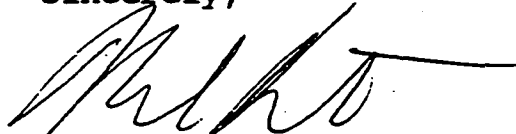
The Honorable Peter S. Watson
Page Two

I direct you to mark as "Confidential" those portions of the Commission's report and related working papers that contain the Commission's advice on the likely adverse effect on United States industries producing like or directly competitive articles and on consumers. All other parts of the report are unclassified, but the overall classification marked on the front and back covers of the report should be "Confidential" to conform with the confidential sections contained therein. All business confidential information contained in the report should be clearly identified.

When the Commission's confidential report is provided to the Office of the U.S. Trade Representative, the Commission should issue, as soon as possible thereafter, a public version of the report containing only the unclassified sections, with any business confidential information deleted.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Kantor", with a long horizontal flourish extending to the right.

Michael Kantor

APPENDIX B

U.S. International Trade Commission Notice of Investigation

**UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.**

(Inv. No. 332-356)

**PRESIDENT'S LIST OF ARTICLES WHICH MAY BE DESIGNATED OR MODIFIED
AS ELIGIBLE ARTICLES FOR PURPOSES OF THE U.S. GENERALIZED SYSTEM OF
PREFERENCES**

AGENCY: United States International Trade Commission

ACTION: Institution of investigation.

Summary: Following receipt on August 16, 1994, of a request from the United States Trade Representative (USTR) for advice pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) and in accordance with section 504(c)(3) of the Trade Act of 1974 (19 U.S.C. 2464(c)(3)), the Commission instituted investigation No. 332-356 under section 332(g) of the Tariff Act of 1930 to provide advice on whether any industry in the United States is likely to be adversely affected by a waiver of the competitive need limits that are set forth in section 504(c)(1) of the Trade Act of 1974 (19 U.S.C. 2464(c)(1)) for Thailand with respect to the articles in subheadings 6702.90.65, 7113.11.20, 7113.19.50, and 9403.60.80 of the Harmonized Tariff Schedule of the United States (HTS).¹

As requested by USTR, the Commission will seek to provide its advice not later than November 23, 1994.

EFFECTIVE DATE: September 2, 1994

FOR FURTHER INFORMATION CONTACT:

- (1) For general information contact Ms. Josephine Spalding-Masgarha, Office of Industries, Minerals, Metals, and Miscellaneous Manufacturers Division, at (202) 205-3498.
- (2) For information on legal aspects of the investigation contact Mr. William Gearhart, Office of the General Counsel, at (202) 205-3091.

BACKGROUND: The letter from the USTR provided the following by way of background:

In 1989, Thailand lost some benefits under the Generalized System of Preferences (GSP) after the President determined that Thailand does not provide adequate and effective intellectual property right (IPR) protection. On August 12, 1994 the Trade Policy Staff Committee initiated a review process to consider whether any of the benefits lost

¹ See USTR Federal Register notice of August 12, 1994 (59 F.R. 41594) for article description.


by Thailand in 1989 should be restored because of Thai progress on IPR protection.

In order to restore certain of the lost GSP benefits to Thailand, the President would have to grant Thailand a waiver of the so-called competitive need limits under section 504(c)(3) of the Trade Act of 1974 (19 U.S.C. 2464(c)(3)). Section 504(c)(3) requires the President to receive economic advice from the International Trade Commission prior to granting a waiver of the competitive need limits.

WRITTEN SUBMISSIONS: Interested persons are invited to submit written statements concerning the investigation. Written statements should be received by the close of business on September 28, 1994. 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 section 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, United States International Trade Commission, 500 E Street, SW., Washington, D.C. 20436.

Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 205-1810.

By order of the Commission.


Donna R. Koehnke
Secretary

Issued: September 6, 1994

APPENDIX C

**Model for Evaluating Probable Economic Effects of
Changes in GSP Status**

Appendix C

Model for Evaluating Probable Economic Effects of Changes in GSP Status

Commission GSP investigations examine the probable economic effects of changing the GSP status of certain commodities and, in some cases, of certain commodities from particular countries. The major cases involve adding products or products from certain countries to the list of articles eligible for GSP duty-free treatment, or removing products or products from certain countries from the eligibility list.

The following model illustrates the case of granting a product GSP duty-free status. The illustration is for a product for which domestic production, GSP imports, and non-GSP imports are imperfect substitutes, and shows the basic results of a tariff removal on a portion of imports.

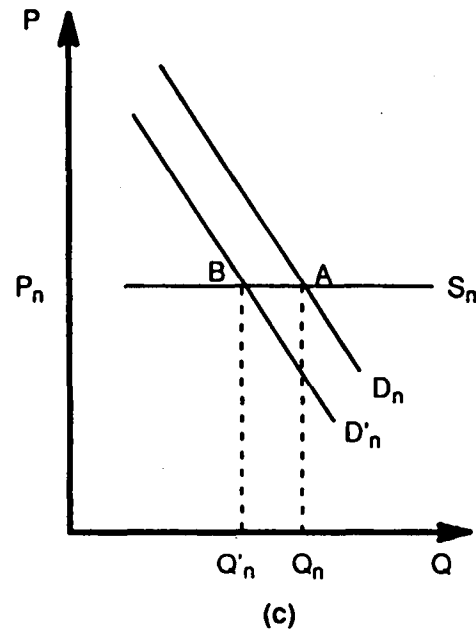
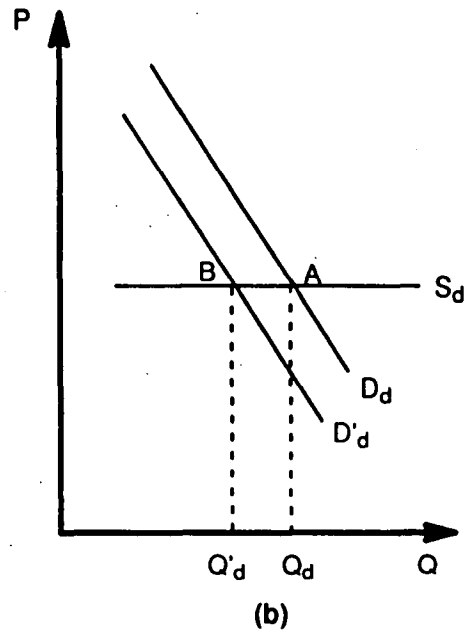
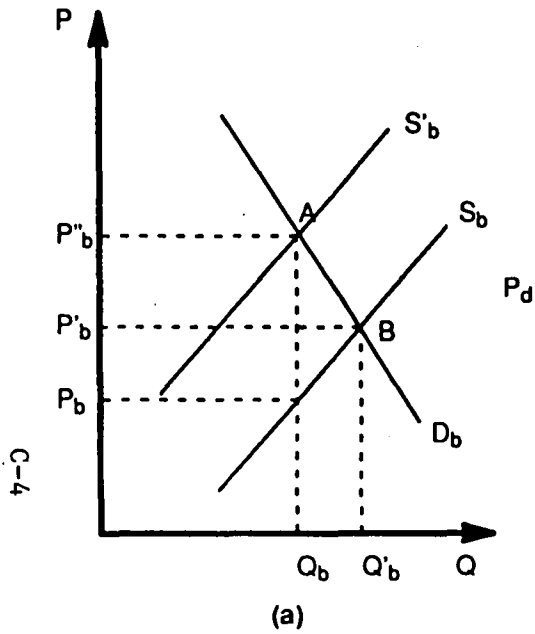
Derivation of import, industry, and consumer effects

Consider the market for GSP imports illustrated in fig. C-1, panel a. The line labeled D_b is the U.S. demand for GSP imports, the line labeled S_b' is the supply of imports from GSP countries with the tariff in place, the line labeled S_b is the supply of imports from GSP countries without the tariff (i.e. the product is receiving duty-free treatment under GSP), point A is the equilibrium with the tariff in place, and point B is the equilibrium without the tariff. Q_b and Q_b' are equilibrium quantities at A and B, respectively.¹

¹ The subscript "b" is used to denote GSP beneficiaries. The subscript "d" will be used to denote U.S. domestic production, prices, etc., and "n" will be used to denote non-beneficiaries.

Figure C-1

U.S. markets for GSP beneficiary imports (panel a), domestic production (panel b), a nonbeneficiary imports (panel c)



P_b'' and P_b' are equilibrium prices at A and B, respectively, and P_b is the price received by GSP producers when the tariff is in place. The relationships among the equilibrium variables can be represented as follows:

$$\text{Demand } \frac{Q_b'}{Q_b} = \left(\frac{P_b'}{P_b''} \right)^{-\eta} \quad (1)$$

$$\text{Supply } \frac{Q_b'}{Q_b} = \left(\frac{P_b'}{P_b} \right)^\epsilon \quad (2)$$

where η is the price elasticity of demand for imports from GSP countries (absolute value--all demand own-price elasticities in this appendix are in absolute value terms unless otherwise specified) and ϵ is the price elasticity of supply for imports from GSP countries. Noting that $P_b'' = P_b(1+t)$, where t is the ad valorem tariff rate, substituting this into (1), and equating (1) and (2) to establish equilibrium values, and then solving for P_b' we obtain

$$P_b' = P_b(1+t)^{\eta/(\eta+\epsilon)}, \text{ or} \quad (3)$$

$$P_b'/P_b = (1+t)^{\eta/(\eta+\epsilon)}. \quad (3')$$

To find the ratio of the customs value at equilibrium B to the customs value at equilibrium A, $P_b'Q_b'/P_bQ_b$, equations (3) and (2) can be used to obtain

$$\frac{P_b'Q_b'}{P_bQ_b} = (1+t)^{\eta(\epsilon+1)/(\eta+\epsilon)}. \quad (4)$$

Taking natural logarithms on each side of (4) we obtain

$$\ln \left(\frac{P_b'Q_b'}{P_bQ_b} \right) = \frac{\eta(\epsilon+1)}{(\eta+\epsilon)} \ln(1+t). \quad (4')$$

Noting that the left side of (4') is the percentage change in customs value and that $\ln(1+t)$ is approximately equal to t for small values of t , we have

$$P_b'Q_b' - P_bQ_b = \Delta P_bQ_b = P_bQ_b \frac{\eta(\epsilon+1)}{(\eta+\epsilon)} t, \quad (4'')$$

which forms the general basis for estimates of increased import values from GSP countries.²

In the model, a tariff reduction leads to a decrease in the price of the imported good and to an increase in sales of the good in the United States. The lower price paid for the import in the United States leads to a reduction in the demand for U.S. production of the good, as well as for imports from non-GSP countries. These demand shifts, along with supply responses to the lower demand, determine the reduction in U.S. output and non-GSP imports.

The changes that take place in panel a. lead to the changes seen in panels b. and c., where the demand curves shift from D_d and D_n to D'_d and D'_n , respectively. Equilibrium quantity in the market for domestic production moves from Q_d to Q'_d , and similarly for the market for nonbeneficiary imports, equilibrium quantity would fall from Q_n to Q'_n . Panels b. and c. are constructed with perfectly elastic supply curves for domestic production and nonbeneficiary imports.³

² Eq. 4" can also be expressed in terms of the percentage change in GSP imports as follows:

$$\frac{\Delta P_b Q_b}{P_b Q_b} = \frac{\eta(\epsilon+1)}{(\eta+\epsilon)} t, \text{ where the left side of the equation is the}$$

percentage change in GSP imports.

³ The assumption of horizontal supply curves in the markets for domestic production and nonbeneficiary imports greatly simplifies the illustration and analysis, without making a big difference in the conclusions that can be reached with this model. If an upward-sloping domestic supply curve exists, the expected increase in GSP imports would be smaller, the drop in the quantity of domestic output would be smaller, and the domestic price would fall.

The demand shifts are traditionally measured by cross-price elasticities of demand, which measure the extent to which products can substitute for each other (or the extent to which they are complements) and can be used in PE-type studies to estimate the displacement of competing U.S. production and nonbeneficiary imports that result from tariff concessions. Cross-price elasticities have not been used explicitly in PE studies, but they are implicit in the method used to estimate the displacement of U.S. industry.

There are several ways to estimate cross-price elasticities and/or the displacement of U.S. production and non-GSP imports from limited information that have been used in the Economics literature. The method used in GSP PE exercises is a variation of the methods developed in articles by Baldwin and Murray and Rousslang and Parker.⁴ A key assumption of the model is that U.S. industry production is offset dollar-for-dollar by the increase in the customs value of total imports. The relative substitutability of GSP imports with U.S. production and non-GSP imports is considered in estimating the change in total imports. Consider the extremes--if GSP imports are highly substitutable with non-GSP imports, and nonsubstitutable with the U.S. product, then GSP imports will displace only non-GSP imports, total U.S. imports will not change, and there will be no effect on U.S. production. At the other extreme, if GSP imports are highly substitutable with the U.S. product and nonsubstitutable with non-GSP imports, then increased GSP imports will

⁴ Robert Baldwin and Tracy Murray, "MFN Tariff Reductions and LDC Benefits Under GSP," Economic Journal 87 (March 1977), pp.30-46, and Donald J. Rousslang and Stephen Parker, "Cross-price Elasticities of U.S. Import Demand," The Review of Economics and Statistics, LXVI (August 1984), pp. 518-523.

displace only U.S. output, total imports will increase by the value of increased GSP imports, and U.S. production will decrease by the value of increased GSP imports. As noted by Rousslang and Parker, this method tends to produce estimates that overstate the actual effects. The overstatement is relatively small when GSP imports are a small share of U.S. consumption, but the overstatement is relatively more pronounced at higher GSP market shares. Industry employment, profits, firm entry/exit, and the extent of effects in the industry are factors also considered in assigning industry PE codes.

Consumer effects are estimated in terms of the portion of the duty reduction that is passed on to U.S. consumers on the basis of the import demand and supply elasticity estimates. The formula for determining the division of the duty savings between U.S. consumers and GSP exporters is $S = \frac{\eta}{(\eta+\epsilon)}$, (based on eq. 3) where S is the percentage of duty savings retained by GSP exporters. The new price received by producers and paid by consumers is $P_b' = P_b(1+t)^{\eta/(\eta+\epsilon)}$ (eq. 3). Taking the natural logarithm of both sides of eq. 3' we obtain $\ln\left(\frac{P_b'}{P_b}\right) = \frac{\eta}{(\eta+\epsilon)} \ln(1+t)$. Noting that the left side of the equation can be approximated by $\frac{(P_b' - P_b)}{P_b}$, and that $\ln(1+t)$ is approximately equal to t for small values of t, we obtain

$\frac{(P_b' - P_b)}{P_b} = \frac{\eta}{(\eta+\epsilon)} t$ or $(P_b' - P_b) = P_b \frac{\eta}{(\eta+\epsilon)} t$, indicating the portion of the tariff retained by GSP producers. An "A" code indicates that more than 75 percent of the duty savings are retained by GSP exporters ($\eta/(\eta+\epsilon) > .75$), and less than 25 percent passed through to U.S. consumers. A "B" code covers the

range between 75 percent and 25 percent ($.75 > \eta/(\eta+\epsilon) > .25$). A "C" code covers the case where less than 25 percent of the duty savings are retained by GSP exporters and more than 75 percent of the savings are passed through to U.S. consumers ($.25 > \eta/(\eta+\epsilon)$).

