UNITED STATES TARIFF COMMISSION
Washington, D.C.

/TEA-W-4/

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TARIFF COMMISSION REPORTS TO THE PRESIDENT ON COTTON SHEETING WORKERS' PETITION FOR ADJUSTMENT ASSISTANCE

The Tariff Commission today reported to the President the results of its investigation No. TEA-W-4, conducted under section 301(c)(2) of the Trade Expansion Act of 1962. The whole of the Commission's report to the President cannot be made public, since it contains certain information received in confidence. However, the following excerpts from that report indicate the Commission's finding and the principal considerations in support of the finding:

> In accordance with section 301(f)(1) of the Trade Expansion Act of 1962 (76 Stat. 885), the U.S. Tariff Commission herein reports the results of its investigation, made under section 301(c)(2) of that act, in response to a workers' petition for determination of eligibility to apply for adjustment assistance. The petition was filed with the Commission on May 21, 1963, by J.B. Porter, President, representing Local No. 282 of the Textile Workers Union of America, AFL-CIO, CLC, on behalf of a group of workers from the plant in Cordova, Ala., owned and operated by Indian Head Mills, Inc.
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> The Commission instituted the investigation on May 22, 1963. Public notice of the receipt of the petition and the institution of the investigation, and of a public hearing in connection therewith to be held on June 27, 1963, was given by publication of notices in the Federal Register (28 F.R. 5285 and 5729). At the public hearing all interested parties were afforded an opportunity to be present, to produce evidence, and to be heard.
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> In addition to the information obtained at the hearing in this investigation, the Commission utilized data from its files and information obtained through field visits or correspondence with officials of TWUA Local 282 at Cordova, Ala.; of Indian Head Mills, Inc., at its offices in New York City, Cordova, Ala., and Fingerville, S.C.; and of the Alabama State Employment Service, at Jasper, Ala.

Finding of the Commission

On the basis of its investigation the Commission unanimously finds that carded cotton sheeting is not, as a result in major part of concessions granted under trade agreements, being imported in such increased quantities as to cause the unemployment of a significant number or proportion of the workers in the Cordova, Ala., mill of Indian Head Mills, Inc.

Considerations in Support of the Commission's Finding

On August 3, 1962, Indian Head Mills, Inc. announced that it had decided to discontinue operation of the Cordova mill; it indicated that if it should be unable to sell or lease the plant as a going business it would terminate production within 3 months. Layoff of workers, begun shortly before the announcement, continued until nearly the end of October, when production ceased. According to company records, more than 600 workers were laid off during that interval.

Of the 21 mills operated by Indian Head Mills, the Cordova plant was the only one that manufactured cotton sheeting. The plant, originally owned by the Naumkeag Steam Cotton Co., was acquired by the old Indian Head Mills through merger with Naumkeag in 1955. After this merger, the new Indian Head Mills expanded from 2 operating plants (the plant at Cordova and a fine fabrics plant at Whitney, S.C.), having combined net sales of $20 million in 1955, to a diversified textile complex having combined net sales of $152 million in 1962. In the 8 years during which this corporate growth was achieved, Indian Head Mills disposed of 13 plants that it had acquired through various mergers or purchases. The two printcloth plants at Glendale, S.C., and Ponce, Puerto Rico that, together with the Cordova mill, constituted the Greige and Industrial Fabrics Division, were closed in 1961.

The Cordova mill consisted of several four-story brick production and warehouse buildings, all constructed in 1897. No additional production floorspace of significance was added during the mill's 65 years of operation. In recent years, the mill has contained 30,000 spindles and had an annual productive capacity of approximately 30 million linear yards of coarse cotton fabrics. Little of the sheeting produced at Cordova was used in any of the company's integrated operations; in some years as much as 90 percent of it was sold to independent fabric converters. The Cordova mill's output of sheeting thus competed, in varying degree, with domestic sheeting produced by a large number of other U.S. mills, as well as with imported sheeting.

By value, sheeting (including osnaburg) was the principal product made at Cordova before 1960. Thereafter mitten flannel was the principal product; double-faced flannel and knitted cotton fleece were also produced (the latter only in 1961 and 1962). The company's production of cotton sheeting and osnaburg (separate data for each were not supplied) declined much more sharply in 1958-62 than did aggregate U.S. production of sheeting and osnaburg. Aggregate U.S. production of the types that comprised virtually all of the Cordova mill's output of sheeting (class A sheeting and osnaburg), however, increased between 1954 and 1962. Between 1958 and 1962 the ratio of sales of sheeting by the Cordova mill to its total sales declined from 67 to 37 percent. Sales of sheeting began to decline in 1960. * * *

The principal spokesman for the petitioners at the hearing prefaced his testimony with a statement of his "views on the general approach which we consider appropriate to a consideration of this case." After quoting from President Kennedy's message to Congress of January 24, 1962, emphasizing the importance of the adjustment-assistance provisions of the President's proposed trade bill, the witness concluded: 1/

> In view of the positive value of this new approach to meeting the burdens of economic adjustment to increased foreign import competition, <u>it is incumbent upon the Tariff Commission to view petitions for adjustment assistance in a different light than "escape-clause" petitions. A more liberal application of standards for determining the connection between trade agreement concessions and imports, and between imports and resulting unemployment, is essential if the promise offered by the new trade adjustment provisions of the law is to be fulfilled</u>. (Emphasis added.)

Whereupon the following colloquy between Chairman Dorfman and the witness took place: 2/

> CHAIRMAN DORFMAN: Do you expect, or are you suggesting, that the Commission should view differently the relation between a concession and its effect upon imports where industry and firm cases are involved than where workers' cases are involved? If the Commission determines in a workers' case that the concession is the major cause of the increase in the imports, would it wear the same spectacles in viewing industry and firm cases?

1/ Transcript of the hearing, p. 18.

2/ Transcript of the hearing, pp. 18-21.

MR. PERKEL: I am suggesting that there should be a difference in approach between a petition for assistance or trade adjustment assistance, whether by a firm or by a group of workers for a petition for a tariff adjustment.

CHAIRMAN DORFMAN: Yes, I understand that.

MR. PERKEL: That is right.

CHAIRMAN DORFMAN: As to this one point that the Commission must consider in all three types of cases, would you say that there should be a difference in approach?

MR. PERKEL: It seems to me, sir, that the test of determining the connection between a tariff concession and increased imports is one in which there are many gray areas. This is not something that is subject to precise determination.

CHAIRMAN DORFMAN: Let us concede that, but are the areas any more or less gray when we are viewing a workers' case than when we are viewing an industry or firm case?

MR. PERKEL: It is a matter of which way you are going to bend. It seems to me that if the result of your viewing that there is going to be a recommendation for a tariff increase and the consequences thereof, it would seem to me that the Tariff Commission might bend backwards to a greater extent in requiring rigorous proof to demonstrate the connection than when the consequence is not a tariff adjustment, but an adjustment assistance to either workers or firms.

CHAIRMAN DORFMAN: Assume that the Commission did bend differently in the workers' case than in the industry or firm cases. What then would you think would be the position of the Commission if it made a determination in a workers' case bending one way and subsequently had to consider a firm or industry case? Would the Commission then not be prevented from exercising flexibility in the opposite direction?

MR. PERKEL: Wherein the determination is made that a given tariff concession was the major part responsible for the significant increase in imports, the Tariff Commission would not be in the position of reversing itself in order to take care of that.

CHAIRMAN DORFMAN: Does this suggest that it would be a good policy for an industry, hoping to get a favorable decision, to see to it that the Commission first considered a workers' case, thus committing the Commission to lean in a more favorable direction in considering the subsequent industry petition?

MR. PERKEL: Well, it is conceivable that some industry could plan things that way. In this particular case there is no question of that.

CHAIRMAN DORFMAN: I did not mean to suggest that there was, because the question of flexibility had not been introduced heretofore. It was not introduced until you just introduced it a moment ago.

MR. PERKEL: Yes. My point is that it is conceivable that this law, like any law, could be circumvented by clever strategems of the sort that you have just suggested.

CHAIRMAN DORFMAN: I was not suggesting that--I was merely inquiring whether you feel that the Commission could in a workers' case view the relationship between the concession and imports differently from the way that the Commission would be obliged to view it in an industry or firm case. This is all I intended by my question. Thank you.

This witness was the first to have urged the Commission at a public hearing 1/ to employ a different set of standards (described as "flexible" or "liberal") when conducting a workers investigation than when conducting either an industry or firm investigation. The request was with specific reference to the interpretation of certain key words and phrases that the Trade Expansion Act employs identically in connection with all three types of investigations--workers, firm, and industry.

It is clear from the statute that a finding of serious injury to an industry under section 301(b), or to a firm under section 301(c)(1), or a finding of unemployment or underemployment of a significant number or proportion of the workers of a firm or

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1/ The Commission has observed similar expressions of opinion in the public press and received similar suggestions via correspondence and individual interviews.

subdivision thereof under section 301(c)(2), cannot be made in any case unless it is found--

1. That the foreign article in question is being imported in increased quantities;

2. That the increased imports result in major part from trade agreement concessions; and

3. That the increased imports are the major factor in causing, or threatening to cause--

a. Serious injury to the industry concerned in an industry investigation under section 301(b),

b. Serious injury to the petitioning firm in a firm investigation under section 301(c)(1), or

c. Unemployment or underemployment of a significant number or proportion of the workers of a firm or appropriate subdivision thereof in a workers investigation under section 301(c)(2).

The statute allows no room for any different interpretation or application of the criteria indicated in 1, 2, or the introductory clause to 3 above, regardless of whether the ultimate determination is that indicated in 3a, 3b, or 3c. And, as the Commission has repeatedly pointed out in previous published reports under section 301, an affirmative finding in an industry, firm, or workers investigation cannot be made if there is a failure to meet any one of such criteria.

In the instant case the Commission finds (1) that any increase that may have occurred in imports of sheeting is not due in major part to trade-agreement concession, and (2) that any such increase in imports, whatever its cause, is not the major factor that led to the unemployment of workers at the Cordova plant of Indian Head Mills, Inc.

The increase in imports of sheeting in recent years could not have been due in major part to trade-agreement concessions. 1/ The U.S. tariff concessions altering the duty applicable to imports of carded cotton sheeting became effective in 1955. 2/ No doubt the concessions served to stimulate imports in the period following the effective date of the concessions and have since operated to maintain imports at a higher level than would presumably have prevailed otherwise. However, the major stimuli to increased imports in recent years are to be found primarily in factors other than the trade-agreement concessions.

In 1955 the U.S. rate of duty on carded cotton sheeting was reduced from 10 percent ad valorem, plus 0.35 percent ad valorem for each yarn number, to 7-1/2 percent ad valorem, plus 0.25 percent ad valorem for each yarn number. In terms of a representative import of carded cotton sheeting in 1961, the 1955 concession caused the duty to be about 0.8 cent per square yard lower than the duty previously in effect. Such a change in duty as that occurring in 1955 was insufficient to contribute materially to any subsequent rise in imports. The principal factor has been the large and increasing disparity between the costs of raw cotton to foreign fabricators and those to domestic fabricators, largely the result of the cotton policy of the U.S. Government.

In 1961, raw material costs of U.S. producers of cotton sheeting were increased significantly relative to costs of their foreign competitors. Under the price-support program for raw cotton administered by the Department of Agriculture, the effective

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1/ Commissioners Talbot and Sutton consider that available data support a finding that carded cotton sheeting "is being imported in increased quantitites" (within the meaning of the Trade Expansion Act of 1962), and they so find. Chairman Dorfman and Commissioner Culliton question that these data clearly support such a finding but do not feel the need to resolve the issue since by accepting the finding arguendo they come to the same conclusions as the other Commissioners in considering items 2 and 3c above.

2/ These concessions applied to imports of "cotton cloth, not bleached, printed, dyed, or colored, containing yarns the average number of which does not exceed 80, if valued not more than 70 cents per pound." The concessions also provided that none of the foregoing shall be subject to a less duty than 0.3 cent per average number per pound; from Jan. 1, 1939, to Sept. 10, 1955, the minimum had been 0.4 cent per average number per pound, and prior to Jan. 1, 1939, 0.55 cent per pound, as originally in the Tariff Act of 1930.

level of support for the 1961/62 Upland cotton crop was increased. The result was that for the 1961/62 and 1962/63 crops the spot market price of the grades of cotton customarily used for sheeting averaged some 3 to 4 cents per pound higher than the average for the crop year 1960/61. These developments caused domestic costs of manufacturing a typical grade of cotton sheeting to increase by some 1.4 cents per square yard--i.e., by an amount materially greater than the possible price impact of the duty concession.

As a corollary of the increased level of support afforded growers of domestic cotton, the U.S. export subsidy for raw cotton was increased at the beginning of the 1961/62 marketing year. The subsidy, administered by the Secretary of Agriculture, was increased from 6.0 to 8.5 cents per pound. A USDA spokesman has indicated that the 8.5 cents per pound is "the most accurate measurement of the disparity between the domestic prices of cotton and the prices in the world market." Although this generalization constitutes something of an oversimplification, the increase in such disparity--an increase reflecting the increased U.S. support price and the consequent increase in the U.S. export subsidy--was a significant factor contributing to increased imports of cotton sheeting. The export subsidy program for cotton has meanwhile fallen short of its objectives. In the marketing year 1962/63 the share of total cotton purchases by other major consuming countries that was obtained from the United States was lower than in 1961/62, U.S. exports of cotton were some 20 percent smaller, and, notwithstanding an export subsidy for finished cotton textiles, U.S. manufacturers lost additional markets to foreign competitors. 1/

Still another recent change caused raw material costs of U.S. producers of cotton sheeting to increase relative to the costs of importing such fabrics. On August 1, 1959, official grading standards for raw cotton were altered, and the changes involved the splitting of several existing categories into new grades. As a consequence, sheeting mills, such as the plant at Cordova, that had previously been able to meet their cotton requirements by purchasing Strict Low Middling cotton on a selective basis were obliged to pay a higher price in the new split grade, Strict Low Middling Plus, to obtain cotton of the same quality. Immediately such mills had to pay nearly 1-1/2 cents more per pound for raw cotton. Hence, the domestic costs of manufacturing coarse cotton sheeting increased by some 0.5 cent per square yard.

1/ U.S. Department of Agriculture, Foreign Agriculture, June 24 and July 1, 1963.

Circumstances other than increased imports were the primary factors that contributed to the closing of the Cordova mill in the fall of 1962. Among these, of course, were the circumstances noted above which increased the mill's operating costs. When officials of Indian Head Mills, Inc., by their press release dated August 3, 1962, announced their intention of closing the Cordova plant, they ascribed the reason for such action to the increased cost of raw cotton resulting from Government price-support programs. The following excerpt from that press release 1/ is pertinent:

> Indian Head Mills, Inc., will discontinue operation of its Cordova, Ala., coarse yarn fabrics mill, James M. Flack, Group Vice President-Operations, announced. Production of the mill includes osnaburgs, mitten flannels and knitted cotton fleece.
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> The Cordova mill had a satisfactory record until 1961 when raw cotton prices, which represent approximately two-thirds of the cost of its end-products, were artificially raised 25% by the Government price-support programs. Market prices for the fabrics made in the mill have not reflected these increased costs.
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> "This squeeze on profits has made it impossible for Indian Head Mills to achieve an adequate return on its investment in this plant," Mr. Flack said, "despite the most vigorous efforts to cope with these adverse economic circumstances and keep the mill in operation."

The principal difficulties (other than those already set forth) facing the Cordova mill that culminated in its closure and the disemployment of its workers in the fall of 1962 were as follows:

1. The U.S. cotton subsidy program operated to promote the exportation of a substantial share of low-grade cotton, thus making such cotton more costly to U.S. mills than to foreign competitors. Price competition from imports of materials made from such cotton was thus intensified.

2. After Japan decided to curtail its exports of cotton sheeting to the United States, most of the "vacuum" thus created was filled by cotton sheeting from producing countries whose costs were even lower--notably Hong Kong and Taiwan.

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1/ Indian Head Mills, Inc., New York, N.Y., press release dated Aug. 3, 1962.