COTTON SHOP TOWELS FROM PAKISTAN

Determination of the Commission in Investigation No. 701-TA-202 (Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigation

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

Investigation No. 701-TA-202 (Final)

COTTON SHOP TOWELS FROM PAKISTAN

Determination

On the basis of the record 1/ developed in investigation No. 701-TA-202 (Final), the Commission determines, pursuant to section 705(b)(1) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)(1)), that an industry in the United States is materially injured by reason of imports from Pakistan of shop towels of cotton provided for in item 366.27 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized by the Government of Pakistan.

Background

The Commission instituted this investigation effective October 27, 1983, following a preliminary affirmative countervailing duty determination by the Department of Commerce on imports of cotton shop towels from Pakistan.

Notice of the institution of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register on November 25, 1983 (48 F.R. 53186). The hearing was held in Washington, D.C. on January 17, 1984, and all persons who requested the opportunity were permitted to appear in person or represented by counsel.

1/ The record is defined in sec. 207.2(i) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(i)).

VIEWS OF THE COMMISSION

We determine that an industry in the United States is materially injured by reason of imports of cotton shop towels which are subsidized by the government of Pakistan.

The domestic industry

Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" as "the domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." 1/ "Like product," in turn, is defined as "a product which is like, or in the absence of like, most similar in characteristics and uses with the article subject to [the] investigation." 2/

Shop towels are cloths used for wiping and cleaning functions in industrial and commercial establishments. They are used primarily for wiping machine parts and cleaning away ink, grease, oil, and other unwanted substances. The primary purchasers of shop towels are industrial laundries which, in turn, rent them to industrial and commercial establishments. 3/

The imported shop towels are 100 percent cotton and are sold in the greige state. 4/ The domestic shop towels are either all cotton or a cotton-acrylic blend. 5/ They are sold in the greige state or, for a small

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1/ 19 U.S.C. § 1677(4).
2/ 19 U.S.C. § 1677(10).
3/ Report at A-2.
4/ The term greige is used to describe cloth that is unbleached and uncolored. Report at A-3.
5/ Id.

additional cost, are dyed and/or treated with soil release features at the option of the customer. Domestic producers also may imprint at no charge customer names and logos on their towels. 6/ Both the imported and domestic shop towels are made from osnaburg 7/ and are produced in basically the same size. 8/ Although there are quality differences between the imported and domestic towels, 9/ they are functionally equivalent and are sold interchangeably in the marketplace.

The record in this investigation shows that the domestic and imported products have the same basic characteristics and uses and are thus like products. 10/ Any differences in characteristics between the imported and domestic products (including domestic blended towels) are at most minor. 11/

6/ Id.

7/ Osnaburg is a loosely woven fabric of plain weave.

8/ Most domestic and Pakistani shop towels are 18" by 18". Both also produce a small amount of towels 18" by 30". Report at A-2.

9/ Imported and domestic shop towels differ in size and quality of the yarn used and the count (threads per inch). These differences reflect primarily the most efficient manufacturing methods for U.S. and Pakistani producers. Report at A-3. The difference in quality has been considered in the pricing analysis. See note 27, infra.

10/ This conclusion is the same as that reached in the recent investigation concerning Shop Towels of Cotton from the People's Republic of China, Inv. No. 731-TA-103 (Final), USITC Pub. No. 1431 (September 1983).

11/ The legislative history of the Trade Agreements Act of 1979 states that:

> The requirement that a product be "like" the imported article should not be interpreted in such a narrow fashion as to permit minor differences in physical characteristics or uses to lead to the conclusion that the product and article are not "like" each other, nor should the definition of "like product" be interpreted in such a fashion as to prevent consideration of an industry adversely affected by the imports under investigation. S. Rep. No. 249, 96th Cong., 1st Sess. 90-91 (1979).

Therefore, we conclude that the domestic industry consists of the domestic producers of shop towels. 12/

Condition of the domestic industry

The pertinent economic and financial indicators show that the domestic industry is experiencing material injury. Domestic production of shop towels declined 22 percent from 161 million units in 1980 to 126 million units in 1982. In January–September 1983, production rose slightly to 95 million units compared with 90 million units in the corresponding period of 1982. 13/ Domestic shipments followed the same trends. 14/

While capacity for shop towel production remained relatively constant, capacity utilization for the domestic industry decreased to 32.8 percent in 1982 from 40.8 percent in 1981. Capacity utilization was 42.2 percent in 1980. There was a small increase from 36.1 percent in January–September 1982 to 38.0 percent in the corresponding period of 1983. 15/

The number of production and related workers engaged in the production of shop towels declined from 431 in 1980 to 391 in 1982. Employment declined further in January–September 1983 to 242,000 from 398,000 in the corresponding period for 1982. During 1980–82, the actual hours worked also declined from 841,000 to 642,000. 16/

12/ There are six producers of shop towels in the United States—Milliken & Co. and Wikit, Inc., LaGrange, Georgia; Wipo, Inc., Columbus, Georgia; Texel Industries, Inc., Cleburne, Texas; Federal Bag Company, St. Louis, Mo.; and, Pennsylvania State Manufacturing Co., Clifton Heights, Pennsylvania. Report at A-9. Four of these producers, representing almost all of domestic production, responded to Commission questionnaires.

13/ Report at A-10.

14/ Report at A-12.

15/ Report at A-11.

16/ Report A-15.

Total net sales of shop towels increased from $26.1 million in 1980 to $27.1 million in 1981, but declined to $24.2 million in 1982. 17/ During the interim period ending June 30, 1983, net sales declined further to $15.7 million compared to $17.9 million for the corresponding period in 1982. 18/ Aggregate operating profit remained steady at $3.3 million, averaging over 12.0 percent of net sales, in 1980 and in 1981, but then declined precipitously in 1982 to $788,000, equivalent to only 3.3 percent of net sales. During the interim period ending June 30, 1983, the industry operated at a loss of $2,000, or .01 percent of net sales, as compared with a profit of $80,000, or 0.4 percent of net sales, in the corresponding period of 1982.

Thus, the performance of the domestic industry declined in 1982. Despite a slight improvement in some indicators in the interim period of 1983, the domestic industry continued to experience difficulties in this period. 19/ 20/

17/ Report at A-17.

18/ Comparable financial data were not available from domestic producers for the interim 1982 and 1983 periods because the individual firms use different accounting years. Nevertheless, the aggregate data for these interim periods are useful for analyzing trends.

19/ Three of the four domestic producers which responded to the Commission's questionnaire submitted additional data on their operations in the fourth quarter of 1983. Memorandum to the Commission No. Inv-H-30. While these data are not available on a comparable basis for all of the firms, they indicate an improvement in the performance of the domestic industry. However, imports from Pakistan were at lower levels than in previous months. See note 23 *infra*.

20/ In 1983, one domestic producer, Wipo, developed lower priced shop towels to add to its product line. Shortly after the hearing, Wipo was requested to update its information. Wipo responded that it would not be able to provide the updated information quickly enough to make it useable in this investigation.

Material injury by reason of subsidized imports

Section 771(7)(B) of the Tariff Act of 1930 directs the Commission to consider, among other factors, (1) the volume of imports of merchandise under investigation, (2) the effect of such imports on domestic prices, and (3) the impact of such imports on the domestic industry. 21/

Imports of shop towels from Pakistan increased during the period under investigation in both absolute and relative terms. Imports for consumption from Pakistan rose from 4.3 million towels in 1980 to 6.1 million in 1981, and then to over 6.6 million towels in 1982. 22/ Imports then rose dramatically from 4.2 million in January–September 1982 to 21.9 million towels in the same period in 1983. 23/

Apparent U.S. consumption of shop towels increased from 252 million towels in 1980 to 274 million in 1981 and then decreased to 217 million towels in 1982. Consumption increased during January–September 1983 to 164 million towels compared with 158 million in the corresponding period of 1982. The ratio of imports from Pakistan to apparent domestic consumption increased from 1.7 percent in 1980 to 2.2 percent in 1981 and to 3.0 percent in 1982, the year in which consumption decreased by 21 percent. 24/ This ratio increased

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21/ 19 U.S.C. § 1677(7)(B).

22/ Report at A–24.

23/ Id. Imports from Pakistan averaged less than 600,000 towels per month during each of the years from 1980 to 1982. Report at A–24. During this same period, average monthly imports from China ranged from 3.7 to 7.9 million towels. Shop Towels of Cotton from the People's Republic of China, Inv. No. 731–TA–103 (Final), USITC Pub. No. 1431 (September 1983). Following the imposition of an antidumping duty deposit on imports of shop towels from China in March 1983, and the subsequent decline in these imports, imports from Pakistan exceeded 3 million towels in each month from May through September of 1983. Pakistani imports declined to less than 2 million towels per month in the October–December period, subsequent to the institution of this investigation. Report at A–24.

24/ Report at A–25.

markedly from 2.6 percent in January–September 1982 to 13.4 percent in the comparable period for 1983, when consumption rose only slightly. 25/

Domestic prices and the prices of the subject imports rose irregularly during most of the period studied but domestic prices declined in July–September 1983 to the lowest level for the entire period studied. Imported towels from Pakistan undersold domestic producers' prices in every quarter of the period January 1981 to September 1983, by margins which increased from 36 percent in 1981 to 38 percent in the second quarter of 1983. There was a decline in the margin of underselling in the third quarter of 1983; however the margins remained sizeable. 26/ 27/ Domestic prices nevertheless fell 5.3 percent during January to September 1983 after increasing 5.1 percent from January–March 1981 to October–December 1982.

The Commission was able to confirm that several laundries have shifted their purchases of shop towels to the Pakistani product. 28/ The majority of these purchasers noted that the lower prices of the towels imported from Pakistan were an important factor in the decision to purchase the Pakistani product.

Conclusion

Economic and financial data demonstrate that this industry has experienced material injury over the course of this investigation, and that subsidized imports of shop towels from Pakistan are a cause of this injury. Domestic

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25/ *Id*.
26/ Report at A-28.
27/ While quality differences between domestic and Pakistani shop towels may account for some of this price differential, purchasers stated that the large margins of underselling were not entirely attributable to quality differences. Report at A-29.
28/ Report at A-29.

production, shipments, capacity utilization, employment and profitability have all experienced declines. While the industry has recovered slightly during the last quarter of 1983, this may well have been the result of the imposition of an antidumping order against Chinese LTFV imports that were found to be injurious to the industry in a previous investigation. While a cause of the industry's problems were the LTFV imports from China, it is clear from an analysis of industry indicators, the large increase in Pakistani imports, pricing patterns and confirmed shifts in sourcing to Pakistani towels, that subsidized imports from Pakistan are also a cause of material injury and adversely affected the recovery of this industry in 1983. Hence we conclude that a domestic industry is materially injured by reason of imports of shop towels which are being subsidized by the government of Pakistan.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

Effective July 29, 1983, a petition was filed by counsel on behalf of Milliken & Co. with the U.S. International Trade Commission and the U.S. Department of Commerce alleging that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of cotton shop towels from Pakistan, provided for in item 366.27 of the Tariff Schedules of the United States, upon which subsidies are alleged to be paid. Accordingly, the Commission instituted a preliminary investigation under section 701 of the Tariff Act of 1930, to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of the importation of such merchandise into the United States. On September 12, 1983, the Commission determined, on the basis of information developed during the course of investigation No. 701-TA-202 (Preliminary), that there was a reasonable indication that an industry in the United States is materially injured by reason of the importation of such merchandise into the United States.

On October 27, 1983, the Department of Commerce published a preliminary determination that there is a reasonable basis to believe or suspect that benefits that constitute a subsidy within the meaning of section 701 of the Tariff Act of 1930 are granted by the Government of Pakistan with respect to the manufacture, production, or exportation of shop towels of cotton. Accordingly, the Commission instituted a final countervailing duty investigation on the subject products. On January 11, 1984, Commerce in its final determination found that subsidies are being provided to manufacturers, producers, or exporters in Pakistan of cotton shop towels. The net subsidy is 12.67 percent ad valorem.

Notice of the institution of investigation No. 701-TA-202 (Final) and of the public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register of November 25, 1983 (48 F.R. 53186). 1/ The hearing was held in Washington, D.C., on January 17, 1984. 2/ The Commission voted on this case on February 14, 1984, and notified Commerce of its determination on February 23, 1984.

Other Commission Investigations

In July 1980, the Commission determined in investigation No. 701-TA-62 (Final), Textiles and Textile Products of Cotton from Pakistan, that an

1/ Copies of the Commission's and Commerce's Federal Register notices are presented in App. A.

2/ A copy of the list of witnesses appearing at the hearing is presented in App. B.

industry in the United States was not materially injured, was not threatened with material injury, and the establishment of an industry in the United States was not materially retarded by reason of imports of textiles and textile products of cotton from Pakistan. At the same time, in investigation No. 104-TAA-1, 1/ the Commission determined that an industry in the United States would not be materially injured, or threatened with material injury, and the establishment of an industry would not be materially retarded by reason of imports of textiles and textile products from Pakistan covered by a countervailing duty order, if that order were to be revoked. Cotton shop towels, the subject of the current investigation, was one of several textile products considered in these investigations.

On August 24, 1982, Milliken & Co., the petitioner in the current investigation, filed an antidumping petition with the U.S. International Trade Commission and the U.S. Department of Commerce against cotton shop towels from the People's Republic of China (China). On August 10, 1983, Commerce issued a final determination that such towels are being sold in the United States at less than fair value. Subsequent to that decision, the Commission determined in investigation No. 731-TA-103 (Final) that an industry in the United States was materially injured by reason of such imports from the People's Republic of China and notified Commerce of this determination on September 23, 1983.

The Product

Description and uses

Shop towels are industrial wiping cloths used primarily for wiping machine parts and cleaning away ink, grease, oil, or other unwanted substances. They are usually purchased by industrial laundries which, in turn, rent them to commercial and industrial establishments. After being used, the towels are returned to the laundry for cleaning and further use.

Shop towels are made from osnaburg, a loosely woven fabric of plain weave usually ranging in weight from 4.5 to 5.5 ounces per square yard. The most widely used towel sizes are 18 by 18 inches and 18 by 30 inches. Most shop towels are overcast 2/ or finished on three edges with a natural selvage on the fourth.

Imported and domestic shop towels have the same end uses and, according to counsel for the petitioner, are "functionally equivalent." 3/ In terms of construction, imported and domestic shop towels differ in size and quality of the yarn used and the yarn count (threads per inch). The yarns used in imported towels are made of 70 percent waste fibers (from previous yarn processing) and 30 percent short staple fibers. The domestic towels are made of 60 percent waste and 40 percent short staple fibers. The yarns in the standard Pakistani towel are of number 4/ 10 (10s) in both the length and the

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1/ Originally published as investigation No. 701-TA-63 (Final).
2/ A slanted stitch around cut edges to prevent raveling.
3/ Transcript of the conference, p. 11.
4/ Yarn number describes the diameter of the yarn. The lower the number, the thicker the yarn.

width of the fabric. 1/ Those used in domestic towels are 10s and 6s or 12s and 5s, 2/ the higher number in the warp (length of goods) and the lower number in the filling (width of goods). The yarn count in imported Pakistani towels is usually 34 yarns per inch in the warp and 26 yarns per inch in the filling. 3/ Domestic towels usually have a yarn count of 29 in the warp and 20 in the filling. 4/ These construction differences, by themselves, do not necessarily make one towel better or worse overall than the other. The different constructions reflect primarily the most efficient manufacturing methods for foreign and domestic producers.

Imported towels are made of 100 percent cotton and are sold in the greige 5/ state. U.S. producers make 100 percent cotton towels as well as towels that are a blend of 60 percent cotton and 40 percent acrylic. In 1982, cotton shop towels accounted for 58 percent and blended shop towels accounted for 42 percent of domestic production. The blended towels are preferred by some end users that feel that they are stronger and more chemical resistant than the all-cotton towels. 6/ In addition, the blended towels can be washed at a lower temperature than the all-cotton towels and can be dried more quickly. Domestic producers sell towels in the greige state; they also dye them or treat them with a soil-release finish as additional cost options. In addition, domestic producers imprint customer names and logos on their towels without extra charge. Industry sources indicate that the cost of dyeing is * * * cent per towel; soil release, * * * cent; and imprinting, * * * cent. 7/

U.S. tariff treatment

Shop towels are classified under item 366.2740 of the Tariff Schedules of the United States Annotated (TSUSA). The current column 1 or most-favored-nation (MFN) rate of duty for shop towels is 12.8 percent ad valorem, and the column 2 rate is 40 percent ad valorem. 8/ This rate reflects the third reduction resulting from concessions granted in the Tokyo round of the Multilateral Trade Negotiations (MTN), conducted under the auspices of the General Agreement on Tariffs and Trade (GATT) during 1973-79. The remaining scheduled reductions for cotton shop towels and the effective dates are as follows:

1/ Phone conversation between * * * and Marilyn Borsari on Aug. 19, 1983.
2/ Transcript of the conference, p. 10.
3/ Phone conversation between * * * and Marilyn Borsari on Aug. 19, 1983.
4/ Transcript of the conference in investigation No. 731-TA-103 (Preliminary), Cotton Shop Towels from the People's Republic of China, pp. 90 and 91.
5/ Unbleached and uncolored.
6/ Transcript of the conference in investigation No. 731-TA-103 (Preliminary), p. 57.
7/ Phone conversation between * * * and Marilyn Borsari on June 13, 1983.
8/ Imports from those Communist countries and areas identified in general headnote 3(f) of the TSUSA are assessed the higher col. 2 rates; imports from all other sources are assessed the MFN rate.

Rate	Jan. 1--
12.0% ad val	1985
11.3% ad val	1986
10.5% ad val	1987

Imports of shop towels are not eligible for duty-free treatment under the Generalized System of Preferences (GSP). 1/ In addition, imports from the least developed developing countries (LDDC's) are not granted preferential tariff treatment. 2/

Cotton shop towels are subject to control under the Multifiber Arrangement (MFA), 3/ which provides the international legal framework within which importing countries can negotiate agreements with exporting countries to limit their shipments of textiles and apparel of cotton, wool, and manmade fibers. Imports of cotton shop towels are classified in category 369, a "basket" category consisting of a large number of miscellaneous cotton manufactures, such as plain woven towels, tablecloths and napkins, and floor coverings. In 1982, shop towels accounted for about 13 percent of the total import volume in category 369; during January-November 1983, they accounted for 11 percent.

The current bilateral agreement with Pakistan is effective from January 1, 1982, to December 31, 1986, and provides for a designated consultation level 4/ of 5,869,565 pounds for category 369 in each agreement year. Pakistan filled its quota for the quota year ended December 31, 1982. As of August 29, 1983, Pakistan filled its 1983 quota, and further exports from Pakistan were denied entry. The Pakistani Government requested an increase in the quota level, and the United States offered an increase of 3 million equivalent square yards or about 652,000 pounds. The Pakistani Government accepted this increase, and the U.S. Customs Service began to

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1/ The GSP is a program of nonreciprocal tariff preferences granted by developed countries to developing countries to aid their economic development by encouraging greater diversification and expansion of their production and exports. The U.S. GSP program, enacted under title V of the Trade Act of 1974, was implemented by Executive Order No. 11888 in January 1976 and is scheduled to expire on Jan. 4, 1985.

2/ The LDDC rate reflects the final U.S. MTN concession rate for an item without the normal staging of duty reductions, and is applicable to products from the LDDC's enumerated in general headnote 3(d) of the TSUSA.

3/ Sanctioned under the GATT and formally known as the Arrangement Regarding International Trade in Textiles, the MFA was implemented in January 1974 for 4 years, was extended twice, and now runs through July 1986.

4/ A designated consultation level (DCL) is a more flexible import control than specific ceilings or limits; DCL's are usually somewhat above existing levels of trade, and once reached cannot be exceeded unless the United States agrees to further shipments. They normally apply to categories in which trade is not as great as in those for which specific limits are set and are determined annually through the consultation procedure with each bilateral country with which they exist.

implement it on September 8, 1983. 1/ When the increased quota level was filled, the Government of Pakistan requested another increase. The U.S. Government proposed establishing a separate subcategory and a specific limit on shop towels and certain kitchen towels. The Government of Pakistan accepted this proposal, and as of December 12, 1983, the limit for 1983 on shop towels and certain kitchen towels was 1,769,739 pounds, and was nearly 95 percent filled. This limit will increase 7 percent annually. In 1982, shop towels accounted for 4 percent of total imports from Pakistan in category 369, and in January-November 1983, shop towels accounted for nearly 12 percent of total imports in category 369. The share of imports from Pakistan in category 369 which are accounted for by shop towels, by months, in 1983 is as follows:

	Share (percent)
January	1.2
February	2.8
March	5.2
April	9.5
May	15.4
June	13.9
July	14.6
August	17.9
September	23.9
October	15.2
November	8.3

Channels of distribution

Between 90 and 95 percent of domestic shop towel sales by U.S. producers and importers are made to industrial laundries and linen supply companies. 2/ These firms, in turn, rent the towels to various industrial or commercial establishments, such as printers, auto repair shops, and food processors.

After the towels become soiled, they are returned to the rental source for cleaning. Testimony provided by the petitioner and respondents differs considerably with respect to the useful life of shop towels. Producers have stated that their shop towels are made to withstand over 50 launderings, but due to the high loss rate through pilferage, the average towel life is closer to 20 washings. However, importers stated at the conference held during the course of this investigation that about one-third of the Pakistani towels do not last through the first washing, 3/ whereas laundries and linen suppliers expect a minimum of 9.2 washings from shop towels to get their money's worth. 4/

1/ Telephone conversations with * * *, and Marilyn Borsari on Aug. 30-Sept. 1, 1983.

2/ Based on data submitted in response to questionnaires of the U.S. International Trade Commission.

3/ Transcript of the conference, p. 92.

4/ Transcript of the conference in investigation No. 731-TA-103 (Preliminary), pp. 95 and 113.

Industrial laundries indicate that the rental fee ranges from 3 to 8 cents per towel, with the average between 5 and 6 cents. Most establishments have a set delivery schedule, and depending on size and use, receive a specified number of towels per week. In rural areas, delivery may be made biweekly.

The remaining 5 to 10 percent of the shop towels are sold directly to the end users, usually to printshops or newspapers, which may have them cleaned by local laundries. 1/ However, unless the purchase and laundering are on a large scale, using a rental service is more economical.

U.S. Producers

The number of firms known to produce shop towels in the United States is six; 2/ the petitioner--Milliken & Co.--is by far the largest producer. The shares of total production in 1982 accounted for by each of the four responding firms are shown in the following tabulation:

Producer	Share (percent)
Milliken & Co	***
Texel Industries, Inc	***
Wikit, Inc	***
Wipo, Inc	***

Milliken & Co. is among the largest textile producers in the country, producing a wide array of textile products. * * *. Milliken's shop towel facility is located in LaGrange, Ga. Texel Industries Inc., located in Cleburne, Tex., is the smallest domestic producer; shop towels account for * * * of its total sales. Shop towels account for * * * of the total sales of Wikit, Inc., located in LaGrange, Ga., and Wipo, Inc., located in Columbus, Ga.

Milliken and Wipo weave their own fabric and subsequently cut and finish it into shop towels. The other two producers, Texel Industries and Wikit, purchase fabric and convert it into shop towels. In recent years, Wikit and

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1/ Based on data submitted in response to questionnaires of the U.S. International Trade Commission.

2/ Data received from Pennsylvania State Manufacturing, Co., Clifton Heights, Pa., during the preliminary investigation were incomplete and are not included. In recent years, they manufactured shop towels in Puerto Rico. They produced * * * towels in 1980, * * * in 1981, * * * in 1982, and * * * in 1983. During the period under investigation, Pennsylvania State never accounted for more than * * * percent of total U.S. production. Shop towels accounted for less than * * * percent of Pennsylvania State's overall business.

Another domestic producer, Federal Bag Company, St. Louis, Mo., produced about * * * towels in 1983. Shop towels accounted for * * * percent of Federal Bag's overall business in 1983, and less than * * * percent of total U.S. production.

Wipo also purchased imported (primarily Chinese) towels from jobbers and identified them as such on their price lists. The imported towels were their lowest priced shop towel. They are often dyed before their initial use. Both firms reported that 1980 was the peak year for buying and selling imported towels, when they accounted for * * * of their total shop towel revenues.

The four producers also make other related items in the same establishments in which they produce shop towels. The products include mopheads, dish towels, and huck toweling made in continuous lengths for use in public restrooms. However, the shop towels are cut and sewn on separate machinery. In addition, the two firms which weave their own shop towel fabric do not produce other fabrics on the same looms, because, according to the petitioner, the looms are lightweight and cannot weave fabric heavier than that used in shop towels. Also, the looms are limited to fabric widths of no more than 38 inches, compared with widths of 45 inches or more for most other broadwoven fabrics.

U.S. Importers

* * * identified 40 importers of shop towels from Pakistan during 1982 and January-September 1983. Each of these firms accounted for a small part of total imports during the period.

The Pakistani Industry 1/

The textile industry in Pakistan is based primarily on cotton. The cotton industry is Pakistan's single largest industry, accounting for about one-fourth of industrial production, 40 percent of the industrial work force, and 25 percent of the country's foreign exchange earnings.

Pakistan's textile industry is divided between the organized commercial mill sector and the unorganized cottage industry sector. The organized sector includes larger factory-type operations which are required to register and pay excise taxes based either on actual production or on capacity. The unorganized sector includes small units which are also registered and must pay excise taxes, but are exempt from social and welfare tax programs. The cottage industry generally consists of small, family-owned operations or units located in rural areas. One unit in this industry usually consists of four power looms and employs less than 10 persons. Very little yarn spinning is done in the cottage industry sector, but it is estimated to account for about 50 percent of the power looms. In recent years the Government has encouraged growth in weaving in the cottage industry.

During the 1982/83 crop year, Pakistan produced about 5 percent of the world's cotton crop. Pakistan's production in that year was about 3,600 bales,

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1/ Sources for this section are report from U.S. Consulate, Lahore, September 1982; and Emerging Textile-Exporting Countries: Report on Investigation No. 332-126. . . USITC Publication 1273, August 1982.

with domestic consumption accounting for about two-thirds of production. The raw cotton used by the textile industry is domestically grown, providing the local industry with some price advantage. 1/ The quality of the cotton needs improvement since much of it presents spinning problems. As a result, much of the yarn spun in Pakistan is suitable for use in coarse, inexpensive fabrics, such as osnaburg which is used to make shop towels. Because of the abundant domestic supply of cotton, the mills use only cotton in their shop towels. These towels are not dyed or printed but are exported in bales (each containing approximately 2,500 18-by 18-inch towels) in the greige state.

According to counsel for the Pakistanis, capacity and capacity utilization statistics are not kept since there is not a Pakistani industry involved in the manufacture of shop towels. 2/ However, it is estimated that towel manufacturers devote 5 to 7 percent of their capacity to the production of shop towels. The fabric is woven upon request in the cottage industry, and converters make the towels to order. Capacity to increase production is limited by the price floor set by the Government. 3/

Since Pakistan's exports of textile products to several countries (Scandinavia and the European Community, Canada, and the United States) are limited by quotas, exporters are expanding their sales to nonquota countries. Currently, all but a small part of Pakistan's yarn exports and nearly two-thirds of its cotton fabric exports go to countries which do not have bilateral agreements with Pakistan. Shop towel exports make up about 5 percent of Pakistan's total towel exports.

In recent years, Pakistan has been shifting the composition of its textile exports from yarns to fabrics and from fabrics to apparel and other "made-ups" (mainly sheets and towels). Although Pakistan has established a few modern factories capable of producing large orders of standardized, high-quality clothing, the best export potential remains in those all-cotton items which do not require exacting standards. The Pakistani Government is interested in allocating most of its U.S. quota to items which have a higher value than shop towels. 4/

According to counsel for the Pakistanis, the Government allocated 10 percent of the 1983 quota in category 369 to shop towels. 5/ Counsel also provided information concerning the establishment of a floor price of $210 per bale on shop towels exported from Pakistan after April 20, 1983. The

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1/ Until 1973, Pakistan levied an export duty on raw cotton, and the world market price minus the export duty determined the domestic price. Since then, all cotton export marketing functions have been performed through a Government agency, the Cotton Export Corporation, which sells the cotton at world prices. Domestic mills and the Cotton Export Corporation are the only purchasers of raw cotton from the gins.

2/ Postconference brief of the respondent for investigation No. 701-TA-202 (Preliminary), p. 13.

3/ Ibid.

4/ Postconference brief of the respondent for investigation No. 701-TA-202 (Preliminary), p. 7, and transcript of the conference, p. 69.

5/ Ibid.

Government imposed this price increase to further its policy of discouraging production of inexpensive items such as shop towels. 1/ Telephone conversations with five importers of Pakistani shop towels during the preliminary investigation (Aug. 22, 1983) confirmed that three firms knew of the price increase in April or May. Two of the five firms had not purchased towels in 1983, and one of these firms knew about the price increase. Two of the three firms had tried unsuccessfully to purchase Pakistani shop towels.

The Government of Pakistan has formulated a wide-ranging program to assist the textile industry. The plan focuses on improvements in the quality as well as the quantity of raw cotton and cotton lint, training of managerial personnel, modernization of industrial equipment, upgrading of the industry's products, export marketing, and labor-management relations.

In addition, the Pakistani Government has taken a number of steps to encourage exports of all products. Such measures include (1) reducing the cost of credit for financing exports from 10 to 3 percent; (2) expanding the scope of the Export Financing Scheme; (3) implementing standard rebates of duties; (4) providing compensatory rebates for yarn and cloth to offset higher costs of raw materials, such as chemicals for finishing and dyeing, other imports, and capital equipment; and (5) simplifying import licensing procedures to provide easier access to raw materials and industrial machinery for exporters.

Nature and Extent of Subsidies

On January 11, 1984, the Department of Commerce made a final determination that the Government of Pakistan provides certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, with respect to the manufacture, production, or exportation of cotton shop towels. Commerce determined that the following programs confer subsidies: (1) compensatory rebate (7.5 percent), (2) excise tax (3.8 percent) and sales tax (0.11 percent) rebates, (3) customs duty rebate (0.37 percent) (4) income tax reduction (0.013 percent), (5) export financing (0.08 percent), and (6) export credit insurance (0.8 percent). The net subsidy is 12.67 percent ad valorem.

Consideration of Material Injury

<u>U.S. production, production capacity, and capacity utilization</u>

Total U.S. production of shop towels (by reporting producers, which accounted for * * * percent of total production in 1982) increased slightly, from 161 million towels in 1980 to 162 million in 1981, before decreasing 22 percent to 126 million in 1982. However, production in January-September 1983 showed an increase of 5 percent compared with production in the corresponding period of 1982 (table 1).

* * * * * * *

1/ Transcript of the conference, p. 70.

Table 1.--Shop towels: U.S. production, by firms, 1980-82, January-September 1982, and January-September 1983

Firm	1980	1981	1982	January-September--	
				1982	1983
	Quantity (1,000 units)				
Milliken & Co-------	***	***	***	***	***
Texel Industries, Inc----------------	***	***	***	***	***
Wikit, Inc----------	***	***	***	***	***
Wipo, Inc-----------	***	***	***	***	***
Total-----------	160,626	161,575	125,590	90,383	95,232
	Percent of total				
Milliken & Co-------	***	***	***	***	***
Texel Industries, Inc----------------	***	***	***	***	***
Wikit, Inc----------	***	***	***	***	***
Wipo, Inc-----------	***	***	***	***	***
Total-----------	100.0	100.0	100.0	100.0	100.0

1/ * * *.

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

Domestic producers manufacture both cotton and blended shop towels. The following tabulation shows the percentage distribution of U.S. production of these towels:

Type	1980	1981	1982	January-September--	
				1982	1983
Cotton-------------	47	51	58	61	67
Blended------------	53	49	42	39	33
Total------------	100	100	100	100	100

Capacity in the shop towel industry remained relatively stable throughout the period under investigation, increasing 4 percent from 380.8 million towels in 1980 to 395.7 million towels in 1981 before decreasing by 3 percent to 382.8 million towels in 1982 (table 2). Capacity during January-September 1983 was the same as that in the corresponding period of 1982.

Table 2.--Shop towels: U.S. production capacity and capacity utilization, by firms, 1980-82, January-September 1982, and January-September 1983

Firm	1980	1981	1982	January-September-- 1982	January-September-- 1983
	Production capacity (1,000 units)				
Milliken & Co	***	***	***	***	***
Texel Industries, Inc	***	***	***	***	***
Wikit, Inc	***	***	***	***	***
Wipo, Inc	***	***	***	***	***
Total	380,768	395,651	382,827	250,354	250,354
	Capacity utilization (percent)				
Milliken & Co	***	***	***	***	***
Texel Industries, Inc	***	***	***	***	***
Wikit, Inc	***	***	***	***	***
Wipo, Inc	***	***	***	***	***
Total	42.2	40.8	32.8	36.1	38.0

1/ * * *.

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

Capacity utilization in the industry decreased from 42.2 percent in 1980 to 40.8 percent in 1981 and to 32.8 percent in 1982. It increased from 36.1 percent in January-September 1982 to 38.0 percent in January-September 1983.

U.S. producers' domestic shipments 1/

The quantity of U.S. producers' shipments was about 160.0 million towels in 1980 and 1981 and then declined to 123.9 million in 1982 (table 3). Shipments increased in January-September 1983 compared with those in the corresponding period of 1982 by 7 percent to 95.7 million towels. The value of shipments increased by 7 percent, or $1.7 million, from 1980 to 1981, and then decreased by 20 percent to $20.4 million in 1982. The value in January-September 1983 increased 5 percent to $15.4 million compared with that in the corresponding period of 1982. The unit value of shipments increased from 14.93 cents in 1980 to 16.44 cents in 1982. The unit value decreased in

1/ Does not include shipments of shop towels purchased from importers.

Table 3.--Shop towels: U.S. producers' domestic shipments, 1/ by firms, 1980-82, January-September 1982, and January-September 1983

Firm	1980	1981	1982	January-September-- 1982	January-September-- 1983
	Quantity (1,000 units)				
Milliken & Co------	***	***	***	***	***
Texel Industries, Inc---------------	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***
Total----------	159,939	159,960	123,936	89,083	95,691
	Value (1,000 dollars)				
Milliken & Co------	***	***	***	***	***
Texel Industries, Inc---------------	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***
Total----------	23,888	25,546	20,375	14,732	15,403
	Unit value (cents)				
Milliken & Co------	***	***	***	***	***
Texel Industries, Inc---------------	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***
Average---------	14.93	15.98	16.44	16.54	16.10

1/ Does not include shipments of shop towels purchased from importers.
2/ * * *.

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

January-September 1983 to 16.10 cents. The average unit value during January-September 1983 compared with that in the corresponding period of 1982 * * *.

U.S. producers' shipments of imported towels

* * * domestic producers, * * * reported domestic shipments of shop towels purchased from importers. These shipments are shown in the following tabulation:

Period	Quantity (1,000 units)	Value (1,000 dollars)
1980	***	***
1981	***	***
1982	***	***
January-September--		
1982	***	***
1983	***	***

U.S. producers' exports

* * * of the four U.S. producers * * * reported exports of shop towels, mainly to Europe. * * * exports represent less than * * * of * * * total shipments. Exports and their share of total U.S. shipments of shop towels are shown in table 4.

Table 4.--Shop towels: U.S. producers' exports, 1980-82, January-September 1982, and January-September 1983

Period	Quantity	Value	Unit value	Share of total quantity of shipments
	1,000 units	1,000 dollars	Cents per towel	Percent
1980	***	***	***	***
1981	***	***	***	***
1982	***	***	***	***
January-September--				
1982	***	***	***	***
1983	***	***	***	***

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

U.S. producers' inventories

Historically, shop towel producers have maintained little inventory, because towels can be cut and sewn quickly to fill orders. U.S. producers' yearend inventories of shop towels more than doubled in the period under investigation, from 1.8 million in 1980 to 3.8 million in 1982 (table 5). Inventory levels fell to 1.7 million at the end of September 1983 from 2.9 million at the end of September 1982.

Table 5.--Shop towels: U.S. producers' inventories held as of Dec. 31 of 1980-82, Sept. 30, 1982, and Sept. 30, 1983

Period	Quantity	Ratio of inventories to production
	1,000 units	Percent
Dec. 31--		
1980	1,760	1.10
1981	2,646	1.64
1982	3,779	3.01
Sept. 30--		
1982	2,870	1/ 2.39
1983	1,693	1/ 1.34

1/ Based on annualized January-September production.

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

The ratio of inventories to production increased from 1.1 percent in 1980 to 3.0 percent in 1982. It decreased in January-September 1983 to 1.3 percent.

* * * producers reported inventories of shop towels purchased from importers. These inventories are shown in the following tabulation:

Period	Quantity (1,000 units)
Dec. 31--	
1980	***
1981	***
1982	***
Sept. 30--	
1982	***
1983	***

Employment, productivity, and wages

The number of production and related workers engaged in the production of shop towels decreased from 431 in 1980 to 391 in 1982 (table 6). Hours worked declined more sharply during 1980-82, from 841,000 to 642,000; output per worker-hour remained stable, averaging 191 towels annually in 1980-82. However, during January-September 1983, employment and hours worked dropped sharply, but output per worker-hour increased 52 percent over the level in 1980-82. These changes are attributed largely to one producer, * * * whose output per production hour was * * * than the industry average during 1980-82, but * * * during January-September 1983. * * * attributes these changes to * * * . Table 6 provides data on employment and productivity for the four major U.S. producers. For comparison purposes, data * * * are also provided.

Table 6.--Average number of production and related workers engaged in the production of shop towels, hours worked by such workers, and output per hour, 1980-82, January-September 1982, and January-September 1983

Period	Production and related workers		Hours worked by production and related workers		Output per worker-hour	
	* * *	* * *	* * *	* * *	* * *	* * *
					------Units-------	
1980----------------	***	431	***	841,000	***	191
1981----------------	***	422	***	876,000	***	185
1982----------------	***	391	***	642,000	***	196
January-September---						
1982--------------	***	398	***	496,000	***	182
1983--------------	***	242	***	328,000	***	290

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

Wages paid to production and related workers engaged in the production of shop towels * * * are shown in table 7. Total compensation increased from $4.5 million in 1980 to $5.0 million in 1981 before decreasing over 20 percent to $4.0 million in 1982. Total compensation was $2.2 million in January-September 1983, compared with $3.2 million in the corresponding period of 1982. During the period under investigation, fringe benefits accounted for 6 to 10 percent of total compensation in the shop towel industry.

Table 7.--Total compensation paid to production and related workers engaged in the production of shop towels, wages paid to such workers excluding fringe benefits, and average hourly wages, 1980-82, January-September 1982, and January-September 1983

Period	Total compensation		Wages paid excluding fringe benefits		Average hourly wage 1/	
	* * *	* * *	* * *	* * *	* * *	* * *
	-----------1,000 dollars----------					
1980------------------	***	4,459	***	4,163	***	$5.30
1981------------------	***	5,003	***	4,657	***	5.71
1982------------------	***	3,969	***	3,592	***	6.18
January-September--						
1982----------------	***	3,216	***	2,917	***	6.49
1983----------------	***	2,243	***	2,030	***	6.83

1/ Calculated on the basis of total compensation.

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

Financial experience of U.S. producers

Income-and-loss data for shop towels and overall operations.--Profit-and-loss data, on an establishment basis and for shop towels alone, were received from four U.S. firms, which together accounted for virtually all U.S. shipments of shop towels in 1982.

The data for U.S. producers' shop towel operations are presented in table 8. Total net sales of shop towels increased by 4 percent, from $26.1 million in 1980 to $27.1 million in 1981, and then declined by 11 percent to $24.2 million in 1982. During the interim period ended June 30, 1983, total net sales declined by 12 percent to $15.7 million, compared with $17.9 million in the corresponding period of 1982.

During 1980 and 1981, two and three out of the four firms, respectively, reported a pretax profit on their shop towel operations. In 1982, * * * reported a pretax profit. During the interim period ended June 30, 1983, * * * earned a pretax profit, and * * * sustained pretax losses ranging from * * * to * * *. Aggregate operating profit remained steady at $3.3 million, averaging over 12.0 percent of net sales, in 1980 and in 1981, but declined precipitously to $788,000, equivalent to only 3.3 percent of net sales, in 1982. During the interim period ended June 30, 1983, 1/ U.S. producers reported an aggregate operating loss of $2,000, or 0.01 percent of net sales, compared with an operating profit of $80,000 or 0.4 percent of net sales, in the corresponding period of 1982. The ratio of net profit or loss before taxes to sales closely tracked the ratio of operating profit or loss to sales.

The primary reason for the declining profitability in 1982 was a drop in sales volume, which contributed to rising unit costs, because of high fixed costs, coupled with selling prices which did not keep pace with increasing unit costs and expenses. As a share of net sales, the cost of goods sold rose from 74.6 percent in 1980 and 74.1 percent in 1981 to 81.6 percent in 1982. This ratio was 84.1 percent during the interim period ended June 30, 1983, compared with a ratio of 86.0 percent in the corresponding period of 1982. General, selling, and administrative expenses, as a percentage of net sales, increased from 12.9 percent in 1980 to 15.2 percent in 1982 and to 15.9 percent in the interim period ended June 30, 1983.

1/ * * *.

Table 8.--Profit-and-loss experience of 4 U.S. producers on their shop towel operations, by firms, accounting years 1980-82, and 1/ interim periods ending June 30, 1982, and June 30, 1983

Period and firm	Net sales	Cost of goods sold	Gross profit or (loss)	General, selling, and adminis-trative expenses	Operating profit or (loss)	Interest expense	Other income or (ex-pense)	Net profit or (loss) before income taxes	Ratio of gross profit or (loss) to net sales	Ratio of operat-ing profit or (loss) to net sales	Ratio of net profit or (loss) before income taxes to net sales	Cash flow or (deficit) from opera-tions
	1,000 dollars								Percent			1,000 dollars
1980:												
Milliken & Co	***	***	***	***	***	***	***	***	***	***	***	***
Texel Industries 2/	***	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Total or average	26,114	19,482	6,632	3,357	3,275	179	(10)	3,086	25.4	12.5	11.8	3,726
1981:												
Milliken & Co	***	***	***	***	***	***	***	***	***	***	***	***
Texel Industries	***	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Total or average	27,066	20,046	7,020	3,748	3,272	200	41	3,113	25.9	12.1	11.5	3,722
1982:												
Milliken & Co	***	***	***	***	***	***	***	***	***	***	***	***
Texel Industries	***	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc	***	***	***	***	***	***	***	***	***	***	***	***
Total or average	24,224	19,755	4,469	3,681	788	463	43	368	18.4	3.3	1.5	1,142
Interim period ending: June 30, 1982:												
Milliken & Co	***	***	***	***	***	***	***	***	***	***	***	***
Texel Industries 3/	***	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc. 4/	***	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc. 4/	***	***	***	***	***	***	***	***	***	***	***	***
Total or average	17,893	15,395	2,498	2,418	80	463	43	(340)	14.0	0.4	(1.9)	269
Interim period ending: June 30, 1983:												
Milliken & Co	***	***	***	***	***	***	***	***	***	***	***	***
Texel Industries 3/	***	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc. 4/	***	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc. 4/	***	***	***	***	***	***	***	***	***	***	***	***
Total or average	15,661	13,173	2,488	2,490	(2)	355	(47)	(404)	15.9	(.01)	(2.6)	49

1/ Accounting year ended June 30, for * * *, Nov. 30, for * * * and Mar. 31, for * * *.
2/ * * *.
3/ * * *.
4/ * * *.

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

Cash flow generated from U.S. producers' shop towel operations declined from $3.7 million in 1980 and in 1981 to $1.1 million in 1982. The four firms reported a marginal cash flow of $49,000 for the interim period ended June 30, 1983, compared with a cash flow of $269,000 in the corresponding period of 1982.

* * * * * * *

The profit-and-loss data for U.S. producers' establishments in which shop towels are produced are shown in table 9. Shop towel sales accounted for one-half or slightly more than one-half of establishment sales during 1980-82 and the interim period ended June 30, 1983. The trends for overall establishment net sales and operating profit ratios are similar to those for shop towel operations during 1980 through June 30, 1983. During 1982, however, operating profit on overall establishment operations declined much more slowly than those on shop towel operations. From 1981 to 1982, operating profit (as a share of net sales) declined from 13.9 to 10.2 percent for establishment operations but from 11.5 to 1.5 percent for shop towels. During the interim period ended June 30, 1983, the U.S. producers reported operating losses on shop towel operations and declining profitability on establishment operations.

Investment in productive facilities.--To provide an additional measure of profitability, the ratios of operating profit or loss to original cost and book value of fixed assets employed in overall establishment operations and shop towel operations are presented in table 10. These ratios followed the same trend as did the ratios of operating profit or loss to net sales for both overall establishment and shop towel operations.

Capital expenditures.--Four firms furnished data relative to their capital expenditures for buildings and machinery and equipment used in the manufacture of all products of the reporting establishments and their capital expenditures for buildings and machinery and equipment used in the manufacture of shop towels. As shown in table 11, overall establishment capital expenditures rose from $812,000 in 1980 to $1.1 million in 1981 and then declined 21 percent to $884,000 in 1982. Capital expenditures declined from $605,000 in January-June 1982 to $179,000 in the corresponding period of 1983, or by 70 percent.

Capital expenditures relative to shop towels increased from $448,000 in 1980 to $797,000 in 1982. During January-June 1983, capital expenditures dropped by 80 percent to $115,000 from $563,000 in the corresponding period of 1982. * * *.

Table 9.--Profit-and-loss experience of 4 U.S. producers on the overall operations of the establishments within which shop towels are produced, by firms, accounting years 1980-82 1/, and interim periods ending June 30, 1982, and June 30, 1983

Period and firm	Net sales	Cost of goods sold	Gross profit or (loss)	General selling, and administrative expenses	Operating profit or (loss)	Interest expense	Other income or (expense)	Net profit or (loss) before income taxes	Ratio of gross profit or (loss) to net sales	Ratio of operating profit or (loss) to net sales	Ratio of net profit or (loss) before income taxes to net sales
	1,000 dollars								Percent		
1980:											
Milliken & Co------	***	***	***	***	***	***	***	***	***	***	***
Texel Industries---	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***	***	***	***	***	***	***
Total or average------------	48,214	34,054	14,160	6,450	7,710	252	(19)	7,439	29.4	16.0	15.4
1981:											
Milliken & Co------	***	***	***	***	***	***	***	***	***	***	***
Texel Industries---	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***	***	***	***	***	***	***
Total or average------------	50,750	36,298	14,452	7,384	7,068	237	52	6,883	28.5	13.9	13.6
1982:											
Milliken & Co------	***	***	***	***	***	***	***	***	***	***	***
Texel Industries---	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc---------	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc----------	***	***	***	***	***	***	***	***	***	***	***
Total or average------------	48,628	35,992	12,636	7,693	4,943	492	(31)	4,420	26.0	10.2	9.1
Interim period ending: June 30, 1982:											
Milliken & Co------	***	***	***	***	***	***	***	***	***	***	***
Texel Industries 2/---------	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc. 3/-----	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc. 3/------	***	***	***	***	***	***	***	***	***	***	***
Total or average------------	32,360	25,033	7,327	4,643	2,684	492	(41)	2,151	22.6	8.3	6.6
Interim period ending: June 30, 1983:											
Milliken & Co------	***	***	***	***	***	***	***	***	***	***	***
Texel Industries 2/---------	***	***	***	***	***	***	***	***	***	***	***
Wikit, Inc. 3/-----	***	***	***	***	***	***	***	***	***	***	***
Wipo, Inc. 3/------	***	***	***	***	***	***	***	***	***	***	***
Total or average------------	28,771	21,849	6,922	5,242	1,680	457	(73)	1,150	24.1	5.8	4.0

1/ Accounting year ended June 30, * * *, Nov. 30, * * * and Mar. 31, * * *.
2/ * * *.
3/ * * *.

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

Table 10.--Investment in productive facilities by 4 U.S. producers producing shop towels as of the end of accounting years 1980-82, and interim periods ending June 30, 1982, and June 30, 1983

Item	1980	1981	1982	As of June 30-- 1982	As of June 30-- 1983
Overall establishment operations:					
Original cost 1,000 dollars--	10,428	11,187	12,097	12,150	11,374
Book value----------do----	4,297	4,328	4,563	4,490	3,918
Ratio of operating profit or (loss) to---					
Net sales------percent--	16.0	13.9	10.2	8.3	5.8
Original cost-----do----	73.9	63.2	40.9	1/ 22.1	1/ 14.8
Book value--------do----	179.4	163.3	108.3	1/ 59.8	1/ 42.9
Shop towel operations:					
Original cost 1,000 dollars--	7,696	8,056	8,841	8,895	8,934
Book value----------do----	2,790	2,715	3,171	3,148	3,024
Ratio of operating profit or (loss) to--					
Net sales------percent--	12.5	12.1	3.3	0.4	(0.01)
Original cost-----do----	42.6	40.6	8.9	1/ 0.9	1/ (0.02)
Book value--------do----	117.4	120.5	24.9	1/ 2.5	1/ (0.07)

1/ Not comparable with annual data.

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

Table 11.--Shop towels: Four U.S. producers' capital expenditures for building and leasehold improvements and machinery and equipment, 1980-82, January-June 1982, and January-June 1983

(In thousands of dollars)

Item and period	Building and leasehold improvements	Machinery and equipment	Total
All products of establishments:			
1980	35	777	812
1981	150	970	1,120
1982	28	856	884
January-June--			
1982	25	580	605
1983	5	174	179
Shop towels:			
1980	31	417	448
1981	76	657	733
1982	28	769	797
January-June--			
1982	19	544	563
1983	2	113	115

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

Research and development expenditures.--U.S. producers' research and development expenditures in connection with their shop towel operations were compiled from questionnaire data and are presented in the following tabulation:

Period	Value (1,000 dollars)
1980	***
1981	***
1982	***
January-June--	
1982	***
1983	***

* * * * * * *

Impact of imports on U.S. producers' growth, investment, and ability to raise capital

The Commission requested U.S. producers to describe and explain the actual and potential negative effects, if any, of imports of cotton shop towels from Pakistan on their firm's growth, investment, and ability to raise capital. Their responses are presented below.

* * * * * * *

* * * * * * *

* * * * * * *

Consideration of the Threat of Material Injury

There are several factors which may contribute to a determination of a threat of material injury to the domestic industry. These include foreign capacity, the ability of foreign producers to increase their exports to the United States, and any increase in importers' inventories of the product.

Information submitted by counsel for the Export Promotion Bureau of Pakistan shows that about 90 percent of Pakistani exports of shop towels are to the United States. 1/ The remainder of the Pakistani shop towels are exported to other highly industrialized countries such as the European Community, Japan, and Canada. A detailed discussion of the Pakistani textile industry is in the Pakistani industry section.

* * * importers provided information on their end-of-period inventories of imported shop towels from Pakistan, as shown in the following tabulation:

Period	Quantity (1,000 units)
1980	***
1981	***
1982	***
1983 (January-September)	***

Consideration of the Causal Relationship Between the Subsidized Imports and the Alleged Injury

U.S. imports

Imports of cotton shop towels from all sources, after increasing 25 percent from 91 million towels in 1980 to about 114 million in 1981, decreased 18 percent in 1982 to 93 million towels (table 12). Imports during January-September 1983 were slightly less than those during the corresponding period of 1982.

1/ Post conference brief of the respondent, p. 13.

Imports of shop towels from Pakistan rose from 4.3 million towels in 1980 to 6.1 million in 1981, before increasing to 6.6 million in 1982. The following tabulation shows imports from Pakistan in 1982 and 1983 on a monthly basis (in thousands of towels):

Period	1982	1983
January	288	488
February	1,125	627
March	150	1,828
April	263	1,711
May	400	3,349
June	595	3,974
July	253	3,446
August	563	3,231
September	525	3,270
October	524	1,127
November	1,280	7
December	643	1,582

Pakistan was a secondary supplier of shop towels in 1980 when compared with Hong Kong and Singapore, the major suppliers after China. In 1981, China's shipments more than doubled to 94 million towels, whereas Hong Kong's shipments dropped to 12 million towels, or less than one-half its 1980 level. During this period, Pakistan became the third largest supplier as Singapore's shipments fell to 250,000 towels. Imports from Pakistan continued to increase, and in 1982, it replaced Hong Kong as the second largest supplier. No imports from Singapore have been recorded since January 1981.

Total imports of 68.6 million towels in January-September 1983 were virtually the same as the 68.9 million imported during the corresponding period of 1982. However, Pakistan's shipments increased from 4.2 million towels in January-September 1982 to 21.9 million towels in January-September 1983, and China's shipments decreased 34 percent, or by nearly 21 million towels. Hong Kong's shipments increased from 1.6 million to 3.9 million towels.

Between 1980 and 1982, the shop towels imported from Pakistan remained slightly less expensive in unit value than those from Hong Kong and slightly more expensive than those from China. In January-September 1983, however, the towels imported from Pakistan were valued at an average 7.78 cents each, those from China, at 7.87 cents each, and those from Hong Kong, at 9.10 cents each.

U.S. consumption and market penetration

Apparent U.S. consumption of shop towels (producers' domestic shipments including shipments from inventory plus total imports) increased from 251 million towels in 1980 to 274 million in 1981 and then decreased 21

Table 12.--Shop towels: U.S. imports for consumption, by principal sources, 1980-82, January-September 1982, and January-September 1983

Source	1980	1981	1982	January-September-- 1982	January-September-- 1983
	Quantity (1,000 units)				
China	45,460	94,329	83,013	61,629	40,773
Pakistan	4,349	6,053	6,607	4,161	21,923
Hong Kong	30,714	12,491	1,779	1,554	3,938
Taiwan	1,250	625	1,600	1,550	0
Singapore	8,782	250	0	0	0
All other	725	75	60	0	1,944
Total	91,280	113,823	93,059	68,894	68,578
	Value (1,000 dollars)				
China	3,148	7,199	6,764	4,980	3,208
Pakistan	412	492	594	392	1,707
Hong Kong	2,984	1,377	178	149	358
Taiwan	98	43	153	115	-
Singapore	758	20	-	-	-
All other	50	9	4	-	151
Total	7,450	9,140	7,692	5,636	5,424
	Unit value (cents)				
China	6.93	7.63	8.15	8.08	7.87
Pakistan	9.47	8.14	8.98	9.43	7.78
Hong Kong	9.72	11.02	9.98	9.60	9.10
Taiwan	7.84	6.90	9.56	7.44	-
Singapore	8.63	8.03	-	-	-
All other	6.85	12.22	6.50	-	7.77
Average	8.16	8.03	8.27	8.19	7.91

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

percent to 217 million towels in 1982 (table 13). Consumption increased 4 percent during January-September 1983 to 164.3 million towels compared with the corresponding period of 1982.

Imports of shop towels from all sources increased from 36.3 percent of apparent U.S. consumption in 1980 to 42.9 percent in 1982 and decreased slightly to 41.7 percent in January-September 1983.

Table 13.--Shop towels: Apparent U.S. consumption, 1980-82, January-September 1982, and January-September 1983

Period	Apparent U.S. consumption	Ratio of imports to consumption	Ratio of imports from Pakistan to consumption
	1,000 units	Percent	Percent
1980	251,219	36.3	1.7
1981	273,783	41.6	2.2
1982	216,995	42.9	3.0
January-September--			
1982	157,977	43.6	2.6
1983	164,269	41.7	13.4

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

Shop towel imports from Pakistan as a share of U.S. consumption increased from 1.7 percent in 1980 to 3.0 percent in 1982 before increasing to 13.4 percent in January-September 1983. A comparison of Pakistan's market share with the market shares of the four domestic producers responding to the Commission's questionnaire is shown in table 14.

Table 14.--Shop towels: U.S. producers' domestic shipments, by firms, and imports from China, Pakistan, and all other sources, 1980-82, January-September 1982, and January-September 1983

Item	1980	1981	1982	January-September-- 1982	January-September-- 1983
	Quantity (1,000 units)				
Producers' domestic shipments:					
Milliken & Co	***	***	***	***	***
Texel Industries, Inc	***	***	***	***	***
Wikit, Inc	***	***	***	***	***
Wipo, Inc	***	***	***	***	***
Total	159,939	159,960	123,936	89,083	95,691
Imports from--					
China	45,460	94,329	83,013	61,629	40,773
Pakistan	4,349	6,053	6,607	4,161	21,923
All other	41,471	13,441	3,439	3,104	5,882
Total	91,280	113,823	93,059	68,894	68,578
Grand total	251,219	273,783	216,995	157,977	164,269
	Percent of total				
Producers' domestic shipments:					
Milliken & Co	***	***	***	***	***
Texel Industries, Inc	***	***	***	***	***
Wikit, Inc	***	***	***	***	***
Wipo, Inc	***	***	***	***	***
Total	63.7	58.4	57.1	56.4	58.3
Imports from--					
China	18.1	34.5	38.3	39.0	24.8
Pakistan	1.7	2.2	3.0	2.6	13.4
All other	16.5	4.9	1.6	2.0	3.6
Total	36.3	41.6	42.9	43.6	41.7
Grand total	100.0	100.0	100.0	100.0	100.0

1/ * * *.

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

Prices

Domestic producers and importers of cotton shop towels sell them to industrial laundries and to distributors. The laundries then rent the shop towels to user industries. Laundries which purchase shop towels from importers frequently do not know the country of origin. User industries often are not aware of whether their rented towels are domestic or imported.

Purchasers provide clean towels to users and pick up the dirty towels on a regular basis. The users pay a set charge for cleaning the towels (the price can range from 3 cents to 8 cents per towel, per washing, depending on volume and other considerations). 1/ Users are billed for replacement of lost towels, and generally the cost of worn-out towels is amortized in the cleaning charge. The generally accepted loss rate for shop towels is approximately 5 to 6 percent (about 5 towels for every 100 in use between launderings).

Although most domestic products * * * are generally regarded as better quality than imports, the towel supply business is highly price competitive, and the towel rental companies generally cannot charge more if they use more expensive domestically produced towels rather than imports. The quality factor primarily concerns how long a towel lasts. The laundries are of the opinion that for most uses the imported towel and domestic towel perform satisfactorily for the user, but the domestic towel endures more launderings and lasts longer. Most towels, both imported and domestic, have good absorbency, which is an important attribute. Good quality is more important to companies which supply certain industries which have special requirements and/or low loss rates. Features offered by domestic producers, such as soil release, dyeing, and imprinting, are considered useful but not important enough to offset a large price difference.

Domestic shop towels are usually sold in bundles of 3,000 each, 2/ and are usually shipped by truck. Some domestic producers sell their product at established list prices, and others sell at negotiated prices. Usually the prices are quoted on an f.o.b. plant basis, with the purchaser paying for the freight. Shop towels are sold both on a spot-price basis and on contracts providing for a 1-to-3-month guaranteed price.

The Commission's questionnaires requested importers of shop towels from Pakistan to provide weighted-average prices for sales of all-cotton shop towels to their three largest customers during January 1981-September 1983, by quarters. Four importers and four domestic producers responded with usable price data.

Weighted-average prices of domestically produced cotton shop towels increased from $146.64 per 1,000 towels in January 1981 to $154.10 in June 1983, or by $7.46, or 5.1 percent (table 15). Prices then fell during July-September 1983 by 5.3 percent to $145.92.

1/ Phone conversation between * * * and Marilyn Borsari on June 23, 1983.
2/ A bale of imported towels contains 2,500 towels.

Table 15.--Cotton shop towels: Domestic producers' and importers' weighted-average prices to their 3 largest customers, f.o.b. U.S. point of shipment, and margins of underselling, by types, and by quarters, January 1981-September 1983

Period	Domestic producers' prices for all cotton towels 18" x 18"	Importers' prices for all cotton towels from Pakistan 18" x 18"	Margins of underselling by imported product	
			Amount	Quantity
	Per 1,000 units			Percent
1981:				
Jan.-Mar	$146.64	$93.14	$53.50	36
Apr.-June	146.63	93.74	52.89	36
July-Sept	149.93	96.23	53.70	36
Oct.-Dec	151.01	89.10	61.91	41
1982:				
Jan.-Mar	150.88	96.05	54.83	36
Apr.-June	151.49	100.24	51.25	34
July-Sept	153.08	98.82	54.26	35
Oct.-Dec	153.42	105.41	48.01	31
1983:				
Jan.-Mar	153.43	95.53	57.90	38
Apr.-June	154.10	96.21	57.89	38
July-Sept	145.92	109.05	36.87	25

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

Weighted-average prices for all-cotton shop towels imported from Pakistan fluctuated during January 1981-September 1983, but remained substantially below the prices of domestic shop towels. During January-September 1981, the prices for imported Pakistani shop towels increased from $93.14 to $96.23 per 1,000 towels, and then declined to $89.10 during October-December of the same year. The prices increased to $96.05 during January-March 1982, and then rose again to $100.24 in April-June. Prices then declined to $98.82 in July-September 1982, before increasing again to $105.41 in October-December 1982, the second highest level attained during the period for which data were collected. A significant price drop occurred in 1983 when in January-March the prices fell to $95.53 per 1,000 towels before recovering somewhat to $96.21 in April-June and then achieving a high of $109.05 in July-September. The total price increase for Pakistani towels for the entire 2-3/4-year period was $15.91, or 17.1 percent.

The Pakistani all-cotton shop towels undersold the domestic product during the 11-quarter period, with the amount of underselling varying between $36.87 and $61.91. The margins of underselling were the smallest in July-September 1983 (25 percent) and highest (41 percent) at the end of 1981.

Lost sales

* * * domestic producers, * * * provided specific information on alleged lost sales as a result of imports of shop towels from Pakistan. They supplied the names of 13 firms or establishments where they stated that they lost sales amounting to * * * valued at * * * during 1982 and 1983. * * * alleged lost sales but provided no details.

The Commission staff contacted all 13 firms to which domestic producers alleged that they had lost sales of shop towels to imports from Pakistan. The responses of these firms are summarized as follows.

In eight instances, purchasers stated that they bought Pakistani towels instead of domestic towels. Six of these firms also reported increased purchases of imports from Pakistan in the last 2 years. Most of the increased purchases from Pakistan represent a recent shift from Chinese imports. Three companies have increased their purchases of domestic products very recently. In two of these cases, the shift was attributed to the recent availability of a lower priced domestic product. 1/ Since the preliminary investigation, one company which had purchased imported towels states that they are now purchasing only domestic towels because they feel domestic towels are of better quality.

Of the six purchasers that offered opinions, three felt Chinese and Pakistani towels were comparable in quality, and three felt towels from Pakistan were somewhat lower in quality. All stated that domestic towels were of higher quality than imported towels; however, the price difference between imported and domestic towels was sufficient to induce them to buy the imported towels. There are differences of opinion among purchasers as to how significant quality differences are in view of the way most towels are used and the high loss rate, which reduces the value of durability.

Most purchasers reported a substantial difference between prices of Pakistani and domestic towels, with the towels from Pakistan underselling the better quality domestic towels by an average of about 30 percent, or 4 to 6 cents per towel. Two purchasers reported recent offerings by domestic producers of towels priced as low as imports. Four purchasers reported that the price of Chinese towels had increased by as much as 2 cents each during the last 6 months due, in part, to the possible assessment of dumping duties. The approximate range of prices is 15 to 17 cents for better quality domestic

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1/ The lower priced domestic product discussed in this section is the Eagle towel from Wipo, Inc. * * *.

towels and 10 to 13 cents for both imported and low-priced domestic towels. In some cases, Chinese towels were reportedly no longer offered by suppliers. The major response of suppliers of imported towels to the reduced availability and higher price of Chinese towels has been a shift to Pakistani towels in about the same price range. Low-priced domestic towels have also gained a small share of the market.

The recently offered, low-priced domestic product from Wipo (the Eagle towel) differs from previous domestic products in that it is lighter in weight and of a lesser quality. 1/ The Eagle Towel is 100 percent cotton and similar to the Chinese towel in weight and construction. 2/ With the increase in the price of imports, both the low-priced domestic products and imports would be available at about 12 cents each.

1/ * * *.
2/ Transcript of the hearing, p. 83.

APPENDIX A

FEDERAL REGISTER NOTICES

[Investigation No. 701-TA-202 (Final)]

Cotton Shop Towels From Pakistan

AGENCY: International Trade Commission.

ACTION: Institution of a final countervailing duty investigation and scheduling of a hearing to be held in connection with the investigation.

SUMMARY: As a result of an affirmative preliminary determination by the U.S. Department of Commerce that there is a reasonable basis to believe or suspect that benefits that constitute a subsidy within the meaning of section 701 of the Tariff Act of 1930 (19 U.S.C 1671) are granted by the Government of Pakistan with respect to the manufacture, production, or exportation of shop towels of cotton, provided for in item 366.27 of the Tariff Schedules of the United States, the United States International Trade Commission hereby gives notice of the institution of investigation No. 701-TA-202 (Final) under section 705(b) of the act (19 U.S.C. 1671d(b)) to determine whether an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry is materially retarded, by reason of imports of such merchandise. Unless the investigation is extended, the Department of Commerce will make its final subsidy determination in the case on or before January 5, 1984, and the Commission will make its final injury determination by Feberuary 23, 1984 (19 CFR 207.25).

EFFECTIVE DATE: October 27, 1983.

FOR FURTHER INFORMATION CONTACT: Ms. Marlyn Borsari (202-523-5703), Office of Industries, U.S. International Trade Commission.

SUPPLEMENTARY INFORMATION:

Background

In September 1983, the Commission determined, on the basis of the information developed during the course of its preliminary investigation, that there was a reasonable indication that an industry in the United States was materially injured or threatened with material injury by reason of allegedly subsidized imports of cotton shop towels from Pakistan. The preliminary investigation was instituted in response to a petition filed on July 27, 1983, by counsel for Milliken and Company, a domestic manufacturer of cotton shop towels.

Participation in the Investigation

Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's Rules of Practice and Procedure (19 CFR 201.11, not later than 21 days after the publication of this notice in the **Federal Register**. Any entry of appearance filed after this date will be referred to the Chairman, who shall determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Upon the expiration of the period for filing entries of appearance, the Secretary shall prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to the investigation, pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)). Each document filed by a party to this investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not acept a document for filing without a certificate of service (19 CFR 201.16(c), as amended by 47 FR 33682, Aug. 4, 1982).

Staff Report

A public version of the staff report containing preliminary findings of fact in this investigation will be placed in the public record on December 14, 1983, pursuant to § 207.21 of the Commission's Rules (19 CFR 207.21).

Hearing

The Commission will hold a hearing in connection with this investigation beginning at 10 a.m. on January 17, 1984, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on December 28, 1983. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 11 a.m. on January 3, 1984, in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is January 10, 1984.

Testimony at the public hearing is governed by § 207.23 of the Commission's rules (19 CFR 207.23, as amended by 47 FR 33682, Aug. 4, 1982). This rule requires that testimony be limited to a nonconfidential summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 (19 CFR 207.22, as amended by 47 FR 33682, Aut. 4, 1982). Posthearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24) and must be submitted not later than the close of business on January 24, 1984.

Written Submissions

As mentioned, parties to this investigation may file prehearing and posthearing briefs by the dates shown above. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before January 24, 1984. A signed original and fourteen (14) true copies of each submission must be filed with the Scretary to the Commission in accordance with § 201.8 of the Commission's Rules (19 CFR 201.8). All written submissions except for confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired shall be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6).

For further information concerning the conduct of the investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and C (19 CFR Part 207, as amended by 47 FR 33682, Aug. 4, 1982), and part 201, subparts A through E (19 CFR Part 201, as amended by 47 FR 33682, Aug. 4, 1982).

This notice is publishd pursuant to § 207.20 of the Commission's rules (19 CFR 207.20).

By order of the Commission.

Issued: November 10, 1983.

Kenneth R. Mason,

Secretary.

[FR Doc. 83-31530 Filed 11-23-83; 8:45 am]

BILLING CODE 7020-02-M

International Trade Administration

[C-535-001]

Cotton Shop Towels from Pakistan; Final Affirmative Countervailing Duty Determination

AGENCY: International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Pakistan of cotton shop towels, as described in the "Scope of Investigation" section of this notice. The net subsidy is 12.67 percent *ad valorem*. The U.S. International Trade Commission (ITC) will determine whether these imports are materially injuring, or threatening to materially injure, a U.S. industry, within 45 days of the date of publication of this notice.

EFFECTIVE DATE: January 11, 1984.

FOR FURTHER INFORMATION CONTACT: Paul Thran, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230, (202) 377-3963.

SUPPLEMENTARY INFORMATION: Based upon our investigation, we determine that the government of Pakistan (GOP) provides certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), to manufacturers, producers, or exporters in Pakistan of cotton shop towels, as described in the "Scope of Investigation" section of this notice.

- Compensatory Rebate:
- Excise Tax Rebate:
- Sales Tax Rebate:
- Customs Duty Rebate:
- Income Tax Reduction:
- Export Financing: and
- Export Credit Insurance.

We determine the net subsidy to be 12.67 percent *ad valorem*.

Case History

On July 29, 1983, we received a petition from counsel for Milliken and Company filed on behalf of the U.S. industry producing cotton shop towels. The petition alleged that certain benefits which constitute subsidies within the meaning of section 701 of the Act are being provided, directly or indirectly, to manufacturers, producers, or exporters in Pakistan of cotton shop towels. We found the petition to contain sufficient grounds upon which to initiate a countervailing duty investigation, and on August 18, 1983, we initiated an investigation (48 FR 38661).

Since Pakistan is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. Therefore, we notified the International Trade Commission (ITC) of our initiation. On September 12, 1983, the ITC determined that there is a reasonable indication that imports of cotton shop towels are materially injuring a U.S. industry.

We presented a questionnaire concerning the allegations to the Embassy of Pakistan in Washington, D.C. on September 6, 1983 and requested a response by October 7, 1983. In a letter dated September 21, 1983, the GOP requested a postponement of the due date of the response. We granted the GOP a one week extension.

The GOP submitted a response to our questionnaire on October 18, 1983. On October 24, 1983, the Department preliminarily determined that there was reason to believe or suspect that the GOP provides certain benefits which constitute subsidies to manufacturers, producers, or exporters in Pakistan of cotton shop towels (48 FR 49678). We estimated the net subsidy to be 11.87 percent *ad valorem* and the following programs were preliminarily determined to confer subsidies:

- Compensatory Rebate;
- Excise Tax Rebate;
- Customs Duty Rebate;
- Sales Tax Rebate;
- Income Tax Reduction; and
- Export Financing.

The GOP submitted a supplementary response to our questionnaire on November 16, 1983. Between November 14 and 28, 1983, we conducted a verification, in Pakistan, of the information in the responses.

We provided opportunities for oral and written comments by the the public on our preliminary determination. No request was received for a public hearing.

Scope of Investigation

The product covered by this investigation is shop towels of cotton. The merchandise is currently classified under item number 366.2740 of the *Tariff Schedules of the United States Annotated* (TSUSA). The cotton shop towel industry in Pakistan is an unorganized cottage industry. The GOP has provided us with a list of companies which received authorization to export shop towels to the United States. The period for which we are measuring subsidization is 1982.

Analysis of Programs

In its response, the GOP provided data for the applicable period. The Towel Manufacturers' Association of Pakistan (TMAP) also provided a response. However, due to the unorganized cottage industry nature of Pakistani shop towel production, the TMAP could provide company-specific information on only some of the companies. Even after verification, complete information on the two company-specific programs, the income tax reduction and preferential export financing, was unobtainable. Therefore, we used the best information available, which consisted of information from the petition, in valuing these two benefits. Based upon our analysis of the petition, the responses to our questionnaire, and all public comments, we have determined the following:

I. Programs Determined To Confer Subsidies

We determine that subsidies are being provided to manufacturers, producers, or exporters in Pakistan of cotton shop towels under the programs described below.

A. *Compensatory Rebate.* The petitioner alleged that the government of Pakistan provides exporters of shop towels with a compensatory cash rebate which is calculated as 12.5 percent of the f.o.b. value of the exported product.

On August 28, 1983, the GOP reduced the value of the cash rebate for shop towels to 7.5 percent. Our policy has been to recognize fundamental changes in benefits applicable to all recipients in programs where we can confirm the change and where we have no reason to believe that the benefit has been shifted to other program. Both criteria are met in this case.

As the GOP failed to provide information linking the amount of the rebate to actual indirect taxes borne by shop towels, we determine that the GOP pays the compensatory rebate without regard to specific duties and taxes incurred in the production of shop towels. Therefore, it is countervailable. We find the value of the compensatory rebate to be 7.5 percent *ad valorem*.

B. *Excise Tax and Sales Tax Rebates.* The petitioner also alleged that the GOP provides a 3.8 percent excise tax rebate and a 0.35 percent sales tax rebate on exports of shop towels. We found the actual value of the sale tax rebate to be 0.11 percent. The reports covering the calculations of the values of the rebates showed that the GOP used information from a very limited number of companies in calculating the incidence of indirect taxes on grey cloth (shop towels). We find that the reports do not show the required linkage between the rebates given and the indirect tax incidence. Therefore, the two programs are countervailable and we find the values of the benefits to be 3.8 and 0.11 percent *ad valorem*, respectively.

C. *Customs Duty Rebate*. The petitioner also alleged that the GOP provides a 2 percent customs duty rebate on exported goods. The program is in effect a duty drawback. The GOP provided information on the correct value of this program. The value of the customs duty rebate is 0.37 percent. We verified that this value is correct.

During the verification, we found that the GOP pays this rebate on items not physically incorporated into the exported product. The sizing chemicals involved are used in the production process to stiffen, straighten, and shrink the yarn. However, they do not remain in the finished product. Therefore, the customs dity rebate is countervailable. The total value of benefit from this program is 0.37 percent *ad valorem*.

D. *Income Tax Reduction*. The GOP provides a 55 percent reduction of taxes on income generated by products made for export. We determined this program to be countervailable in the previous investigation of textile products from Pakistan. As receipt of this benefit is based solely on export performance, it is countervailable. As complete information on company use of this program was unobtainable, we used the information in the petition for valuing this benefit. The *ad valorem* value of the benefit is 0.013 percent.

E. *Export Financing*. The GOP permits short-term export financing to be provided to exporters at rates considerably lower than those otherwise charged on short-term loans in Pakistan. As receipt of this benefit is based solely on export performance, it is countervailable. As complete information on company use of this program was unobtainable, we used the information in the petition for valuing this benefit. The *ad valorem* value of the benefit is 0.06 percent.

F. *Export Credit Insurance*. The GOP, through the Pakistan Insurance Corporation, provides exporters with insurance against non-payment by foreign purchasers. Petitioner alleged that the premiums charged are insufficient to cover the long term operating costs of the program. Our verification showed that this was true. As we had insufficient information on the use of this program by the shop towel exporters, we used the best information available. There is no commercial benchmark. We calculated the benefit by determining the difference between administrative expenses and premiums charge and allocating it over the value of total exports insured for 1982. We find the value of the benefit of this program to be 0.8 percent *ad valorem*.

II. Program Determined Not To Be Used

We determine that the following program was not used by manufacturers, producers, or exporters of cotton shop towels from Pakistan.

Import Duty Rebates

The petitioner alleged that the GOP provides rebates of import duty on import of textile equipment. The GOP stated that this program applies only to imports of entire textile factories and not to individual pieces of equipment. The GOP also stated that the shop towel industry did not use this program.

Verification

In accordance with section 776(a) of the Act, we verified the information used in making our final determination. During this verification, we followed normal procedures. These included meetings and inspection of documents with government officials and on-site inspection of the records and operation of the companies exporting the merchandise under investigation to the United States.

Comments

All comments received are addressed in the sections of this notice concerning our findings

Final Determination

Based upon our investigation and in accordance with section 705(a)(1) of the Act, we determine that manufacturers, producers, or exporters in Pakistan of cotton shop towels are being provided with certain benefits which constitute subsidies within the meaning of the countervailing duty law.

Continuation of Suspension of Liquidation

In accordance with section 703(d) of the Act we are directing the U.S. Customs Service to continue suspension of liquidation of all entries of cotton shop towels from Pakistan which are entered, or withdrawn from warehouse, for consumption, on or after the date of publication of this notice in the Federal Register, and to require a cash deposit or bond for each entry of the subject merchandise in the amount of 12.67 percent *ad valorem*. The bond or cash requirements established in our preliminary determination are no longer in effect.

ITC Notification

In accordance with section 705(c)(1)(A) of the Act, we will notify the ITC of our determination. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order without the written consent of the Deputy Assistant Secretary for Import Administration. If the ITC determines that material injury or threat of material injury does not exist, this proceeding will be terminated and all securities posted as a result of the suspension of liquidation will be refunded or cancelled. If the ITC determines that such injury does exist, we will issue a countervailing duty order directing Customs officials to assess a countervailing duty on cotton shop towels from Pakistan entered, or withdrawn from warehouse, for consumption after the suspension of liquidation equal to 12.67 percent *ad valorem*. This determiation is published pursuant to section 705(d) of the Act.

Dated: January 5, 1984.

Willian T. Archey,

Acting Assistant Secretary for Trade Administration.

[FR Doc. 84-702 Filed 1-10-84; 8:45 am]

BILLING CODE 3510-DS-M

APPENDIX B

LIST OF WITNESSES APPEARING AT THE COMMISSION'S HEARING

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Cotton Shop Towels from Pakistan

Inv. No. : 701-TA-202 (Final)

Date and Time: January 17, 1984 - 10:00 a.m.

Sessions were held in connection with the investigation in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

In support of the imposition of countervailing duties:

Wilmer, Cutler and Pickering)
Washington, D.C.)--Counsel
Verner, Liipfert, Bernhard and McPherson)
Washington, D.C.)
on behalf of

Milliken & Company, LaGrange, Georgia

J. Brogdon Nichols, Assistant General Manager, Kex Division

Terrence P. Topp, Product Manager

Wilmer, Cutler and Pickering

John D. Greenwald--OF COUNSEL

Verner, Liipfert, Bernhard and McPherson

Ann K. H. Simon--OF COUNSEL

- more -

<u>In opposition to the imposition of countervailing duties</u>:

Kaplan, Russin & Vecchi--Counsel
Washington, D.C.
<u>on behalf of</u>

The Export Promotion Bureau (EPB) of Pakistan

Muhammad Sher Khan, Commercial Counselor,
Consulate General of Pakistan

James A. Peterson, President, Textiles by Peterson, Inc.,
New York, N.Y.

Dennis James, Jr.)
Kathleen F. Patterson)--OF COUNSEL