

# SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

Determination of the Commission in  
Investigation No. 731-TA-405 (Preliminary)  
Under the Tariff Act of 1930,  
Together With the Information  
Obtained in the Investigation

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JULY 1988



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Note.--Information that would disclose confidential operations of individual concerns may not be published and therefore has been deleted from this report. Deletions are indicated by asterisks.



UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, DC

Investigation No. 731-TA-405 (Preliminary)

SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission determines, 2/ pursuant to section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)), that there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports from the People's Republic of China (China) of sewn cloth headwear 3/ and visors, provided for in items 702.06, 702.08, 702.12, 702.14, 702.20, 702.32, 703.05, 703.10, 703.16 and part 6F of Schedule 3 of the Tariff Schedules of the United States, that are alleged to be sold in the United States at less than fair value (LTFV).

Background

On May 26, 1988, a petition was filed with the Commission and the Department of Commerce by the Headwear Institute of America, New York, NY, alleging that an industry in the United States is materially injured, and

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

2/ Commissioner Liebler, although available to participate in this determination, was unable to do so due to telecommunications difficulties. She notes that had she voted, she would have made an affirmative determination in this preliminary investigation.

3/ For purposes of this investigation, sewn cloth headwear refers to hats, caps, visors, and other headwear, whether or not ornamented, each comprising cut-and-sewn woven or knit fabric of vegetable fibers (including cotton, flax, and ramie), of man-made fibers, or of blends thereof, provided in the cited provisions of the tariff schedules.

threatened with further material injury, by reason of LTFV imports of sewn cloth headwear from China. Accordingly, effective May 26, 1988, the Commission instituted preliminary antidumping investigation No. 731-TA-405 (Preliminary).

Notice of the institution of the Commission's investigation and of a public conference 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, DC, and by publishing the notice in the Federal Register of June 3, 1988 (53 F.R. 20378). The conference was held in Washington, DC, on June 16, 1988, and all persons who requested the opportunity were permitted to appear in person or by counsel.



VIEWS OF VICE CHAIRMAN BRUNSDALE, COMMISSIONER ECKES,  
COMMISSIONER LODWICK, COMMISSIONER ROHR, AND COMMISSIONER CASS

Based on the information gathered in this preliminary investigation, we determine that there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury by reason of imports of sewn cloth headwear from the People's Republic of China that are allegedly sold at less than fair value (LTFV). <sup>1/</sup>

Like Product and Domestic Industry

As a threshold matter, we are required to define the "like product" and the relevant "domestic industry" to be examined for the purpose of assessing material injury. Section 771(4)(A) of the Tariff Act of 1930, as amended, 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." <sup>2/</sup> "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 an investigation . . . ." <sup>3/</sup>

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<sup>1/</sup> Material retardation is not an issue in this investigation and will not be discussed further.

<sup>2/</sup> 19 U.S.C. § 1677(4)(A).

<sup>3/</sup> 19 U.S.C. § 1677(10). "The article subject to an investigation" is defined by the scope of the Department of Commerce's (Commerce) investigation. Commerce, in its Notice of Initiation, has defined the scope of its investigation as follows:

The subject headwear includes caps, hats, and visors made from knitted or woven cloth of vegetable fibers including cotton, flax, and ramie, of man-made fiber, and/or blends thereof, and which is cut and sewn. The subject headwear may be adorned with braid, embroidery, or other applied, printed or sewn decoration or may be plain. This investigation does not include headwear of straw, felt or wool.

53 Fed. Reg. 23301 (1988).

The Commission's like product decision is essentially a factual determination, and the Commission applies the statutory standard of "like" or "most similar in characteristics and uses" on a case-by-case basis. In analyzing like product issues, the Commission generally considers a number of factors including, physical appearance, interchangeability among the articles, channels of distribution, customer perceptions of the articles, and the use of common manufacturing facilities and production employees. <sup>4/</sup>

The product subject to this investigation is sewn cloth headwear from the People's Republic of China (PRC). For the purposes of this preliminary investigation, we adopt a single like product coextensive with the scope of the investigation as defined by Commerce. The like product consists of all cut and sewn cloth headwear, including caps, hats and visors made from any combination of vegetable (e.g., cotton) or man-made fibers (MMF). <sup>5/</sup> It includes "blank" (undecorated) headwear as well headwear with decorations, imprinting, braiding, or embroidery. <sup>6/</sup> It does not include headwear made from straw, felt, fur, or wool. Both children's headwear and adult headwear are included within the like product definition.

Respondents made several like product arguments. First, respondents

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<sup>4/</sup> Certain Forged Steel Crankshafts from the Federal Republic of Germany and the United Kingdom, Invs. Nos. 731-TA-351 and 353 (Final), USITC Pub. No. 2014 (September 1987); Certain Copier Toner from Japan, Inv. No. 731-TA-373 (Preliminary), USITC Pub. No. 1960 (July 1987); Candles from the People's Republic of China, Inv. No. 731-TA-282 (Final), USITC Pub. No. 1888 (August 1986).

<sup>5/</sup> A "hat" is defined as headwear with a brim around the entire body. An example would be floppy tennis hat. A "cap" is defined as headwear without a brim, but with a shade or visor in the front. An example would be a baseball cap. A "visor" is defined as headwear which generally has the shape of a cap, but does not have a complete crown. Petition at 4.

<sup>6/</sup> Petitioner's Post-Conference Brief at 9.

asked the Commission to find three separate like products consisting of caps, hats, and visors. Because all three are manufactured at the same facilities with the same employees and equipment, have similar channels of distribution, are used primarily for promotional purposes, and appear to be perceived by consumers as substitutes for each other, we will include all three within the same like product definition. <sup>7/</sup> Second, respondents argued that the Commission alternatively should broaden the scope of the like product and include headwear made of straw, fur, felt or wool. We reject respondents' argument. In this investigation, the record indicates that there are significant differences between headwear made of these materials and cloth headwear. For example, both types of headwear are produced using separate equipment and employees, marketed through different channels of distribution, and directed to different end users. <sup>8/</sup>

Finally, respondents urged the Commission to find that children's headwear and adult headwear are separate like products. Respondents alleged that children's headwear is distinct from adult headwear because it is manufactured in different facilities by different producers, it is not priced comparably, and it is purchased for separate groups of consumers. The available information, however, indicates that there is some overlap in the domestic industry in terms of the production of children's and adult headwear. Further, there is insufficient information for the Commission to conclude at this time that the end-users of children's headwear differ significantly from those of adult headwear. Therefore, we do not make a

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<sup>7/</sup> Vice Chairman Brunsdale and Commissioner Cass note that there do not appear to be marked price differences among these categories.

<sup>8/</sup> Vice Chairman Brunsdale and Commissioner Cass note that straw, fur, felt, and wool headwear generally sells at substantially higher prices than does sewn cloth headwear.

size-based distinction in this preliminary investigation. <sup>9/</sup>

Having determined that there is one like product, sewn cloth headwear, we further determine that the relevant domestic industry consists of the domestic manufacturers of sewn cloth headwear.

#### Data Problems in this Investigation

The record in this preliminary investigation is deficient. Although staff sent out 120 questionnaires, the Commission received only 10 usable questionnaire responses from domestic sewn cloth headwear producers. Eight of those respondents are members of the petitioner, the Headwear Institute of America (HIA). The HIA members who responded are believed to include the largest U.S. producers.

There are at least 36 other domestic sewn cloth headwear producers who did not provide us with data. This number includes 10 members of the petitioner <sup>10/</sup> and 26 non-HIA members who indicated in writing or by telephone that they did produce sewn cloth headwear. In addition, there are approximately seven members who did not respond at all, but may produce this

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<sup>9/</sup> In any final investigation, we will more closely scrutinize these alternative like product definitions. We will pay particular attention to evidence concerning possible distinctions between sewn cloth headwear and woolen headwear in terms of characteristics and uses, and seek additional information regarding the alleged distinction between children's and adult headwear.

<sup>10/</sup> See Report to the Commission (Report) at A-11 & n.4.

product. <sup>11/</sup>

The Commission is to determine whether, based upon "the best information available at the time of the preliminary determination," there is a reasonable indication of material injury or threat thereof to an industry within the United States. <sup>12/</sup> The Commission may conclude that no reasonable indication exists only if "(1) the record as a whole contains clear and convincing evidence that there is no material injury or threat of such injury; and (2) no likelihood exists that contrary evidence will arise in a final investigation. <sup>13/</sup> Despite the Commission's efforts, the information in this investigation is meager. Based on an evaluation of the overall record, we cannot conclude, however, that the record as a whole contains "clear and convincing evidence" of no material injury or threat thereof. <sup>14/</sup> In the event that this investigation returns as a final investigation, we expect more complete information.

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<sup>11/</sup> Although we decline to decide the standing of the petitioner, we have serious concerns with regard to standing that should be scrutinized by Commerce. Even crediting petitioner's estimates of production and domestic shipments, questionnaire responses from producers in support of the petition accounted for only 45 percent of U.S. production. This low response rate raises serious questions about whether there is truly industry support for the petition. Furthermore, there is also a question as to whether petitioner qualifies as an "interested party" under the statute; 35 of its 60 members do not produce sewn cloth headwear. Report at A-11. A trade association qualifies as an "interested party" only if a majority of its members "manufacture, produce or wholesale a like product in the United States." 19 U.S.C. § 1677(9)(E). It is possible that enough of the 35 HIA members who do not produce the subject product do wholesale it so that a majority of HIA members either produce or wholesale sewn cloth headwear; but we have no information about this. Of course, any individual producer could be an "interested party" under the statute. 19 U.S.C. § 1677(9)(C).

Commissioner Eckes does not join his colleagues in this footnote.

<sup>12/</sup> 19 U.S.C. § 1673b(a).

<sup>13/</sup> American Lamb Co. v. United States, 785 F.2d 994, 1001 (Fed. Cir. 1986). See also Wells Mfg. Co. v. United States, 11 C.I.T. \_\_\_, 677 F.2d 1239 (1987).

<sup>14/</sup> Id.

### Condition of the domestic industry

In determining the condition of the domestic industry, the Commission considers, among other factors, domestic production, capacity, capacity utilization, domestic consumption, shipments, inventories, employment, and financial performance. <sup>15/</sup> No single factor is determinative. In each investigation the Commission must consider the particular nature of the relevant industry in making its determination.

Apparent U.S. consumption of sewn cloth headwear increased in both value and quantity throughout the period under investigation from \$222.4 million and 15.960 million dozen units (m.d.u.) in 1985, to \$230.1 million and 17.364 m.d.u. in 1986, to \$253.0 million and 19.070 m.d.u. in 1987, and to \$65.8 million and 4.878 m.d.u. in interim 1988 as compared with \$60.4 million and 4.822 m.d.u. in interim 1987. <sup>16/</sup>

Domestic production declined from 3.117 m.d.u. in 1985 to 2.557 m.d.u. in 1986, and then rose to 2.664 m.d.u. in 1987. Interim 1988 data indicate an increase of about 0.130 m.d.u. over interim 1987 levels. <sup>17/</sup> Capacity and capacity utilization followed the same trend as production. Capacity declined from 4.464 m.d.u. in 1985 to 4.287 m.d.u. in 1986, and then increased to 4.330 m.d.u. in 1987. Interim 1988 capacity was slightly lower at 1.019 m.d.u. compared with 1.033 m.d.u. in interim 1987. <sup>18/</sup> Capacity utilization was 70 percent in 1985, falling to 60 percent in 1986, and then recovering to only 62 percent in 1987. Interim 1988 capacity utilization was 73 percent as compared

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<sup>15/</sup> 19 U.S.C. § 1677(7)(C)(iii).

<sup>16/</sup> Report at A-16; in the case of apparent U.S. consumption, data on domestic shipments are based on questionnaire responses and are therefore understated whereas official import data collected by the Department of Commerce are complete. We note the trend is upward.

<sup>17/</sup> Report at A-17.

<sup>18/</sup> Id.

with only 61 percent in interim 1987. <sup>19/</sup>

The quantity of domestic shipments was 2.961 m.d.u. in 1985, declining to 2.701 m.d.u. in 1986, and then rising to 2.772 m.d.u. in 1987. The quantity of domestic shipments for interim 1988 was 0.708 m.d.u. as compared with 0.651 m.d.u. in 1987. The value of domestic shipments fell from \$86.7 million in 1985 to \$81.7 million in 1986 and then increased sharply to \$87.9 million in 1987, and increased again to \$23.3 million for interim 1988 as compared to \$21.6 million for interim 1987. <sup>20/</sup> Inventories declined steadily from 0.581 m.d.u. in 1985, to 0.436 m.d.u. in 1986, to 0.325 m.d.u. in 1987, and then increased slightly in interim 1988 to 0.354 m.d.u. <sup>21/</sup>

The number of workers employed in manufacturing sewn cloth headwear declined from 1,900 in 1985, to 1,795 in 1986, to 1,751 in 1987, and then rose slightly, by 20 employees, in interim 1988 as compared with interim 1987. The number of hours worked by these employees followed the same trend, declining from 1985 through 1987 and then rising slightly comparing interim 1988 to interim 1987. <sup>22/</sup>

Information available in this preliminary investigation indicates that the sewn cloth headwear industry's profitability has declined during the course of the investigation. Net sales fell from \$81.5 million in 1985 to \$79.5 million in 1986 and then rose to \$82.0 million in 1987. In contrast, operating income declined steadily from \$9.2 million in 1985, to \$8.7 million in 1986, and \$7.4 million in 1987, a drop of more than 20 percent. Cash flow

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<sup>19/</sup> Id.

<sup>20/</sup> Id. at A-19. We note that the unit value for domestic shipments which had increased from \$29.30 in 1985 to \$33.20 in interim 1987, decreased to \$32.94 in interim 1988.

<sup>21/</sup> Id. at A-21.

<sup>22/</sup> Id. at A-22.

also declined from \$11.5 million in 1985 to \$9.8 million in 1987. <sup>23/</sup>

In sum, most of the indicators fell during the period of investigation. To the extent that there was improvement in interim 1988, we note that three-month period may not be probative of a trend or reversal of a trend. Based on our overall assessment of the available information of the record, we determine that there is a reasonable indication of either material injury to the domestic industry producing sewn cloth headwear or at least that the domestic industry is vulnerable to material injury.

Reasonable Indication of Material Injury by Reason of Allegedly LTFV Imports from the PRC <sup>24/ 25/</sup>

In making preliminary determinations in antidumping investigations, the Commission must ascertain whether there is a reasonable indication of material injury "by reason of" the imports under investigation. <sup>26/</sup> The statute directs the Commission to consider, among other factors, (1) the volume of imports of the merchandise that is the subject of the investigation, (2) the effect of imports of that merchandise on prices in the United States for the like products, and (3) the impact of imports of such merchandise on domestic producers of like products. <sup>27/</sup> While the Commission can weigh the evidence obtained in a preliminary investigation, we have declined to reach a negative determination unless the record as a whole contains clear and convincing evidence of no material injury, or threat thereof, by reason of the imports

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<sup>23/</sup> Id. at A-25.

<sup>24/</sup> See Also Additional Views of Commissioner Eckes.

<sup>25/</sup> Commissioner Cass concurs in the conclusions of his colleagues in the discussion below, but relies on other information as well. See Additional Views of Commissioner Cass.

<sup>26/</sup> 19 U.S.C. § 1673d(b).

<sup>27/</sup> 19 U.S.C. § 1677(7)(B).



under investigation, and "no likelihood exists that contrary evidence will arise in a final investigation." <sup>28/</sup>

The volume of sewn cloth headwear imported from the PRC increased in quantity from 2.913 m.d.u. in 1985 to 3.552 m.d.u. in 1986, and then increased dramatically to 6.207 m.d.u. in 1987. <sup>29/</sup> A comparison of first quarter quantities for 1987 and 1988 also showed a marked increase, from 1.610 m.d.u. in the first quarter of 1987 to 2.057 m.d.u. for the same period in 1988.

<sup>30/</sup> PRC headwear imports also increased in value during the period of investigation, from \$23.8 million in 1985 to \$25.9 million in 1986, followed by a jump to \$45.0 million in 1987. <sup>31/</sup> On a quarter-year comparison, the value increased from \$10.9 million for January-March of 1987 to \$15.6 million for the same period in 1988. <sup>32/ 33/</sup>

Market share of the subject imports increased in terms of quantity and value. Market share, based on quantity, rose from 18.3 percent in 1985 to 20.5 percent in 1986, to 32.6 percent in 1987. Interim 1988 market share was 42.2 percent as compared with 33.4 percent for interim 1987. <sup>34/</sup> Market share, based on value, increased from 10.7 percent in 1985, to 11.3 percent in 1986, to 17.8 percent in 1987. On a value basis, interim 1988 market share was 23.8 percent as compared with 18.1 percent for the same period in 1987. <sup>35/</sup>

The record indicates that the sewn cloth headwear market is price sensitive — particularly with regard to promotional headwear, which accounts

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<sup>28/</sup> See American Lamb, 785 F.2d at 1001.

<sup>29/</sup> Report at A-32, Table 12.

<sup>30/</sup> Id.

<sup>31/</sup> Id.

<sup>32/</sup> Id.

<sup>33/</sup> We note that the unit value of PRC headwear imports generally decreased during the period of investigation. The connection between this decline and the corollary increases in overall value and quantity is unclear.

<sup>34/</sup> Report at A-35, Table 15.

<sup>35/</sup> Id.

for the majority of the market. The pricing information available in this preliminary investigation is both limited and inconclusive; however, the available data show a consistent pattern of underselling by the subject imports. <sup>36/</sup> While domestic prices for most investigated categories remained relatively stable, there was a marked decrease in prices for one category of caps sold to distributors.

There is some record evidence of domestic producers losing sales to PRC headwear because of the lower prices of the PRC imports. <sup>37/</sup> In addition, there are mixed opinions about the existence of significant quality distinctions between domestic and PRC produced headwear. Furthermore, the record indicates that price is often the key factor in purchasing sewn cloth headwear. Given evidence of underselling and increasing market penetration by the PRC imports in this price-sensitive market consistent with the declining financial condition of the domestic industry, we cannot conclude that there is "clear and convincing evidence" that the subject imports are not a cause of material injury. <sup>38/ 39/</sup>

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<sup>36/</sup> Vice Chairman Brundsdale is reluctant to find a "pattern" in the limited underselling evidence presented in this case. She notes that the lack of data and its inconclusiveness make it difficult for her to base her decision in this case on that evidence.

<sup>37/</sup> Vice Chairman Brundsdale notes that most lost sales allegations investigated by the Commission revealed differences in the terms of sale other than price. These differences included quality, responsiveness of the seller, volume of sales, and other factors. She believes that these other differences do not permit her to conclude that U.S. firms lost sales to the Chinese headwear based solely on price differences.

<sup>38/</sup> For the preliminary investigation, the Commission notes and rejects respondents' arguments that the underselling by the PRC has not caused injury to the domestic industry because the domestic industry serves a high-quality and specialty market niche that is "insulated" from import competition.

<sup>39/</sup> Vice Chairman Brundsdale also notes that the alleged margins in this case are high, ranging from 25 to 62 percent. She believes this provides further evidence of a reasonable indication of material injury by reason of alleged dumped imports in this case. In any final investigation, she will carefully consider evidence collected by the staff or submitted by parties on the supply and demand for headwear in the U.S. market, including supply from foreign sources, and the substitutability of the U.S. and imported products in this case.

Reasonable Indication of Threat of Material Injury by Reason of Allegedly LTFV Imports from Taiwan <sup>40/</sup>

The statute sets forth a series of factors the Commission is to consider in analyzing the issue of a reasonable indication of threat of material injury. <sup>41/</sup> These factors include: (1) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports to the United States; (2) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level; (3) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise; (4) any substantial increase in inventories of the merchandise in the United States; (5) the presence of underutilized capacity for producing the merchandise in the exporting country; (6) any other demonstrable adverse trends that indicate the probability that the imports will be the cause of actual injury; and (7) the potential for product-shifting.

In addition, in order to conclude that there is a reasonable indication that allegedly LTFV imports are a threat of material injury to the domestic industry, the Commission must find that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition. <sup>42/</sup>

The information currently available to the Commission indicates that PRC market penetration increased sharply, by quantity and value, throughout the

<sup>40/</sup> Commissioner Cass does not reach the issue of threat. See Additional Views of Commissioner Cass.

<sup>41/</sup> 19 U.S.C. § 1677(7)(F).

<sup>42/</sup> Id.

period under investigation. <sup>43/</sup> In addition, U.S. importers' inventories of PRC headwear have expanded rapidly throughout the same period. <sup>44/</sup> We also note that sewn cloth headwear production is extremely labor-intensive — a factor which suggests that there is significant ability to expand capacity in the PRC.

Finally, we recognize that the Multi-Fiber Arrangement (MFA) sets a quota on PRC exports of MMF headwear, which was filled in 1987. <sup>45/</sup> Because of the ability, however, to shift from MMF to cotton headwear production, it does not appear that the MFA provides a significant check on the ability to increase imports in the future. Although respondents assert that the PRC has imposed voluntary restraints on this product category, we note that there is no binding quota on these products. <sup>46/</sup>

Based on these indicators, we find a reasonable indication that the domestic sewn cloth headwear industry is threatened with material injury by reason of the subject imports.

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<sup>43/</sup> Report at A-35, Table 15. See discussion of existing injury, *supra*.

<sup>44/</sup> *Id.* at A-29. Statements in the record indicate that the primary reason for the expansion of imported inventories is to fill orders quickly. We note that this expansion threatens the domestic industry's advantage of shorter shipping time.

<sup>45/</sup> See Report at A-8-A-11.

<sup>46/</sup> Commissioner Rohr further notes that in assessing the issue of threat, it is necessary to consider the evidence of the intentions and capabilities of foreign producers in the context of the performance of the domestic industry. While he notes that the picture of the domestic industry is far from complete at this time and there may be some question whether the condition can be properly described as currently experiencing material injury, he believes the evidence indicates declines in the operating performance of the industry which make it particularly vulnerable to the current trends and prices of the imports from the PRC. He further notes that the Commission's data concerning the operations of the foreign industry are also extremely limited and must be improved if this investigation returns to the Commission for a final determination.

Conclusion

For the above reasons, we determine that there is a reasonable indication that the domestic industry producing sewn cloth headwear is materially injured, or threatened with material injury, by reason of allegedly LTFV imports from the People's Republic of China.



## ADDITIONAL VIEWS OF COMMISSIONER ALFRED ECKES

I offer these additional views to aid the public in understanding critical aspects of the "but for" approach used by certain commissioners in this and other recent title VII cases. It is not my goal to discourage commissioners from trying to improve the agency's decisionmaking process. I applaud such efforts. At the same time, however, I have a responsibility to ensure that our trade laws are administered in the sunshine in accordance with Congressional intent and common sense. In this spirit I will continue to give the new approach the careful scrutiny it<sup>1</sup> deserves.

The proper focus of any debate concerning the "but for" approach is whether it provides an appropriate framework for Commission determinations. Because the so-called traditional Commission approach has withstood repeated judicial scrutiny and Congressional oversight and is generally understood and accepted by private

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I note that a substantial amount of staff time has been devoted to formulating the new approach. See Memoranda EC-L-174 (June 6, 1988); EC-L-159 (May 18, 1988); EC-L-149 (May 10, 1988); EC-L-135 (May 2, 1988); and EC-L-104 (April 28, 1988).

parties, there is no live question as to its propriety.<sup>2</sup> The new approach must stand or fall on its own merits. Whether I choose to adopt it in whole or in part will depend on resolution of the serious problems that pervade it in its current form.

While the statute may permit unitary formulations of the material injury standard, the underlying premises of this particular approach are seriously flawed. I believe the hypothetical, formulaic and mechanistic nature of this approach makes it vulnerable to court reversal, and may constrict the flexibility Congress intended commissioners to exercise in making injury determinations. Further, given its "counterfactual" nature, I question whether the "but for" approach is consistent with our international obligations. Finally, I am concerned about the added costs that the new approach will impose on the Commission and on the parties appearing before us in title VII cases.

These additional views address the legal and policy problems surrounding two of the underlying premises of the "but for" approach: the assumption that the unfair trade practice took place throughout the three-year period of the Commission's investigation,

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One commissioner has nevertheless argued that the "but for" approach is "the more sensible approach--and one that comports more faithfully with the language and intent of Title VII of the Tariff Act" than the so-called traditional approach. See Certain Internal Combustion Industrial Forklift Trucks from Japan, Inv. No. 731-TA-377 (Final) ("Forklift Trucks"), Additional Views of Commissioner Cass at 110.



and the supposition that dumping and subsidy margins can be used to estimate what the prices of imports would have been "but for" the unfair trade practice. These views also raise for public discussion the question whether the "but for" approach complies with the United States' obligations under the GATT Antidumping and Subsidies Codes. Finally, these views address the added cost of the new approach to the Commission and private parties.<sup>3</sup> Remaining problems will be addressed in future opinions.

#### I. Assumptions Concerning Duration of Unfair Trade Practices:

The "but for" model assumes dumping or subsidization was constant throughout the three-year period of the Commission's investigation. The following justification has been offered for this assumption:

"[I]f one is going to draw any inference regarding the effect of [less than fair value] imports on the industry from information about industry performance at any point in our three-year period of investigation other than the six-month period examined by Commerce, one simply must make some judgment about whether in fact the industry faced LTFV imports at that point. This judgment could be based on an inference from facts in the record, on a rebuttable presumption,

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These views incorporate and elaborate the concerns I expressed in my joint views with Commissioner Rohr in Digital Readout Systems and Subassemblies Thereof from Japan, Inv. No. 731-TA-390 (Preliminary), USITC Pub. 2081 (1988) ("DROs"), Additional Views of Commissioners Alfred Eckes and David Rohr, and in my Memorandum CO-69-L-030 dated May 3, 1988.

or on an unexamined assumption."

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It is important to understand that this inference, assumption or presumption--however one chooses to characterize it--is central to the "but for" approach. The approach consists of three inquiries, the second and third resting squarely upon the first. The first inquiry seeks to compare the volumes and prices of imports over the three-year period of investigation with the volumes and prices that would have obtained had the imports been fairly traded during that

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same period. To justify analyzing the effects of an unfair trade practice ("UTP") during any period other than Commerce's six-month period of investigation, <sup>6</sup> one must have some basis to presume such UTP existed during that earlier period. If the assumption is groundless, the raison d'etre of the first inquiry disappears, along with any justification for the second and third inquiries, which are built on the first. In short, the whole approach topples like a house of cards.

There is no basis in law or fact to assume that dumping or subsidization took place during any period other than the period of

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Forklift Trucks at 121-122 (emphasis added).

5

Forklift Trucks at 123.

6

With rare exception, the Department of Commerce bases its antidumping determinations on imports or sales taking place during the six months preceeding the filing of the petition. This six-month period may coincide in whole or in part with the

(Footnote continued to page 21)

Commerce's investigation. The Department of Commerce has sole authority and responsibility under the statute for determining the existence and amount of any dumping or subsidization. Under its regulatory scheme, Commerce examines imports during the six-month period prior to filing of the petition. If those six months of imports yield dumping margins or subsidies greater than de minimis, Commerce will make an affirmative determination. Otherwise the determination is negative. In either case, however, the determination only reflects trade practices that took place during that six-month period. In fact, if a particular importation or sale falls outside the period of investigation, Commerce excludes it from consideration. Given the strict circumscription of Commerce's inquiry, there is no basis for any "inferences," "rebuttable presumptions" or "unexamined assumptions"<sup>7</sup> concerning the dumping or subsidization of imports predating the six-month period. The fact that such presumptions or inferences may be necessary to justify the "but for" approach ab initio does not by itself give them validity.

Perhaps more importantly, it is inappropriate, if not illegal, for the Commission to make what amounts to a finding of dumping or

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(Footnote continued from page 20)  
Commission's investigation period, which generally encompasses imports during the three years prior to filing of the petition.

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See supra note 4.

subsidization as part of its injury determination. Any determination under the "but for" approach which covers a period other than Commerce's six-month period of investigation must, by virtue of the design of the approach, rest on an inferred or presumed finding of dumping or subsidization (with a concomitant determination of the amount of the margin) during that period. Congress has clearly assigned to Commerce, not the Commission, the task of determining the existence and amount of dumping and subsidization. Thus, affirmative "but for" determinations covering periods beyond Commerce's period of investigation<sup>8</sup> may be vulnerable to court reversal because they are based in part on an ultra vires determination of dumping or subsidization.<sup>9</sup>

To avoid the legal problem I have just described, commissioners choosing to use the "but for" approach would have to limit the time

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<sup>8</sup> The "but for" approach is apparently intended to encompass the traditional three-year period. See generally Forklift Trucks, Additional Views of Commissioner Cass.

<sup>9</sup> In contrast, the Commission is required to presume that dumping or subsidization is continuing to occur for purposes of a "changed circumstances" review under section 751 of the Act, 19 U.S.C. 1675. On the other hand, an injury investigation begins on a "clean slate," "from an entirely neutral starting point." See Avesta AB and Avesta Stainless Inc. v. United States, \_\_\_ C.I.T. \_\_\_, Slip Op. 88-72 (June 7, 1988) at 17. It is important to note that the unfair trade practices at issue in a changed circumstances review are subject to final antidumping or countervailing duty determinations and orders already in place. See Avesta at 23 ("a request for review of an  
(Footnote continued to page 23)

frame of their analyses to the six-month period of Commerce's investigation. The mere existence of this dilemma suggests that injury analyses purporting to measure the volume, price effect and impact of a UTP, rather than the effect of the imports themselves, are not contemplated by the statute. In my view, the statute requires the Commission to determine the volume, price effects and impact of imports of the class or kind of merchandise defined by the Commerce Department, regardless whether each individual importation<sup>10</sup> was found to be at less than fair value.

This reading of the statute was recently adopted by our reviewing court. In Algoma Steel Corp. v. United States,<sup>11</sup> the Court of International Trade addressed the intent of the statutory directive to determine whether an industry is injured "by reason of imports . . . of the merchandise with respect to which the administering authority has made an affirmative

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(Footnote continued from page 22)  
affirmative injury determination is premised on an underlying finding of dumping, and therefore does not begin on a 'clean slate').

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It has been suggested that the so-called traditional approach assumes that the UTP was constant during the three-year period of our investigation. Forklift Trucks at 122, and note 21. Because I read the statute as requiring me to examine the effects of imports of the merchandise subject to investigation, whether or not they fall within the six-month period of Commerce's investigation, I have no need for such assumptions.

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C.I.T. \_\_\_, Slip Op. 88-74 (June 8, 1988) ("Algoma"). We note that a Canadian respondent has appealed this decision to the Federal Circuit.

determination . . . ." <sup>12</sup> At the outset, the court noted that the imports the Commission is supposed to examine are those within the "class or kind" of merchandise defined by the Commerce Department:

In applying this statute, the ITC does not look behind ITA's determination, but accepts ITA's determination as to which merchandise is in the class of merchandise sold at LTFV. ITC, on the other hand, determines . . . whether [the domestic] industry is injured by the relevant imports. . . This division of labor cannot be ignored . . . ITC has wide latitude in deciding whether imports of the merchandise in the class defined by ITA are causing

<sup>13</sup> material injury.

Having concluded that Congress intended the Commission to examine imports within the "class or kind," the court considered plaintiff's argument that the Commission was required to eliminate from consideration any sales that Commerce had not actually found to be dumped. The court rejected this argument:

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<sup>12</sup> 19 U.S.C. 1673 (b). The single issue before the court was whether the Commission had erred in assessing the volume and impact of imports by failing to exclude those which, according to the Commerce Department's calculations, were actually at or above fair value. Weighted average dumping margins are derived from all sales of the class or kind of allegedly dumped merchandise within Commerce's six-month period of investigation. Here, plaintiffs alleged that many of the sales used to calculate the weighted average margins were not dumped. The Commission had included in its volume figures all sales of oil country tubular goods from Canada (with exceptions not relevant here). Plaintiffs argued that the Commission should have identified the fairly traded transactions and eliminated them from its analysis. Algoma at 2-3.

<sup>13</sup> Id. at 10 (emphasis added).

In this case, ITA has defined an entire class based on six months of data. It is the volume of imports attributable to that class that is most relevant to ITC. Plaintiffs' basic misunderstanding is reflected in their continual use of the phrase "LTFV sales" as if the statute says that ITC must find that injury is attributable to particular sales found to be at LTFV. The statute refers instead to imports which are sold at LTFV. ITC is basing its decision on the affects (sic) of relevant imports from companies determined to have sold the subject merchandise at LTFV. Obviously, it is unlikely that every sale is at LTFV, and Congress

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may be presumed to have perceived this.

In holding that the Commission was not required to conduct a sale-by-sale analysis, the Court emphasized that "Congress has not simply directed ITC to determine directly if dumping is causing injury . . . Congress opted to direct ITC to determine if imports of a specific class of merchandise, determined by ITA to have been sold at LTFV, are causing injury."<sup>15</sup>

The Court also noted that to require the Commission to examine only "LTFV sales" would impermissibly limit the scope of its investigation: "looking at six months of the sales data considered by ITA is not going to give ITC the three years of data it needs to meet the statutory test."<sup>16</sup>

The clear implication, of course, is that the only "LTFV sales" the Commission could possibly consider are those Commerce found to be dumped within the six-month period of its investigation.

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Id. at 12 (emphasis added).

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Id. at 13 (emphasis added).

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Id. at 10, 11 (emphasis added).

What the Algoma decision tells us is that it is the volume, price effect and impact of imports of the class or kind of merchandise under investigation as defined by Commerce, rather than the impact of the UTP itself, which is the proper focus of the Commission's analysis. This decision also makes it clear that, were the Commission to undertake an analysis of the effect of a UTP, that analysis would necessarily encompass only the six months of Commerce's investigation--which would not yield the three years of data needed to fulfill the statutory standard.<sup>17</sup> To the extent it purports to assess the effects of dumping or subsidization on three years of imports, the "but for" approach appears to be at odds with the statute as interpreted in Algoma.<sup>18</sup>

In any case, given recent trends in exchange rate behavior, I believe it would be unrealistic to presume three years of dumping in

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The court also found that the Commission's practice of excluding imports entered after the effective date of an antidumping duty order did not support plaintiff's proposition that the Commission must exclude from its analysis all non-LTFV sales made by a company under investigation. Id. at 5-6.

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The most recent articulation of the "but for" approach restates the relevant statutory language to read "imports of the merchandise sold in the United States at less than its fair value." Forklift Trucks at 124 (emphasis added). The underlined portion should read "with respect to which the administering authority has made an affirmative determination under subsection (a)(1) of this section." 19 U.S.C. 1673d(b)(1). Such "paraphrasing" of the statutory language to introduce the notions characteristic of the "but for" approach would be noted by a reviewing court.



any of the cases before us. In fact, the opposite presumption would make more sense. Fortunately, however, the statute does not require us to presume that the three years of imports we examine are dumped. Because such presumptions may introduce illegalities into our analysis, I believe it unwise to adopt them.

## II. Inappropriate Reliance on Dumping and Subsidy Margins:

The first step of the "but for" approach, as I understand it, is to compare "the effects of the prices and volumes of subject imports actually sold and those that would have been sold had the imports not been offered at a lower price in the United States."<sup>19</sup> The approach uses the dumping margin or the amount of the subsidy calculated by Commerce as a basis to infer the amount by which the actual import prices were lowered by virtue of the UTP at issue.<sup>20</sup> Specifically, it appears that the margins are to be used as a point of reference for concluding "whether a very large,

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<sup>19</sup>

Forklift Trucks at 126.

<sup>20</sup>

The description of the use of margins in the "but for" approach has undergone some revision since it was first articulated in Microdisks. In Forklift Trucks, it is admitted that margins do not represent actual price differences and that they are calculated for only a six-month period. The opinion nevertheless goes on to claim, without apparent basis, that "changes" in prices and volumes of LTFV imports are "generally dependent on the margins calculated by the Department of Commerce." Forklift Trucks at 128.

moderate, or relatively small change in the imports' prices accompanied LTFV sales," on the theory that "LTFV sales lowered U.S. prices of the subject imports by some other amount [than the full dumping margin]."<sup>21</sup>

Leaving aside the speculative nature of such estimates, the underlying assumptions about the predictive value of dumping margins are groundless.<sup>22</sup> There is, at the outset, no basis in fact for any assumptions concerning what the price of an import would have been had it not been dumped, because the Commission has no way of knowing how a foreign producer or exporter would have conducted its business differently so as to eliminate dumping margins in anticipation of a dumping case. Theoretically such a company could have raised its import price, lowered its home market price or some combination of the two. In a case of sales in the home market below cost, it could also have raised its home market price! (This would,

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Id. at 129. While the "but for" approach has not, to my knowledge, been applied in a countervailing duty case as of this writing, a discussion of the use of assumptions about subsidies and the use of subsidy margins has been prepared by the staff. See Memorandum EC-L-181 at 5-6.

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The most recent articulation of the approach characterizes dumping margins as one of those pieces of "less than ideal data" that the Commission must rely on under the rubric of "best information otherwise available." Forklift Trucks at 128. Calling a dumping margin the "best information available" does not endow it with significance, however, since dumping margins cannot reasonably be used to predict "but for" prices. See discussion infra.

of course, require an exporter to know exactly how Commerce would have calculated its costs of production, a matter which Commerce itself does not know and need not decide until it has completed its investigation.) It is clear that at this level of gross price movement, a company theoretically has an infinite range of options the precise selection of which cannot reasonably be predicted.

The "but for" approach nevertheless assumes that the dumping margin lowered the import price by at least some amount, despite the variety of options a company theoretically had. To the extent the company behaved consciously in eliminating the dumping before it happened, there is absolutely no way to know which type of price movement a company would have selected, nor how far the price would have moved. To the extent a company is assumed to have behaved unconsciously in accordance with some rule of economic theory, we have no way of knowing whether such a rule correctly describes that company's behavior. The fact that the use of these rules results in a putative "but for" price does not mean that that prediction is well-founded. One must still consider the nature of dumping margins to determine whether they can possibly offer any information about what prices "would have been absent dumping."

As demonstrated earlier, dumping margins describe conditions of trade during a carefully circumscribed period, usually six months. As such, the margin does not contain any information about what the U.S. price and foreign market value were before the six-month period, nor does it give any indication of the direction in which

either the ex factory prices or the raw prices moved prior to the six-month period. As such, dumping margins are devoid of any clue as to what the prices of the merchandise were "before dumping."

Nor is there any basis in the antidumping statute to predict how a company would most likely have chosen to change its raw prices. The opportunities offered under the antidumping law for an exporter to eliminate margins prospectively--i.e., after a Commerce preliminary or final antidumping determination, which fully explains the basis therefor--do not suggest that the law embodies a requirement or even a preference for the raising of the United States price as a way to reduce or eliminate a dumping margin. <sup>23</sup> Thus, to the extent the statute itself might have provided predictive guidance as to the likely behavior of exporters faced with the prospect of a dumping finding, no such guidance appears.

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Nothing in section 751 of the Act, which governs annual reviews of antidumping orders, suggests that a respondent must raise its United States price to receive favorable results. 19 U.S.C. 1675. With one exception, nothing in the provisions for agreements to suspend an ongoing investigation indicates a requirement or preference for raising of the United States price. The sole exception, an agreement to "eliminate injurious effect" by revising U.S. prices to prevent price suppression and underselling, would permit weighted average dumping margins of no more than 15 percent of the exporter's weighted average margin for the investigation. 19 U.S.C. 1673c(c). In effect such an agreement would allow exporters to maintain their unfair trade practices within limits as long as they did not injure the domestic industry. Not only does this statutory alternative not require the elimination of margins, it suggests that dumping margins may be irrelevant to injury.

Further, because the statute and the Commerce regulations also provide for the situation where a foreign respondent chooses to do <sup>24</sup> nothing about its dumping margins, the only reasonable guidance that can be gleaned from the statute is that an exporter could--after becoming the subject of a preliminary or final dumping determination--choose to do something or nothing.

Of course, prospective decisions such as these have the benefit of hindsight which hypothetical "but for" predictions lack. Up to this point we have been considering the usefulness of the dumping margins to predict gross price movements that a foreign company might have charged if it had not been dumping. However, dumping determinations are not concerned with gross prices. As was acknowledged in Forklift Trucks, dumping is quantified under a complex regulatory scheme for paring the United States and home market prices down to their ex factory elements. This complex

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19 U.S.C. 1675 was revised in 1984 to eliminate the requirement for Commerce annual reviews of antidumping and countervailing duty orders where such review is not specifically requested by a party to the proceeding. The relevant Commerce rules are the interim and final rules amending 19 C.F.R. 353 and 356, published at 50 Fed. Reg. 32556 (August 13, 1985). Those rules provide, inter alia, that if no timely request for an administrative review is received for a reviewable period ( i.e., each year succeeding the date of publication of an antidumping or countervailing duty order), each entry during that reviewable period will be liquidated at the cash deposit or bonding rate that prevailed at the time of the entry. 19 C.F.R. 353.53a(d), 355.10(d). In other words, as long as no party requests review of an order, the cash deposit rate in effect will constitute the assessment rate for the antidumping or countervailing duties.

process involves dozens of accounting, legal and policy decisions which affect the dumping calculation. For example, the outcome of a dumping case can turn on how Commerce chooses to allocate costs, whether Commerce considers a particular selling expense "direct" or "indirect," or the date of sale Commerce assigns a particular transaction (and hence the exchange rates applicable on that date). The multitude of computational issues Commerce addresses in a dumping case are the subject of party comments and intense internal debate. Parties institute lawsuits over the fraction of a percent on which their cases rest. Given the complex nature of dumping cases, it is nonsensical to make any assumptions about which of any number of business practices a company might have modified so as to affect any of a number of minute adjustments in its favor. It is also unreasonable to assume that a foreign company's alteration of its gross U.S. import price would, in fact, eliminate a dumping margin, since the margin cannot be known until Commerce has applied all the statutory and regulatory adjustments to the United States price and the foreign market value.

Even if it were arguably reasonable to draw inferences of what import prices would have been absent dumping based on the dumping margin, the way in which margins are actually incorporated into the "but for" analysis will probably foster irrelevant and misleading determinations. Commerce assigns to each company that exported the merchandise at issue a weighted average dumping margin reflecting

the dumping that took place during the six-month period of investigation. This margin reflects the unfairness of that particular company's selling practices, and gives no information about any other exporter. Commerce also calculates an "all other" rate to be applied to companies that were not subject to the investigation and which start exporting after the determination becomes effective. This "all other" rate, an average of the actual margins of companies under investigation, gives no information about the pricing behavior of any actual foreign producer or exporter. Yet, it is this average rate that the "but for" approach identifies as "the dumping margin." Further, if more than one country is involved, the "but for" approach would require averaging of the "all other" rates for these countries. This averaging creates a meaningless number which gives no information about the selling behavior of any company in any country. I fail to see how such a meaningless number can possibly be relevant to our analysis.

Finally, I note that the Court of International Trade recently held in Copperweld Corp. v. United States that the Commission may use so-called "margins analysis" as part of its injury determinations, as a "gloss" on its analysis of the actual and relative volume of imports of the merchandise under investigation.<sup>25</sup> The use of margins under the "but for" approach

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<sup>25</sup> See Copperweld Corp. v. United States, \_\_\_ C.I.T. \_\_\_,  
(Footnote continued to page 34)

goes far beyond the "margins analysis" contemplated in Copperweld: rather than functioning as a "gloss" on the analysis of import volume, dumping margins are central to assessment of both import volume and price effects under the "but for" approach. I believe it is important for the public to recognize that the "but for" approach to dumping margins was not the subject of this decision of the Court of International Trade.

### III. Question of Compliance with International Obligations:

The "but for" approach strikes me as sufficiently hypothetical to raise concerns about its compatibility with our international obligations under the GATT Antidumping and Subsidies Codes. <sup>26</sup>

Both Codes mandate that material injury, threat and material retardation determinations in title VII cases be based on "positive evidence" and involve "an objective examination of" import volume, price effects and the impact of imports on the

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(Footnote continued from page 33)  
Slip Op. 88-23 (February 24, 1988).

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Agreement on Implementation of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade, 31 U.S.T. 513, T.I.A.S. No. 9619, 55 U.N.T.S. 194 (Subsidies Code); Revised Agreement on Interpretation of Article VI of the General Agreement on Tariffs and Trade, 31 U.S.T. 4919, T.I.A.S. No. 9650 (Antidumping Code).



27 industry. The reason for this requirement is obvious: if the United States government intends to levy additional duties on imports from its Code partners, it must be prepared to come forward with actual, affirmative evidence that those imports are causing injury to U.S. industries.

28 While I do not believe the Codes prohibit a unitary approach as such, the hypothetical counterfactual nature of the "but for" approach may fall short of the requirement of injury determinations based on positive evidence and objective examination of facts on the record. While ultimate resolution of this issue may have to await

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Article 6, paragraph 1 of the Subsidies Code provides that determinations of injury, which is defined to include material injury, threat of material injury and material retardation of the establishment of an industry, "shall involve an objective examination of both (a) the volume of subsidized imports and their effect on prices in the domestic market for like products and (b) the consequent impact of these imports on domestic producers of such products" (footnotes omitted). Footnote 17 to this paragraph states: "Determinations of injury under the criteria set forth in this Article shall be based on positive evidence." (emphasis added) Likewise Article 3, paragraph 1 of the Antidumping Code specifies that material injury, threat and material retardation determinations "shall be based on positive evidence and involve an objective examination of" import volume, price effects and impact on the industry. (emphasis added)

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The Codes merely provide that determinations of injury (including threat and material retardation) involve an objective examination of two elements: (a) import volume and price effects of subsidized or dumped imports, and (b) the impact of these imports on domestic producers of the product at issue. See Article 6, paragraph 1 of the Subsidies Code and Article 3, paragraph 1 of the Antidumping Code. Neither provision specifies the order in which these inquiries must be made.

court review,<sup>29</sup> I believe the question of Code consistency should be addressed by the Commission and the public in the near future.

#### IV. Cost to Commission and Parties of the "But For" Approach:

Finally, in light of the problems underlying the "but for" approach which I have just described, I believe it is important to consider the costs that both the Commission and private parties will bear in implementing it. The approach could prove costly to the Commission, particularly if our workload increases. In one recent investigation, a staffer spent 40 additional hours gathering and memorializing information required for this approach, which would otherwise have been devoted to examining the briefs of the parties to the investigation.

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The court has not yet faced the question of the meaning of "positive evidence" and "objective examination" under the above provisions of the GATT Codes. In *Avesta*, however, the court noted that the party seeking revocation in a "changed circumstances" review bears the initial burden of "showing the existence of such circumstances" (emphasis added) and that this burden is consistent with the international obligation to "review the need for the continued imposition of the duty, where warranted . . . if any interested party so requests and submits positive information substantiating the need for review." *Id.* at 19.

Further, in *Algoma* the court stated that Congress intended the Commission to determine whether "imports of a specific class of merchandise, determined by ITA to have been sold at LTFV, are causing injury," rather than "simply direct[ing] ITC to determine directly if dumping itself is causing injury." *Id.* at 12. The court stated: "This seems to be Congress' way of implementing GATT." *Id.* at 13.

As for the parties themselves, it appears that they are increasingly employing both a law firm and an economist to represent them before the Commission. This will add to the already high cost of participating in our investigations, a factor to which we must be sensitive.



## ADDITIONAL VIEWS OF COMMISSIONER RONALD A. CASS

Sewn Cloth Headwear from the  
People's Republic of China  
Investigation No. 731-TA-405  
(Preliminary)

I concur with the Commission's affirmative determination in this preliminary investigation. As the opinion for the Commission indicates, the record before us contains relatively little clear information, even judged by standards applicable to preliminary investigations. The deficiencies in the record on which we must base our decision persist despite the Commission's substantial efforts to secure relevant data from the appropriate parties, including various firms that are members of Petitioner. If the missing data were before us, the record might provide clear and convincing evidence that there is no material injury. At present, however, the record as a whole does not contain such evidence.

Indeed, the principal conclusion one can draw from the present record is that almost any assertion about the effect or lack of effect of the subject imports on the domestic industry might be supported by the record information that would be available in a final investigation. It may, for instance, be significant that the record reveals that the subject imports account for a large volume of sales in the domestic market and allegedly were dumped by substantial margins. The actual volume of domestic consumption, however,

apparently is subject to considerable doubt, as the only verifiable figure we have is based on combining figures taken from the very incomplete reports to the Commission from domestic producers with import data compiled by the Department of Commerce. The actual size of the U.S. cloth headwear market and the proportion of that market actually captured by the subject imports, thus, are uncertain. The alleged margins also provide little information. The basis for the alleged margins is a comparison to costs of production in countries whose products are not subject to investigation<sup>1/</sup> as surrogates for the costs of production in the PRC. It is by no means clear what this indicates about the price and volume effects of LTFV sales to the United States, and the parties have not directed attention to this issue. Similarly, although the Commission has noted the mixed nature of comparisons of U.S. selling prices of imported and domestic products, evidence currently of record suffices to raise, but not answer, the question whether the imports are of comparable quality to the domestic products to which they are being compared. For this reason among others, the effects of the allegedly LTFV imports on sales and volumes of U.S.-produced like products hence cannot be established from the present record. Finally, impact on

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<sup>1/</sup> The prices of goods sold in those countries were used in turn as surrogates for the cost of production in those countries.

returns to the domestic industry is unclear, as all the data from which this can be estimated are incomplete.

In preliminary investigations under Title VII, the Commission has declined to reach a negative determination unless the record as a whole contains clear and convincing evidence that there is no material injury, or threat thereof, to the domestic industry and there is no likelihood that contrary evidence will arise in a final investigation. This standard has been approved by the applicable reviewing courts.<sup>2/</sup> In light of that standard, I must find that there is a reasonable indication of material injury to the domestic industry in question.<sup>3/</sup>

In order to make an affirmative determination in any final investigation, I would need a great deal of information not now before the Commission. My views concerning the manner in which certain issues of the kind raised in this proceeding should be analyzed are summarized elsewhere and no purpose would be served by describing them at length here.<sup>4/</sup>

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<sup>2/</sup> American Lamb Co. v. United States, 785 F.2d 994 (Fed. Cir. 1986).

<sup>3/</sup> Unlike the other Commissioners, I do not reach the question whether there is a reasonable indication that the domestic industry is threatened with material injury. I believe it is unnecessary to reach that issue, given our unanimous decision that there is a reasonable indication of past or present injury from the allegedly LTFV imports.

<sup>4/</sup> See Internal Combustion Forklift Trucks from Japan, Inv. No. 731-TA-377 (Final), USITC Pub. 2076 (April 1988) (Additional Views of Commissioner Cass); 3.5 Inch Microdisks from Japan, Inv. No., 731-TA-389 (Preliminary), USITC Pub. 2082 (May 1988) (Additional Views of Commissioner Cass).

I note, however, that Respondents have argued that the subject imports did not cause material injury to any domestic industry because, if no LTFV sales had taken place, imports from other countries, rather than production by the domestic industry, would have supplied any resulting excess domestic demand.<sup>5/</sup> Any additional evidence bearing upon this issue would be of special interest in determining how any final investigation should be resolved.

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<sup>5/</sup> See, e.g., Respondents' Post-Conference Brief at 27.



INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On May 26, 1988, a petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce by counsel on behalf of the Headwear Institute of America (HIA), New York, NY. 1/ The petition alleges that an industry in the United States is materially injured, and threatened with further material injury, by reason of imports from the People's Republic of China (China) of sewn cloth headwear 2/ that are being sold in the United States at less than fair value (LTFV). Accordingly, effective May 26, 1988, the Commission instituted investigation No. 731-TA-405 (Preliminary) under section 733(a) of the Tariff Act of 1930 (19 U.S.C. § 1673b(a)) to determine whether or not there is a reasonable indication that 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 such imports.

Notice of the institution of this investigation and of a conference 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, DC, and by publishing the notice in the Federal Register of June 3, 1988 (53 F.R. 20378). 3/ The conference was held in Washington, DC, on June 16, 1988. 4/

Effective June 21, 1988, the U.S. Department of Commerce initiated an antidumping investigation to determine whether the subject merchandise is being, or is likely to be, sold in the United States at LTFV (53 F.R. 23300).

The Commission's briefing and vote in this investigation was held on July 6, 1988. The statute directs the Commission to make its determination within 45 days after receipt of a petition, or in this case by July 11, 1988.

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1/ HIA is composed of some 60 headwear manufacturers, wholesalers, and importers (petition, app. 1); 24 of these firms are manufacturers or producers of sewn cloth headwear (petitioner's postconference brief, Exhibit A).

2/ For purposes of this investigation, sewn cloth headwear refers to hats, caps, visors, and other headwear, whether or not ornamented, each comprising cut-and-sewn woven or knit fabric of vegetable fibers (including cotton, flax, and ramie), of manmade fibers, or of blends thereof, provided for in items 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, 702.3200, 703.0540, 703.0550, 703.0560, 703.1000, 703.1640, 703.1650, 384.0438, 384.0954, 384.2211, 384.2608, 384.2707, 384.2723, 384.2741, 384.2752, 384.2784, 384.2796, 384.3436, 384.5216, 384.5365, 384.5427, 384.5485, 384.5533, 384.5685, 384.5698, 384.8676, and 384.9443 of the Tariff Schedules of the United States Annotated (TSUSA). Imports of articles included in the scope of the investigation admitted under TSUSA items 384.2707, 384.2723, 384.2741, 384.2752, 384.2784, 384.2796, 384.5365, 384.5427, 384.5485, 384.5533, 384.5685, and 384.5698 are negligible or nil. The U.S. Department of Commerce included TSUSA items 703.0510, 703.0520, 703.0530, 703.1610, 703.1620, and 703.1630 in its notice of institution. The Commission did not include these TSUSA items because they cover headwear that is not cut and sewn but made from strips of manmade fabric, e.g., fake straw hats.

3/ Copies of cited Federal Register notices are presented in app. A.

4/ A list of witnesses who appeared at the conference is presented in app. B.

### Previous Commission Investigations

On February 8, 1977, a petition for import relief, under section 201(a)(1) of the Trade Act of 1974, was filed with the Commission by the Empire State Cloth Hat and Cap Manufacturers Association and the United Hatters, Cap and Millinery Workers International Union. On February 18, 1977, the Commission received an amendment to the petition and on February 22, 1977, instituted an investigation to determine whether certain headwear was being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. In August 1977, the Commission determined that certain headwear was not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing articles like or directly competitive with the imported articles. 1/

In May 1985, the Commission conducted investigation No. 332-190 on certain headwear, under section 332 of the Tariff Act of 1930, and issued a statistical report on the industry to the United States Trade Representative. 2/

### Nature and Extent of Alleged Sales at LTFV

The petitioner alleges that imports of sewn cloth headwear from China are being sold in the United States at LTFV margins ranging from 25.1 to 62.7 percent. These alleged dumping margins were calculated by comparing prices of Chinese headwear in the U.S. market with prices for comparable headwear produced in other countries. As China is a state-controlled-economy country under section 773(c) of the Trade Agreements Act, the foreign market value was based on the prices of headwear produced in a surrogate non-state-controlled economy, in this case the Philippines and Taiwan. The U.S. price was based on purchase price since the U.S. importers are unrelated to the Chinese producers and purchase the sewn cloth headwear prior to importation. The period covered by the LTFV analysis is the 5-month period December 1987 through April 1988.

The petitioner also alleges that there are massive imports of sewn cloth headwear from China and a history of dumping in the United States and elsewhere to the extent that the importers knew or should have known that China was exporting the headwear at LTFV. Thus, pursuant to section 733(e), the petitioner requests a finding of critical circumstances and a retroactive suspension of liquidation of duty on Chinese sewn cloth headwear 90 days prior to Commerce's preliminary determination of sales at LTFV.

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1/ U.S. International Trade Commission (USITC), Certain Headwear, Report to the President on Investigation No. TA-201-23 Under Section 201 of the Trade Act of 1974, USITC Publication 829, August 1977.

2/ USITC, Certain Headwear Statistical Report, Report to the United States Trade Representative on Investigation No. 332-190, Under Section 332 of the Tariff Act of 1930, USITC Publication 1697, May 1985.

## The Products

Description and uses

The imported articles under investigation consist of caps, hats, and visors, cut and sewn from woven or knit fabrics of vegetable or manmade fibers, or blends of these fibers (hereinafter "cloth headwear"). Cotton is the principal natural fiber and polyester is the major manmade fiber used in the manufacture of fabric for cloth headwear. The use of vegetable fibers such as flax (linen) or ramie is believed to be very small.

Cloth headwear is designed primarily for men and boys, although many styles are worn by either sex. They are worn as casual wear, for sports activities, or for promotional and advertising purposes. A small portion of the cloth headwear imports consist of infants' and children's caps and hats, made primarily of cotton and containing decorative features.

The majority of the cloth headwear imported from China are believed to consist of baseball-type caps. These caps usually have a solid seamless cloth front piece and nylon mesh sides and back but may be entirely of solid cloth. They come in a variety of colors and may be plain or have designs or promotional messages printed, embroidered, or otherwise affixed to the cap. The caps may or may not contain braid.

The imported articles are generally comparable in style to domestic articles. Both types are produced by similar manufacturing processes, use similar fabrics, and compete in the same marketplace. Excluded from the scope of this investigation are headwear of other textile fibers, such as wool and silk; straw and other unspun fibrous vegetable materials; fur; leather; horsehair; and rubber or plastics; or any felt headwear. These are not substitutable for the subject articles in terms of price, method of manufacture, and the markets served. 1/ Counsel for respondents testified at the conference that headwear manufactured from straw, felt, or wool should not be excluded because they are substitutable with sewn cloth headwear and some U.S. producers manufacture a combination of straw headwear, felt headwear, and cotton and manmade headwear. 2/

Caps are believed to account for the majority of the imports under investigation. Caps differ from hats in that they have no brims but do have peaks that project from the front of the articles. The majority of the imported caps are baseball-type caps made of 100-percent polyester with a one-piece seamless front on which logos are printed, embroidered, or otherwise affixed in the United States, and usually have a plastic snap adjuster at the back to fit all sizes. Other types of caps include denim, painter, bicycle, golf, fishing, Ivy league, Gatsby, and camouflage (hunting) caps. These caps are comparable in style and other physical attributes to domestically produced caps.

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1/ Transcript of the conference (transcript), pp. 61-62, 66-68, and 87; petitioner's postconference brief, pp. 17-20.

2/ Transcript, pp. 131-132; postconference brief, pp. 9-11.

The hats under investigation are a relatively small number of imports. Hats are made with a crown and brim. They are sold in a variety of styles and colors in all price segments of the market.

Visors are essentially unisex articles, except for certain colors and designs. <sup>1/</sup> They generally have the shape of caps without a complete crown. They have foam-padded cloth headbands measuring about 2 to 3 inches in width and a peak and are secured to the head by elastic bands or adjustable straps. Visors are generally sold for use in spring and summer and are typically worn in casual or sport activities.

Caps, hats, and visors covered by this investigation are imported in different styles and colors, ranging from those of 100-percent polyester knit fabric to those of materials such as cotton twill, corduroy, and denim. In the promotional market, all these products are said to be substitutable to a certain degree as they all can be used to convey the same promotional message.

#### Manufacturing processes

The production of headwear is more labor intensive than most other apparel products. Direct labor costs account for 52 percent of the total value added by manufacture for headwear, compared with about 41 percent for the apparel industry as a whole. Consequently, unit labor costs in the headwear industry are relatively high. In 1985, they accounted for 27 percent of total production costs compared with 20 percent for the overall apparel industry. <sup>2/</sup>

Cap manufacturing involves several steps. First, the fabric and the nylon mesh are cut into required shapes either by hand or by automated cutting machines. An automated cutting machine is computer controlled and cuts several layers of fabric at one stroke with minimal fabric waste. These panels are then sewn together, the seams are taped, a sweatband and sizing strip are sewn to the bottom edge along with the peak, and the adjustable tabs are applied to the back panels. The cap is then blocked, a process that shapes the assembled headwear by a steaming process. Finally, the cap is packed in a box for shipment.

Hat and visor production requires steps similar to cap production and generally uses the same machinery and equipment. Only minor adjustments are needed for producing special kinds of caps and hats such as Ivy league and Gatsby caps and hats. Shifting production from one product to another does not significantly affect overall productivity.

The level of technology in the headwear industry of the major Asian suppliers especially China, is significantly less advanced than that of the U.S. headwear industry. The U.S. industry has automated or semi-automated machinery and equipment, whereas most of the plants in the Far East, especially in China, do not. Since the region has low-cost labor, manufacturers there are not apt to invest heavily in automated machines.

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<sup>1/</sup> Transcript, pp. 154-155.

<sup>2/</sup> Based on official statistics of the U.S. Department of Commerce.

U.S. tariff treatment

The hats and caps under investigation are classified for tariff purposes as headwear in part 1B of schedule 7 of the Tariff Schedules of the United States (TSUS). The visors, because of their open crowns, are classified as wearing apparel in part 6F of schedule 3.

The tariff classification of the hats and caps in schedule 7 depends upon (1) the fiber in chief value; (2) whether the fabric is knit or not knit; and (3) for manmade-fiber articles, the presence or absence of braid. Tariff distinctions are not made on the basis of gender or product type (e.g., baseball caps).

The classification of the visors in schedule 3 depends upon (1) the presence or absence of ornamentation; (2) the fiber in chief value; (3) whether the fabric is knit or not knit; and (4) whether visors of miscellaneous vegetable fibers are subject to restraint. Considered to be unisex articles, the visors are classified under provisions for women's, girls', and infants' apparel.

The average duty rate on cloth headwear, based on trade with China in 1987, amounted to 8.1 percent ad valorem for the hats and caps and 10.8 percent ad valorem for the visors, as shown in table 1. Almost 84 percent of the total value of cloth headwear imports from China in 1987 entered under TSUS item 702.12, woven cotton hats and caps, and item 703.05, knit or woven manmade-fiber hats and caps with braid. The woven cotton headwear is dutiable at a column 1, or most-favored-nation (MFN) rate of 8 percent ad valorem and the braided manmade-fiber headwear is dutiable at 7.2 percent. <sup>1/</sup> Manmade-fiber hats and caps, unlike other hats and caps, are distinguished for tariff purposes by the presence or absence of braid. Because of an apparent tariff anomaly, in which the rate of duty on the braided articles is lower than on those without braid, most of the imports from China and many other countries contain braid. In general, by contrast, the rates of duty on apparel in schedule 3 that contains braid or other ornamentation is higher than those for the unornamented articles.

Eligibility for preferential tariff treatment

U.S. imports of cotton and manmade-fiber cloth headwear, which accounted for virtually all the imports from China in 1987, are not eligible for any

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<sup>1/</sup> The MFN rates, in general, represent the final stage of the reductions granted in the Tokyo Round of Multilateral Trade Negotiations. Such rates are assessed on imports from all countries except those Communist countries and areas enumerated in general headnote 3(d) to the TSUS, whose products are assessed the rates set forth in col. 2. The only Communist countries eligible for MFN treatment, as of June 1988, are China, Hungary, Poland, Romania, and Yugoslavia. The United States and Romania signed an agreement on June 22, 1988, to end Romania's preferential tariff treatment, effective July 3, 1988. Among articles dutiable at MFN rates, particular products of enumerated countries may be eligible for preferential treatment under one or more programs, set forth in the "special" rates column.

Table 1

Cloth headwear: U.S. imports from China and rates of duty, by TSUS items, 1987 and 1988

TSUS item No.	Description	1987 imports 1/ 1,000 dollars	1988 tariff rate Percent ad valorem
	Cloth hats and caps:		
	Of vegetable fibers:		
	Cotton or flax:		
	Knit:		
702.06	Cotton-----	1,042	8.4
702.08	Flax-----	0	8.4
	Not knit:		
702.12	Cotton-----	14,411	8
702.14	Flax-----	105	8
702.20	Other caps-----	30	5
702.32	Other hats-----	7	8.9 2/
	Of manmade fibers:		
703.05	With braid-----	16,789	7.2
	Without braid:		
703.10	Knit-----	1,020	16.5 3/
703.16	Not knit-----	2,311	9.4 4/
	Total or average---	35,715	8.1
	Cloth visors: 5/		
	Of cotton:		
	Ornamented:		
384.04	Knit-----	0	14
384.09	Not knit-----	52	14
	Not ornamented:		
384.34	Knit-----	105	8
384.52	Not knit-----	1,009	8
	Of vegetable fibers, except cotton:		
384.27	Ornamented-----	5/	8
	Not ornamented:		
	Knit:		
384.53	Not subject to cotton, wool, or manmade fiber restraints--	5/	5
384.54	Other-----	5/	5
	Not knit:		
384.55	Subject to cotton or wool restraints--	5/	3
384.56	Other-----	5/	3
	Of manmade fibers:		
	Ornamented:		
384.22	Knit-----	12	22.7
384.26	Not knit-----	26	22.7
	Not ornamented:		
384.86	Knit-----	303	17
384.94	Not knit-----	111	17
	Total or average---	1,618	10.8

1/ Customs value.

2/ Represents the ad valorem equivalent, based on 1987 trade, of 30¢ per dozen plus 5.2 percent ad valorem.

3/ Represents the ad valorem equivalent, based on 1987 trade, of 18¢ per pound plus 14.1 percent ad valorem.

4/ Represents the ad valorem equivalent, based on 1987 trade, of 10¢ per pound plus 8 percent ad valorem.

5/ Data are not available on imports of visors of non-cotton vegetable fibers. However, imports from China are believed to be nil or negligible.

preferential tariff treatment other than that provided products from Israel, a small supplier. 1/ Preferential rates are also granted Israel on cloth headwear of noncotton vegetable fibers, such as linen and ramie. Imports of some of the noncotton vegetable fiber headwear are also eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act (CBERA). 2/ Canada may also gain preferential tariff status in the near future under the U.S.-Canada Free Trade Agreement.

A small portion of the imported headwear covered by this investigation enters under TSUS item 807.00. Products imported under this provision are assembled wholly or partly with components fabricated in the United States. The duty is assessed on the total value of the product less the value of the U.S.-fabricated components, or essentially the value added abroad. Most of the cloth headwear imports entered under TSUS item 807.00 come from Mexico and Caribbean countries. 3/

Legislation to replace the TSUS with the Harmonized Tariff Schedule (HTS) of the United States is currently before the U.S. Congress. 4/ In general, the tariff treatment of cloth headwear in the HTS would be similar to that currently in effect under the TSUS. The major exceptions are that (1) the principal fiber would be determined on the basis of the one in chief weight

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1/ Preferential rates of duty in the special rates columns followed by the code "I" are applicable to products of Israel under the United States-Israel Free Trade Area Implementation Act of 1985, as provided in general headnote 3(e)(viii) of the TSUS. Where no preferential rate is provided for products of Israel, the col. 1 rate applies.

2/ The CBERA affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67 and implemented by Presidential Proclamation 5133 of Nov. 30, 1983, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after Jan. 1, 1984; it is scheduled to remain in effect until Sept. 30, 1995. Indicated by the symbol "E" or "E\*" in the special rates column, the CBERA provides duty-free entry to eligible articles, the product of and imported directly from designated Basin countries.

3/ The Administration in 1986 implemented a "special access program" for Caribbean-produced apparel and made-up textiles under TSUS item 807.00, in which eligible Caribbean countries are guaranteed greater access to the U.S. market for their products assembled with fabric that has been both produced and cut in the United States.

4/ The Harmonized Commodity Description and Coding System, known as the Harmonized System or HS, is intended to serve as the single modern product nomenclature for use in classifying products for customs tariff, statistical, and transport documentation purposes. Based on the Customs Cooperation Council Nomenclature, the HS is a detailed classification structure containing approximately 5,000 headings and subheadings describing articles in trade. The provisions are organized in 96 chapters arranged in 20 sections that, along with the interpretative rules and the legal notes to the chapters and sections, form the legal text of the system. Parties to the HS convention agree to base their customs tariffs and statistical programs upon the HS nomenclature.

rather than chief value and (2) for cloth visors, the distinction between ornamented and nonornamented articles would be eliminated. Cloth hats and caps are classified as headwear under several U.S. tariff provisions of HS subheading 6505.90; and cloth visors are classified as wearing apparel under heading 6114, if of knit fabric, or heading 6211, if not of knit fabric.

#### Quota restrictions

U.S. imports of cloth headwear are subject to restraint under the Multifiber Arrangement (MFA). 1/ The MFA covers trade in textiles and apparel of cotton, wool, manmade fibers, and, since August 1, 1986, other vegetable fibers, such as linen and ramie, and silk blends. It provides the framework for the negotiation of bilateral agreements between importing and exporting countries, or for unilateral action by importing countries in the absence of an agreement, to control textile and apparel trade among its signatories and prevent market disruption. As of June 1, 1988, the United States had such agreements with 42 countries, including China and other major suppliers.

The current agreement with China, effective January 1, 1988, controls China's shipments of MFA-covered products to the United States for 4 years through 1991. 2/ It sets a specific limit, or quota, on China's shipments of manmade-fiber headwear, classified for quota purposes under category 659-H, of 4.65 million pounds for 1988. 3/ No specific limit was set on cotton headwear, classified under category 359-0.

Products not covered by specific limits may, under the "consultation mechanism" contained in the agreement, be brought under restraint when the United States determines that market disruption has occurred. Unlike the 5-year agreement that expired at the end of 1987, the new one also sets aggregate limits for groups of products not covered by specific limits to control the growth in China's overall shipments. The products are divided into four broad groups, as follows:

- Group I. Products subject to specific limits;
- Group II. Apparel of cotton, wool, or manmade fibers not subject to specific limits;
- Group III. Textiles of cotton, wool, or manmade fibers not subject to specific limits; and
- Group IV. Apparel of new MFA fibers not subject to specific limits. 4/

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1/ The MFA, formally known as the Arrangement Regarding International Trade in Textiles, is an international agreement negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT). The MFA was implemented in 1974 and was extended in 1986, for a third time, through July 1991.

2/ The agreement may be extended by mutual consent for a fifth year, or through 1992.

3/ Category 659 is a "basket" category comprising miscellaneous apparel articles of manmade fibers. The suffix "H" indicates that headwear in the category is subject to a limit.

4/ The new MFA fiber products are those of silk blends and of miscellaneous vegetable fibers, such as linen and ramie. They were added to the MFA effective Aug. 1, 1986.



Products in Groups II, III, and IV are subject, not to specific, but to aggregate, group limits. Category 659-H is included in Group I and category 359-0 is included in Group II. On the basis of 1987 trade with China, cotton headwear accounted for less than 10 percent of the Group II limit for 1988. The 1988 group limits and the annual percentage of growth permitted during the remainder of the agreement period are shown below:

<u>Group</u>	<u>Limit</u> (1,000 sq. yd. (SYE's) 1/	<u>1989</u> (percent)	<u>1990/91</u> (percent)
II.....	121,800	0.5%	5.5%
III.....	330,750	.2	5.2
IV.....	24,000	6.0	6.0

1/ In thousands of square yard equivalents.

Respondents testified at the conference that the Government of China is voluntarily restraining its country's exports to the United States of Group II products, including cotton headwear under category 359-0. Counsel for respondents testified that China is restraining exports under category 359-0 to avoid having restrictions (i.e., a specific limit) being placed by the United States on the sub-category. 1/ China's exports to the United States covered by the bilateral textile agreement require a visa, an endorsement in the form of a stamp on an invoice that is executed by the Government of China and which enables it to allocate quota. 2/ Thus, the Government of China, through this export licensing system, can control export levels of individual products subject to the Group II aggregate limit. Approximately 17 apparel categories are subject to the Group II limit, ranging from relatively low-unit-valued items such as cotton headwear and handkerchiefs to relatively high-unit-valued items such as down-filled coats and jackets. 3/ Nevertheless, China's textile and apparel exports to the United States are subject to controls administered by the U.S. Customs Service.

1/ Transcript, pp. 121, 125, 137, and 150-151; respondents' postconference brief, p. 34. Petitioner states that the restraints referred to by respondents are a broad ceiling on Group II products, postconference brief, pp. 32-33. U.S. general imports from China under category 359-0 during January-April 1988 rose by 88 percent over those in the corresponding period of 1987 to 8.4 million pounds (roughly 38.7 million SYE's). Imports of cotton headwear alone rose by 40 percent to 2.4 million pounds, with imports of hats and caps advancing by 41 percent to 1.9 million pounds and imports of visors increasing by 38 percent to 0.2 million pounds.

2/ A visa system is provided in par. 15 of the bilateral textile agreement between the United States and China, dated Feb. 2, 1988. A visa system is used with China and a number of other countries to control the exportation of textiles and apparel to the United States, with a goal of ensuring that both the U.S. and foreign governments count merchandise and charge quotas in the same way to avoid overshipments, incorrect quota charges, and embargoes.

3/ Transcript, 128.

China's shipments of cloth headwear have been subject to restraint since September 30, 1985. Following a request for consultations (i.e., a "call") with China to negotiate a limit on its cotton and manmade-fiber headwear, the United States set a limit of 1.35 million pounds on such goods for the 90-day negotiating period. Unable to mutually agree on a limit, the United States unilaterally imposed a limit of 4.44 million pounds on headwear under categories 359 and 659 for the 12-month period beginning December 29, 1985. About 1 year later, or in January 1987, the two countries agreed to a limit for category 659-H only, of 4.30 million pounds, retroactive to 1986. This base level was later adjusted through the use of "flexibility" to 2.96 million pounds, of which 90.4 percent was filled. The limit for 1987 was increased by 4 percent over the 1986 base level to 4.47 million pounds, all of which was filled.

The limit on category 659-H under the new agreement was increased by another 4 percent for 1988 to 4.65 million pounds. Annual growth of 4 percent is permitted during the remainder of the agreement period. The limit may be adjusted under the flexibility provisions of the agreement. 1/

The only other countries whose exports of cloth headwear to the United States are subject to specific limits are Taiwan, Korea, and the Philippines, which along with China accounted for two-thirds of the total value of cloth headwear imports in 1987. 2/ Limits have been set on Taiwan's cotton and manmade-fiber headwear; Korea's cotton, manmade-fiber, and woven wool headwear; and the Philippines' manmade-fiber headwear. The quota performance of these suppliers during 1987 is shown as follows:

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1/ Flexibility includes (1) "swing" or shifting unused quota from one category to another, (2) "carryover" of unused quota for the same category of the previous year, and (3) "carryforward" or borrowing quota from the next-year's limit for the same category. A specific limit may be increased by not more than 5 percent with swing. Carryover is not available for 1988 and, thereafter, is limited to 2 percent of the receiving year's limit. Carryforward is limited to 3 percent of the receiving year's limit, except in 1988, when an additional 2 percent is available. No carryforward is available in the final agreement year. The combination of carryover and carryforward is limited to 3 percent of the receiving year's limit, except in 1988, when it is limited to 5 percent.

2/ Imports of manmade-fiber headwear from Mexico are subject to a designated consultation level (DCL) (250,000 pounds in 1987). A DCL is a more flexible import control than specific limits. DCL's are usually somewhat above existing trade levels 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 those for which specific limits are set.

<u>Country/item</u>	<u>Final adjusted level pounds</u>	<u>Percentage filled 1/</u>
China: Manmade-fiber headwear.	4,472,000	100.0
Taiwan:		
Cotton headwear-----	4,244,525	73.3
Manmade-fiber headwear--	5,334,478	90.4
Korea:		
Cotton headwear-----	4,360,094	82.1
Wool headwear 2/-----	187,790	93.8
Manmade-fiber headwear--	2,474,530	99.6
Philippines: Manmade- fiber headwear.	1,200,000	65.3

1/ Customs data as of Apr. 1, 1988. Quotas are based on the date of export and, therefore, goods shipped from the foreign port during 1987 but entered in 1988 are charged to the quota for 1987.

2/ Not covered by the scope of this investigation.

#### U.S. Producers

There is no definitive listing of U.S. firms that produce the merchandise under investigation. The principal industry segment producing sewn cloth headwear, establishments classified in Standard Industrial Classification (SIC) code 2352, is highly fragmented, consisting mostly of small, single-establishment firms and a few large multiestablishment firms. 1/ This industry segment consists of about 100 to 125 establishments employing about 9,000 people. More than three-quarters of the establishments in SIC 2352 employ fewer than 50 workers each; one-third of them employ less than 5 workers each.

The Commission compiled a list of approximately 120 possible U.S. producers, including the firms listed in the petition (apps. 1, 2, and 3) and other firms which were believed to produce the subject merchandise. Of the 60 members of the Headwear Institute of America, 2/ 8 provided at least some usable data, 35 responded that they did not produce the sewn cloth headwear subject to the investigation, 3/ and 17 did not respond. 4/ Of the 60 remaining firms (non-HIA members), 13 were listed in the petition as being in

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1/ Counsel for respondents argue that two industries be found: (1) headwear for infants and children; and (2) headwear for adults; or that the industry be limited by the petition, but four industries be found: (1) headwear for infants and children; (2) adult caps; (3) adult hats; and (4) adult visors, postconference brief, pp. 6-8.

2/ A list of the members of the HIA is presented in app. C.

3/ Some of these firms produce headwear of wool, felt, straw, or knitted material, such as stocking hats, ski hats, etc.

4/ Approximately 10 of these latter 17 companies indicated to staff that they produce sewn cloth headwear.

support of the petition and the remaining firms were believed to be producers of sewn cloth headwear. Of the firms that are members of the HIA, 20 indicated they are in support of the petition, 15 did not respond to the question, and 2 members, Diversified Graphics, Ltd. International, an importer of headwear, and Arlington Hat Co., Inc., a producer of felt and straw hats, are in opposition to the petition. Only two firms that were listed in the petition as being a non-HIA member U.S. producer in support of the petition responded to the questionnaire and indicated that they support the petition.

Producers of sewn cloth headwear are located throughout the country, with major concentrations in the St. Louis and Kansas City, MO, areas, in the New York City area, and also in the states of Pennsylvania, California, and Texas. The Commission mailed approximately 40 questionnaires to firms located in the New York City area that were believed to be producing sewn cloth headwear. Of these firms, 18 reported they do not produce the products included within the scope of this investigation, 1/ 12 did not respond to the questionnaire, 2/ and 8 may be out of business or have changed locations. 3/ The New York City segment of the industry is believed to be mostly small, family-owned shops with a small number of employees.

Some producers specialize in one or two styles of headwear and depend on this production for all of their sales. Typically, U.S. producers do not produce for stock but to customer specifications. 4/ A few firms maintain small stocks of plain caps to meet large orders. The growth in the promotional market has resulted in U.S. producers relying more heavily on production of decorated headwear. Some U.S. producers manufacture other types of products although sewn cloth headwear accounts for the majority of their sales. 5/ In contrast, producers in Taiwan, Korea, and Hong Kong make other textile products.

Petitioner believes that the members of HIA account for 62 percent of U.S. production of sewn cloth headwear. 6/ U.S. producers responding to the Commission's questionnaire, their plant locations, and their shares of

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1/ One firm reported that it contracts out all of its production of sewn cloth headwear and two other firms responded that they produce component parts for headwear production.

2/ Nine of these firms indicated in telephone conversations with staff that they produce sewn cloth headwear.

3/ Three firms, including Gold Star Hat & Cap, stated in telephone conversations with staff that they were out of business. At the conference, counsel for respondents submitted an article published in the Detroit Free Press, in which Mr. Rosen, former president of Gold Star and current vice president of Kraft Hat Manufacturers, stated that his business has seen "a steady growth over [the] last eight or nine years"; respondents' postconference brief, pp. 15-16 and Exhibit E.

4/ Mr. Hatfield and Mr. Rubenstein testified at the conference that this is changing, with producers now producing for stock, transcript, pp. 65-66.

5/ Transcript, p. 54.

6/ Ibid, pp. 35-37; petitioner's postconference brief, p. 8, and Exhibit B.

reported production in 1987, by quantity, are presented in the following tabulation:

<u>U.S. producer</u>	<u>Plant location</u>	<u>Share of reported production in 1987 Percent</u>
Alamo Hat Co., Inc.	San Antonio, TX	***
George S. Bailey Hat Co.	Los Angeles, CA	***
George W. Bollman & Co., Inc.	Adamstown, PA	***
Imperial Headwear, Inc.	Denver, CO	***
International Hat Co.	St. Louis, MO	***
K-Products, Inc.	Orange City, IA	***
Lambert Mfg. Co..	Chillicothe, MO	***
Langenberg Hat Co.	Washington, MO	***
Paramount Cap Mfg., Inc.	Bourbon, MO	***
Swingster	Shawnee Mission, KS	***
		<u>100.0</u>

Petitioner cited 10 firms that have closed production facilities or ceased production of sewn cloth headwear allegedly as a result of LTFV sales of Chinese headwear (app. 25 of the petition). Only K-Products confirmed this allegation in its questionnaire response and at the conference. 1/ Mr. Bromberg, a witness for respondents, refuted these allegations on a company-by-company basis at the conference. 2/ Petitioner provided counter evidence in its postconference brief, pp. 34-35.

#### U.S. Importers

The petition listed six known importers of sewn cloth headwear from China; however, the Customs net import file listed hundreds of firms that import the subject headwear from China. The Commission sent questionnaires to approximately 40 importers, including the 6 firms listed in the petition. 3/ The Commission received responses with data from 12 importers, accounting for 16 percent of total official statistics on imports of sewn cloth headwear from China in 1985 and 1986 and 19 percent in 1987. \* \* \*, located in \* \* \*, was the largest reporting importer. Three of the importers reported foreign trade zone production of sewn cloth headwear. Numerous importers also reported imports of headwear from other countries, mostly Taiwan.

Petitioner states in the petition that, because "headwear "of braid" receives a lower import duty than does headwear without braid, all but a relatively small portion of imported man-made fiber headwear enters with a string of braid across the front of the cap. The braid serves no structural function and is attached to the headwear to meet the requirements of the Tariff Schedules and thus avoid the higher tariff." Two importers reported

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1/ Ibid, p. 17.

2/ Ibid, pp. 113-115; respondents' postconference brief, pp. 22-24.

3/ These firms are concentrated in California, New York, New Jersey, and Florida.

that all of their imports from China had braid attached and a third importer reported that approximately 80 percent of its headwear imports from China had braid attached. With the exception of \* \* \*, U.S. producers reported that none of their purchases of imported headwear (reportedly all from countries other than China) had braid attached. Petitioner also states that "almost all sewn cloth headwear from the PRC enters the United States in an unembroidered, undecorated form." Seven of the responding importers reported that 90 to 100 percent of their imports of headwear from China were undecorated. Three other importers reported that between 95 and 100 percent of their imports of headwear were decorated. 1/

Almost all responding importers reported that baseball-type caps were the highest volume headwear item. Two firms reported that they import sets of infantwear that sometimes include sewn cloth headwear for children. One firm reported reexports of \* \* \* dozen sewn cloth hats to \* \* \*. Some importers stated in conversations with staff that the bulk of the Chinese sewn cloth headwear they purchase is bought through intermediaries in Hong Kong.

One producer, \* \* \*, reported purchases of plain headwear from \* \* \*. Another U.S. producer reported imports of sewn cloth headwear from \* \* \*, and two other producers reported imports of headwear from \* \* \* and \* \* \* during the period of the investigation. Some mass-merchandisers, such as \* \* \* and \* \* \*, were listed in the Customs net import file as purchasing sewn cloth headwear directly from China.

## The U.S. Market

### Channels of distribution

The U.S. sewn cloth headwear market consists primarily of the promotional market and the retail market. Sales to the promotional market account for the largest market share, 2/ with commercial concerns purchasing the headwear decorated with emblems or messages from U.S. producers and importers, for resale or distribution to companies primarily for advertising or promotional purposes. The largest proportion of promotional sales is through ad specialty distributors. 3/ U.S. producers reported that 68 percent of all reported sales were to unrelated ad specialty distributors. \* \* \* and \* \* \* reported that all of their sales were to unrelated ad specialty distributors. U.S. importers reported that 94 percent of all reported sales were to such distributors. Counsel for respondents testified at the conference that U.S. producers have established a niche in the U.S. market for their headwear by producing higher quality products and because there is a segment of the promotional market that will only purchase headwear with the "Made in the U.S.A." label and is willing to pay a premium for the headwear. 4/ Petitioner rebutted this allegation by pointing out that the corduroy cap made in China

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1/ Mr. Bromberg, of Midway Chinese Products Co., testified at the conference that most of the imported Chinese caps are blank caps, without any emblems, printing, or embroidery, transcript, p. 115.

2/ Transcript, p. 80.

3/ Ibid, pp. 18-19, 80-81.

4/ Ibid, pp. 116 and 139; postconference brief, pp. 24-29.

and supplied by respondents at the conference as a sample would compete in the alleged premium quality market and that the Chinese baseball cap with an American flag on its label would compete in the alleged "Made in the U.S.A." market. 1/

The ad specialty distributors generally sell a variety of products, such as T-shirts, hand luggage, pens, etc. These distributors buy either decorated headwear from U.S. producers or plain headwear from U.S. producers and importers, which they decorate in their own facilities or have decorated for them under contract by other firms. The most popular promotional headwear items are baseball caps.

The second largest segment of the promotional market is sales by U.S. producers and importers directly to large premium accounts, which are generally large corporate purchasers. The third segment of this market is sales to independent embroiderers or silk-screen printers of promotional items such as headwear and T-shirts. These companies tend to serve local markets and provide silk screening and embroidery services.

Headwear sales to the retail market are through mass-merchandisers, chain stores, sporting goods and resort stores, and university stores. The mass-merchandisers are the largest segment of this market and purchase the headwear directly from U.S. producers and foreign suppliers, or from importers. \* \* \* and \* \* \* reported that the majority of their sales were to unrelated chain stores. In the sporting goods and recreational facility segments of the retail market, U.S. producers and importers generally sell through commissioned agents and representatives.

#### Apparent U.S. consumption

Appendix 28 to the petition and Exhibit C of petitioner's postconference brief estimate the quantity and value of U.S. consumption of sewn cloth headwear under investigation from 1985 to 1987. Petitioner estimates consumption to be 21.9 million dozen in 1985, 21.2 million dozen in 1986, and 21.8 million dozen in 1987. Petitioner estimates the value of such consumption to be \$452.1 million in 1985, \$430.5 million in 1986, and \$463.0 million in 1987.

The following information on apparent consumption, which is based on producers' responses to the Commission's questionnaires and official import statistics, is obviously understated because the producers' shipments are based on data received from only 10 firms. It is, therefore, more appropriate to consider trends in the data rather than the absolute level of consumption indicated. 2/

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1/ Petitioner's postconference brief, p. 15.

2/ On the basis of petitioner's estimates, the Commission has 87 percent coverage in terms of quantity and 55 percent coverage in terms of value in 1987. Petitioner's estimates of U.S. consumption may be understated, in that they are based on the 1982 Census of Manufacturers data, which are increased or decreased by the percentage change found by petitioner in its survey of only eight U.S. firms.

Apparent U.S. consumption of sewn cloth headwear increased throughout the period, from 16.0 million dozen in 1985 to 19.1 million dozen in 1987, representing an increase of 19.5 percent (table 2). Consumption was almost level in the interim periods, at 4.9 million dozen.

Table 2

Sewn cloth headwear: U.S. producers' domestic shipments, imports for consumption, and apparent consumption, 1985-87, January-March 1987, and January-March 1988

Item	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
U.S. producers' domestic shipments.....	2,961	2,701	2,772	651	708
Total imports.....	12,999	14,663	16,298	4,171	4,170
Apparent consumption.....	15,960	17,364	19,070	4,822	4,878
Value (1,000 dollars)					
U.S. producers' domestic shipments.....	86,732	81,739	87,942	21,610	23,327
Total imports.....	135,638	148,340	165,031	38,829	42,509
Apparent consumption.....	222,370	230,079	252,973	60,439	65,836
Ratio of imports to consumption (percent)					
Quantity.....	81.5	84.4	85.5	86.5	85.5
Value.....	61.0	64.5	65.2	64.3	64.6

Source: U.S. producers' shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports compiled from official statistics of the U.S. Department of Commerce.

#### Consideration of Material Injury to an Industry in the United States

The information in this section of the report is based on data received from questionnaire returns. As indicated previously, the Commission received usable questionnaires from 10 firms that manufacture sewn cloth headwear. Exhibit B of petitioner's postconference brief attempts to quantify U.S. production of sewn cloth headwear by using responses to HIA's 1986 and 1987 surveys, three responses to the Commission's questionnaire, and their best estimates. Petitioner's estimated aggregate U.S. production of the sewn cloth headwear under investigation in 1987 is 5.9 million dozen. On the basis of this estimate, the Commission has 45-percent coverage of the U.S. industry.

In appendix 28 to the petition it is estimated, on the basis of the 1982 Census of Manufacturers data for SIC 2352 and on petitioner's periodic surveys of U.S. producers, that U.S. shipments in 1987 were 6.5 million dozen. The value of these shipments is estimated to be \$211.7 million (petitioner's postconference brief, Exhibit C). Assuming these figures accurately reflect the entire U.S. industry producing sewn cloth headwear, the Commission has 43-percent coverage by quantity and 42-percent coverage by value of U.S. shipments of the subject products in 1987.



U.S. production, capacity, and capacity utilization

Reported U.S. production of sewn cloth headwear decreased from 3.1 million dozen in 1985 to 2.6 million dozen in 1986, or by 18.0 percent (table 3). Production then increased by 4.2 percent to 2.7 million dozen in 1987. Production increased in the interim periods by 21.1 percent, from 615,000 dozen to 745,000 dozen.

Table 3

Sewn cloth headwear: U.S. production, end-of-period capacity, 1/ and capacity utilization, 1985-87, January-March 1987, and January-March 1988 2/

Item	1985	1986	1987	January-March--	
				1987	1988
Production (1,000 dozen)...	3,117	2,557	2,664	615	745
Capacity (1,000 dozen).....	4,464	4,287	4,330	1,033	1,019
Capacity utilization (percent) <u>3/</u> .....	69.8	59.6	61.5	61.0	73.2

1/ Many of the reporting firms could not reliably supply the capacity data by type of headwear.

2/ Annual data were provided by 10 firms; quarterly data were provided by 9 firms.

3/ Capacity utilization ratios are based on data for those firms that provided figures for both capacity and production; therefore, ratios based on capacity and production figures as presented may not reconcile.

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

U.S. capacity to manufacture sewn cloth headwear decreased from 4.5 million dozen in 1985 to 4.3 million dozen in 1986, or by 4.0 percent. Capacity then increased by 1.0 percent to 4.3 million dozen in 1987. Capacity decreased in the interim periods by 1.4 percent. The decrease in capacity in 1986 compared with that in 1985 was accounted for, in part, by K-Products closing two plants in 1986.

Capacity utilization decreased from 69.8 percent in 1985 to 59.6 percent in 1986 and then increased to 61.5 percent in 1987. During the interim periods, capacity utilization increased from 61.0 percent in January-March 1987 to 73.2 percent in January-March 1988.

In its questionnaire, the Commission requested the producers to provide information on changes in their firms, such as plant closings, relocations, acquisitions, prolonged shutdowns, etc., that affected their production of sewn cloth headwear. This information includes the share of 1987 production devoted to producing products other than sewn cloth headwear on the same equipment and machinery used to produce sewn cloth headwear. 1/ As noted above, K-Products reported closing two sewing plants in March 1986 and \* \* \*.

1/ Mr. Rubenstein testified at the conference that headwear of straw, wool, and felt is produced on different machinery than that used to produce sewn cloth headwear, transcript, p. 87; petitioner's postconference brief, pp. 17-20; letter from Langenberg Hat Co., June 21, 1988.

Three firms, \* \* \*, reported the production of other types of headwear from straw, wool, fur, braid, etc., but only \* \* \* reported that some straw hats were produced on the same equipment and machinery.

All of the fabric used to produce sewn cloth headwear was purchased from U.S. sources, and no producers purchased cut cloth to be sewn, blocked, and decorated. Producers reported manufacturing sewn cloth headwear from cotton/polyester blends, nylon mesh, poplins, corduroy, denim, etc., with two producers having all decorating of the headwear done by subcontractors. All producers performed all the operations in manufacturing finished sewn cloth headwear, from cutting, sewing, and blocking, to packing.

Caps accounted for the great bulk of total U.S. production of sewn cloth headwear--91.4 percent in 1985, 90.7 percent in 1986, 91.6 percent in 1987, 91.7 percent in January-March 1987, and 93.3 percent in the corresponding period of 1988 (table 4).

Table 4

Sewn cloth headwear: U.S. production, by types, 1985-87, January-March 1987, and January-March 1988 <sup>1/</sup>

(In thousands of dozens)

Item	1985	1986	1987	January-March--	
				1987	1988
Hats.....	***	***	***	***	***
Caps.....	2,848	2,319	2,440	564	695
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	3,117	2,557	2,664	615	745

<sup>1/</sup> Annual data were provided by 10 firms; quarterly data were provided by 9 firms.

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

The majority of U.S. sewn cloth headwear was produced from manmade fiber throughout the period of investigation. Production of headwear by fiber content is presented in the following tabulation (in thousands of dozens):

	1985	1986	1987	January-March--	
				1987	1988
Sewn cloth headwear of vegetable fiber:					
Hats.....	***	***	***	***	***
Caps.....	***	***	***	***	***
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	387	274	253	66	70
Sewn cloth headwear of manmade fiber:					
Hats.....	***	***	***	***	***
Caps.....	***	***	***	***	***
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	2,730	2,283	2,411	549	675

U.S. producers' shipments and exports

Total U.S. shipments of sewn cloth headwear reported by U.S. producers decreased from 3.0 million dozen in 1985 to 2.7 million dozen in 1986 and then increased 3 percent to 2.8 million dozen in 1987 (table 5). Shipments increased during January-March 1988, rising by 8.8 percent from shipments in the corresponding period of 1987. Unit values increased from \$29.30 per dozen in 1985 to \$31.73 per dozen in 1987. Unit values decreased slightly in the interim periods, from \$33.20 per dozen in January-March 1987 to \$32.94 per dozen in the corresponding period of 1988. <sup>1/</sup>

Table 5  
Sewn cloth headwear: U.S. producers' domestic shipments, 1985-87,  
January-March 1987, and January-March 1988

Item	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
Hats.....	***	***	***	***	***
Caps.....	2,691	2,461	2,547	602	657
Visors.....	97	83	72	***	***
Other headwear.....	***	***	***	***	***
Total.....	2,961	2,701	2,772	651	708
Value (1,000 dollars)					
Hats.....	***	***	***	***	***
Caps.....	78,409	73,249	79,817	19,817	21,437
Visors.....	1,897	1,699	1,550	***	***
Other headwear.....	***	***	***	***	***
Total.....	86,732	81,739	87,942	21,610	23,327
Unit value (per dozen)					
Hats.....	\$***	\$***	\$***	\$***	\$***
Caps.....	29.14	29.76	31.34	32.92	32.63
Visors.....	19.56	20.47	21.53	***	***
Other headwear.....	***	***	***	***	***
Average.....	29.30	30.26	31.73	33.20	32.94

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

<sup>1/</sup> Petitioner attributes the increase in unit values during 1985-87, to U.S. producers adding new decoration capabilities, thus lowering sales of blank headwear to middlemen and increasing sales in which U.S. producers provided the decorating value added, postconference brief, pp. 27-28. Counsel for respondents cites Exhibit 27 to the petition, which sets forth the volume and value of shipments. The resulting unit values rose 16 percent between 1986 and 1987, suggesting substantial price increases, postconference brief, p. 14.

Six U.S. producers reported shipments of hats during the annual periods and five firms provided data for the interim periods. During the annual periods, 10 producers provided data on shipments of caps and 8 reported shipments during the interim periods. Five producers reported shipments of visors during the annual periods and three provided information for the interim periods. Three producers reported shipments of other headwear in the annual periods and two provided such information in the interim periods. No U.S. producer reported exports of sewn cloth headwear during the period of the investigation.

Shipments of headwear by fiber content are presented in the following tabulation (in thousands of dozens):

	1985	1986	1987	January-March--	
				1987	1988
Sewn cloth headwear of vegetable fiber:					
Hats.....	***	***	***	***	***
Caps.....	302	252	200	54	56
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	400	329	267	65	69
Sewn cloth headwear of manmade fiber:					
Hats.....	***	***	***	***	***
Caps.....	2,389	2,209	2,347	548	601
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	2,561	2,372	2,505	586	639

Some of the producers reported that they could not break out production and shipments of sewn cloth headwear by fiber content, and therefore reported all their data in one or the other of the two categories.

#### U.S. producers' inventories

Producers of sewn cloth headwear normally produce to customer specifications and therefore had few inventories to report. End-of-period inventories fell from 581,000 dozen in 1985 to 325,000 dozen in 1987. Inventories then increased from 325,000 dozen in January-March 1987 to 354,000 dozen in the corresponding period of 1988. The ratio of inventories to shipments fell from 20.1 percent in 1985 to 12.1 percent in 1987, and declined from 12.9 percent in January-March 1987 to 10.8 percent in the corresponding period of 1988 (table 6). Inventories of caps accounted for 94.5 percent of total inventories in 1985, 92.9 percent in 1986, 91.7 percent in 1987, 96.0 percent in January-March 1987, and 94.3 percent in January-March 1988.

Table 6

Sewn cloth headwear: U.S. producers' end-of-period inventories, 1985-87, January-March 1987, and January-March 1988

Item	1985	1986	1987	January-March--	
				1987	1988
End-of-period inventories (1,000 dozen).....	581	436	325	325	354
Ratio of inventories to domestic shipments <u>1/</u> (percent).....	20.1	16.6	12.1	12.9	10.8

1/ Ratios are based on shipments by only those firms that reported inventory data. Ratios for the January-March periods are based on annualized shipments.

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

#### Employment and wages

The number of workers employed in the production of sewn cloth headwear decreased by 7.8 percent from 1,900 in 1985 to 1,751 in 1987. The number of hours worked by those employees decreased by 6.6 percent from 2.4 million hours in 1985 to 2.3 million hours in 1987. Hourly wages increased by 3.2 percent from \$7.42 in 1985 to \$7.66 in 1987. During January-March 1988, the number of production workers and hours worked increased by 1.4 percent and 9.3 percent, respectively, compared with those in the corresponding period of 1987. Hourly wages were steady at \$5.98 during the quarter (table 7). 1/

Labor productivity, as measured by dozens produced per hour, decreased by 12.4 percent from 1985 to 1986 and then increased by 9.4 percent in 1987. In January-March 1988, labor productivity increased by 16.2 percent compared with productivity in the corresponding period of 1987. U.S. producers' unit labor costs increased by 13.4 percent from \$11.28 per dozen in 1985 to \$12.79 per dozen in 1986, then decreased by 10.2 percent to \$11.49 per dozen in 1987. During the interim periods, unit labor costs increased by 4.1 percent from \$9.85 per dozen to \$10.25 per dozen in January-March 1988.

Only two firms could breakout the employment data for the production of hats, six firms provided employment data for caps, and two firms provided employment data for visors. \* \* \* reported that the employment data requested were not maintained by product line in their records.

Imperial Headwear, located in Denver, CO, is the only firm whose workers are represented by a union; the Amalgamated Clothing and Textile Workers Union, (Local 63-H).

1/ \* \* \*'s reported quarterly wages paid to its employees declined at a much greater rate than its reported number of hours worked by such employees.

Table 7

Average number of production and related workers producing sewn cloth headwear, hours worked, 1/ wages and total compensation 2/ paid to such employees, labor productivity, hourly compensation, and unit labor production costs, 1985-87, January-March 1987, and January-March 1988

Item	1985	1986	1987	January-March--	
				1987	1988
Production and related workers (PRW):					
Hats.....	***	***	***	***	***
Caps.....	1,868	1,753	1,717	1,402	1,426
Visors.....	***	***	***	***	***
Total 3/.....	1,900	1,795	1,751	1,435	1,455
Hours worked by PRW:					
Hats (1,000 hours).....	***	***	***	***	***
Caps (1,000 hours).....	2,392	2,252	2,218	414	455
Visors (1,000 hours).....	***	***	***	***	***
Total (1,000 hours).....	2,441	2,329	2,279	429	469
Wages paid to PRW:					
Hats (1,000 dollars).....	***	***	***	***	***
Caps (1,000 dollars).....	17,820	17,114	17,043	2,455	2,707
Visors (1,000 dollars)....	***	***	***	***	***
Total (1,000 dollars)...	18,120	17,607	17,451	2,562	2,806
Total compensation paid to PRW:					
Hats (1,000 dollars).....	***	***	***	***	***
Caps (1,000 dollars).....	26,248	24,688	23,828	4,813	6,373
Visors (1,000 dollars)....	***	***	***	***	***
Total (1,000 dollars)...	26,644	25,298	24,354	4,950	6,502
Labor productivity for PRW: 4/					
Hats (dozens per hour)....	***	***	***	***	***
Caps (dozens per hour)....	0.98	0.87	0.95	1.19	1.38
Visors (dozens per hour)..	***	***	***	***	***
Total (dozens per hour)..	0.97	0.85	0.93	1.17	1.36
Wages per hour paid to PRW: 5/					
Hats.....	\$***	\$***	\$***	\$***	\$***
Caps.....	7.45	7.60	7.68	5.93	5.95
Visors.....	***	***	***	***	***
Total.....	7.42	7.56	7.66	5.97	5.98
Unit labor costs: 6/					
Hats (per dozen).....	\$***	\$***	\$***	\$***	\$***
Caps (per dozen).....	11.26	12.66	11.36	9.75	10.19
Visors (per dozen).....	***	***	***	***	***
Total.....	11.28	12.79	11.49	9.85	10.25

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ Firms providing employment data accounted for 84 percent of reported U.S. production of sewn cloth headwear in 1987.

4/ Calculated using data from firms that provided information on both production and hours worked.

5/ On the basis of wages paid excluding fringe benefits. Calculated using data from firms that provided both wages paid and hours worked.

6/ On the basis of total compensation paid. Calculated using data from firms that provided information on both total compensation paid and production.

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

In its questionnaire, the Commission requested U.S. producers to provide detailed information concerning reductions in the number of production and related workers producing sewn cloth headwear, if such reductions involved at least 5 percent of the workforce or 50 workers. Six firms reported such layoffs, most of which were attributed to declining sales. One firm reported that its layoff of employees was due to the emplacement of new automated equipment in the plant. The reported layoffs are shown in the following tabulation:

<u>Firm</u>	<u>Number of</u> <u>workers</u>	<u>Date</u>	<u>Duration of</u> <u>reduction</u>
*	*	*	*

In a letter dated June 15, 1988, to the Commission, Mr. Roger Mogell, president of Toppers, Inc., a company which manufactured sewn cloth headwear until several years ago and now reportedly imports the headwear for resale, stated that his decision to close his manufacturing operations was due to long-term trends in the industry. The manufacture of sewn cloth headwear is a labor-intensive process that utilizes relatively low-skilled workers. Consequently, wage rates for these workers tend to be low. For his company and other U.S. producers, the local supply of workers who were willing to accept that type of employment diminished as more and more young people began to pursue more highly skilled jobs. 1/

#### Financial experience of U.S. producers

Nine producers supplied usable income-and-loss data on their overall establishment operations. Seven producers, accounting for 94.6 percent of reported U.S. production in 1987, furnished usable income-and-loss data on their operations producing sewn cloth headwear. 2/ Two producers that provided establishment income-and-loss data were unable to furnish such data on the subject products.

The questionnaire requested income-and-loss data for both overall operations and sewn cloth headwear operations. The companies were also asked if, in the event of a final investigation, they could provide separate financial information for each category of sewn cloth headwear, i.e., hats, caps, and visors. Most of the responding companies stated that they would not be able to provide such a breakdown of information.

Overall establishments operations.--In addition to sewn cloth headwear, some firms produce other types of headwear and/or apparel in their establishments. The income-and-loss data for overall establishment operations are presented in table 8.

1/ Respondents' postconference brief, pp. 27-28 and Exhibit H.

2/ Five of the producers, accounting for 89.3 percent of reported U.S. production in 1987, are members of HIA. Based on the U.S. production data presented in Exhibit B of petitioner's postconference brief, the five HIA members accounted for 40.4 percent of U.S. production in 1987.

Table 8

Income-and-loss experience of U.S. producers on the overall operations of their establishments within which sewn cloth headwear is produced, accounting years 1985-87 and interim periods ended Mar. 31, 1987, and Mar. 31, 1988

Item	1985	1986	1987	Interim period ended Mar. 31--	
				1987	1988
Value (1,000 dollars)					
Net sales.....	165,665	164,717	173,415	67,056	82,733
Cost of goods sold.....	110,544	107,678	115,203	42,413	52,328
Gross profit.....	55,121	57,039	58,212	24,643	30,405
General, selling, and administrative expenses...	37,955	41,214	43,620	18,108	20,974
Operating income.....	17,166	15,825	14,592	6,535	9,431
Startup or shutdown expense.....	0	0	650	0	0
Interest expense.....	3,797	3,799	3,891	1,871	1,511
Other income or (expense), net.....	(391)	85	2,490	375	625
Net income before income taxes.....	12,978	12,111	12,541	5,039	8,545
Depreciation and amorti- zation included above.....	3,383	3,676	4,139	2,069	2,209
Cash-flow <u>1/</u> .....	16,361	15,787	16,680	7,108	10,754
Share of net sales (percent)					
Cost of goods sold.....	66.7	65.4	66.4	63.3	63.2
Gross profit.....	33.3	34.6	33.6	36.7	36.8
General, selling, and administrative expenses...	22.9	25.0	25.2	27.0	25.4
Operating income.....	10.4	9.6	8.4	9.7	11.4
Net income before income taxes.....	7.8	7.4	7.2	7.5	10.3
Number of firms reporting					
Operating losses.....	3	2	2	1	1
Net losses.....	3	2	3	1	1
Data.....	9	9	9	7	7

<sup>1/</sup> Cash-flow is defined as net income or loss plus depreciation and amortization.

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



Operations on sewn cloth headwear.--As shown in table 9, aggregate net sales declined 2.5 percent from \$81.5 million in 1985 to \$79.5 million in 1986. Sales were \$82.0 million in 1987, representing an increase of 3.2 percent compared with those in 1986. Operating income was \$9.2 million in 1985, \$8.7 million in 1986, and \$7.4 million in 1987. Operating income margins, as a percent of sales, were 11.3, 10.9, and 9.0 in 1985, 1986, and 1987, respectively. Two firms reported operating losses in 1985 and one firm reported such losses in 1986 and 1987. For the interim period ended March 31, 1988, net sales were \$\* \* \*, an increase of \* \* \* percent compared with sales during the corresponding period of 1987, of \$\* \* \*. Operating income was \$\* \* \* in interim 1987 and \$\* \* \* in interim 1988. Operating income margins, as a percent of sales, were \* \* \* and \* \* \* in interim 1987 and interim 1988, respectively. Two firms reported operating losses in interim 1987 and one firm reported such losses in interim 1988.

Table 9

Income-and-loss experience of U.S. producers on their operations producing sewn cloth headwear, accounting years 1985-87 and interim periods ended Mar. 31, 1987, and Mar. 31, 1988

Item	1985	1986	1987	Interim period ended Mar. 31--	
				1987	1988
Value (1,000 dollars)					
Net sales.....	81,479	79,456	82,032	***	***
Cost of goods sold.....	55,323	52,927	55,274	***	***
Gross profit.....	26,156	26,529	26,758	***	***
General, selling, and administrative expenses...	16,910	17,874	19,388	***	***
Operating income.....	9,246	8,655	7,370	***	***
Depreciation and amortization included above.....	2,252	2,258	2,385	***	***
Cash-flow 2/.....	11,498	10,913	9,755	***	***
Share of net sales (percent)					
Cost of goods sold.....	67.9	66.6	67.4	***	***
Gross profit.....	32.1	33.4	32.6	***	***
General, selling, and administrative expenses...	20.8	22.5	23.6	***	***
Operating income.....	11.3	10.9	9.0	***	***
Number of firms reporting					
Operating losses.....	2	1	1	2	1
Data.....	7	7	7	5	5

1/ \* \* \*.

2/ Cash-flow is defined as operating income or loss plus depreciation and amortization.

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

Investment in productive facilities.--Seven companies provided data on their investment in productive facilities (table 10).

Table 10

Sewn cloth headwear: Value of property, plant, and equipment of U.S. producers, accounting years 1985-87 and interim periods ended Mar. 31, 1987, and Mar. 31, 1988

(In thousands of dollars, except as noted)					
Item	As of end of accounting year--			Interim period ended Mar. 31--	
	1985	1986	1987	1987	1988
All products of establishments:					
Original cost.....	***	***	***	***	***
Book value.....	***	***	***	***	***
Sewn cloth headwear:					
Original cost.....	***	***	***	***	***
Book value.....	***	***	***	***	***
Return on fixed assets <u>1/</u> ..	***	***	***	***	***

1/ Defined as operating income or loss divided by book value of fixed assets (in percent).

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

Capital expenditures.--Six companies supplied data on their capital expenditures for 1985, 1986, and 1987 and three companies furnished such data for each of the interim periods (table 11).

Table 11

Sewn cloth headwear: Capital expenditures by U.S. producers, accounting years 1985-87 and interim periods ended Mar. 31, 1987, and Mar. 31, 1988 <sup>1/</sup>

(In thousands of dollars)					
Item	1985	1986	1987	Interim period ended Mar. 31--	
				1987	1988
All products of establishments:					
Land and land improvements.....	***	***	***	***	***
Building and leasehold improvements.....	***	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***	***
Total.....	***	***	***	***	***
Sewn cloth headwear:					
Land and land improvements.....	***	***	***	***	***
Building and leasehold improvements.....	***	***	***	***	***
Machinery, equipment, and fixtures.....	***	***	***	***	***
Total.....	***	***	***	***	***

<sup>1/</sup> \* \* \*.

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

Research and development expenses.--Three firms supplied data on their research and development expenses for 1985, 1986, and 1987 and two companies furnished such data for each of the interim periods. These outlays are shown in the following tabulation (in thousands of dollars):

<u>Period</u>	<u>Establishment</u>	<u>Sewn cloth headwear</u>
1985.....	***	***
1986.....	***	***
1987.....	***	***
January-March--		
1987.....	***	***
1988.....	***	***

Capital and investment.-- The Commission requested U.S. producers to describe any actual or potential negative effects of imports of sewn cloth headwear from the People's Republic of China on their firms' growth, investment, and ability to raise capital. Their responses are shown in appendix D.

The Question of Threat of Material Injury  
to an Industry in the United States

Section 771(7)(F)(i) of the Tariff Act of 1930 (19 U.S.C. § 1677(7)(F)(i)) provides that--

In determining whether an industry in the United States is threatened with material injury by reason of imports (or sales for importation) of any merchandise, the Commission shall consider, among other relevant factors 1/--

(I) If a subsidy is involved, such information as may be presented to it by the administering authority as to the nature of the subsidy (particularly as to whether the subsidy is an export subsidy inconsistent with the Agreement),

(II) any increase in production capacity or existing unused capacity in the exporting country likely to result in a significant increase in imports of the merchandise to the United States,

(III) any rapid increase in United States market penetration and the likelihood that the penetration will increase to an injurious level,

(IV) the probability that imports of the merchandise will enter the United States at prices that will have a depressing or suppressing effect on domestic prices of the merchandise,

(V) any substantial increase in inventories of the merchandise in the United States,

(VI) the presence of underutilized capacity for producing the merchandise in the exporting country,

(VII) any other demonstrable adverse trends that indicate the probability that the importation (or sale for importation) of the merchandise (whether or not it is actually being imported at the time) will be the cause of actual injury, and

(VIII) the potential for product-shifting if production facilities owned or controlled by the foreign manufacturers, which can be used to produce products subject to investigation(s) under section 701 or 731 or to final orders under section 736, are also used to produce the merchandise under investigation.

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1/ Sec. 771(7)(F)(ii) of the act (19 U.S.C. § 1677(7)(F)(ii)) provides that "Any determination by the Commission under this title that an industry in the United States is threatened with material injury shall be made on the basis of evidence that the threat of material injury is real and that actual injury is imminent. Such a determination may not be made on the basis of mere conjecture or supposition."

The available data on foreign producers' operations (items (II) and (VI) above) are presented in the section entitled "Ability of foreign producers to generate exports..." and information on the volume, U.S. market penetration, and pricing of imports of the subject merchandise (items (III) and (IV) above) is presented in the section entitled "Consideration of the causal relationship between imports of the subject merchandise and the alleged injury." Item I, regarding subsidies, is not relevant in this case.

#### U.S. importers' inventories

Seven importers reported inventories of sewn cloth headwear from China during the period of investigation. Three firms reported inventories of Chinese headwear in 1985, six firms reported in 1986, seven in 1987, four in January-March 1987, and six in January-March 1988. U.S. importers' inventories of sewn cloth headwear from China increased from \* \* \* dozen in 1985 to 274,000 dozen in 1986, or by \* \* \* percent. Inventories increased by 14.2 percent in 1987 to 313,000 dozen. Inventories increased by 24.0 percent in interim 1988, from 154,000 dozen in January-March 1987 to 191,000 dozen in the corresponding period of 1988. As a share of U.S. importers' shipments (on the basis of those firms that reported inventory data), inventories of sewn cloth headwear decreased from \* \* \* percent in 1985 to 40.6 percent in 1987. Inventories' share of shipments declined slightly from 12.8 percent in January-March 1987 to 12.5 percent in the corresponding period of 1988.

At the conference, petitioner indicated that the U.S. industry initiated costly new services such as fast turnaround on orders. To negate the effects of fast turnaround time, importers are maintaining large costly inventories of Chinese headwear in the United States in order to fill orders quickly. 1/

#### Ability of foreign producers to generate exports and availability of export markets other than the United States

Although the U.S. industry produces primarily for the domestic market, China's headwear industry is export-oriented and produces in volume primarily for the U.S. market. In 1985, the United States accounted for 93 percent of China's total export quantity of cut-and-sewn hats and caps. 2/ There are approximately 40 facilities in China that manufacture or produce sewn cloth headwear. Two large exporters, National China Arts and Crafts Import and Export Corp., and China National Light Industrial Products Import and Export Corp., buy sewn cloth headwear from factories in China and resell the headwear for export. Ms. Gueifang Yao, from China National Light Industrial, testified at the conference that these two firms account for over 90 percent of the

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1/ Transcript, pp. 21, 31-32, 48, 50, and 57; postconference brief, p. 38.

2/ According to China's official statistics published on p. 1017 of the 1986 Almanac of China's Foreign Economic Relations and Trade, China's exports of sewn hats and caps totaled 3.2 million dozen in 1985. U.S. imports from China in 1985 of the subject articles totaled approximately 2.9 million dozen according to U.S. import statistics.

total volume of exports of headwear to the United States. 1/ According to information presented at the conference by Ms. Yao and Ms. Honghui Chen of China National Arts and Crafts, the United States accounts for roughly one-half of China's cut-and-sewn headwear exports. China's other principal export markets are France, Italy, Canada, and Australia. 2/

Counsel for National China Arts and Crafts and China National Light Industrial, provided some data for the \* \* \* branches of China National Arts and Crafts. The data provided for the \* \* \* branches are aggregated for two factories, and for the \* \* \* branch the data are aggregated for seven factories. In the aggregate, these firms currently produce \* \* \* dozen headwear items a year.

Exports to the United States by the \* \* \* branches, increased from \* \* \* dozen in 1985 to \* \* \* dozen in 1987. Such exports increased from \* \* \* dozen in January-March 1987 to \* \* \* dozen in the corresponding period of 1988. Exports to the United States by the \* \* \* branch, increased from \$\* \* \* in 1985 to \$\* \* \* in 1987. Such exports increased from \$\* \* \* in January-March 1987 to \$\* \* \* in the corresponding period of 1988.

Generally, Chinese firms produce to customer order and do not maintain inventories. 3/ Two of the branches reported no inventories of sewn cloth headwear. The \* \* \* branch reported that its inventories of sewn cloth headwear decreased from \* \* \* dozen in 1985 to \* \* \* dozen in 1986 and then increased to \* \* \* dozen in 1987. Such inventories increased from \* \* \* dozen in January-March 1987 to \* \* \* dozen in January-March 1988.

Because the production of cloth headwear is highly labor intensive, low-wage countries such as China have significant cost advantages over the United States and other high-wage countries. Labor costs in China are estimated to average only 2 to 3 percent of U.S. wages. As a result, and despite higher productivity, the U.S. industry is not price competitive, especially at the low-end volume market, where China's export potential remains significantly greater.

Although quotas limit the growth of China's exports of manmade-fiber headwear, China could expand its exports of headwear of cotton and other vegetable fibers. China is capable of producing caps, visors, and hats of all styles in both the low and high ends of the market. However, China competes primarily in the low end, where it has forced many producers in Taiwan, Korea, and Hong Kong to upgrade their product quality and diversify their products.

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1/ Transcript, pp. 146-147.

2/ Ibid, pp. 180-182.

3/ Ibid, p. 170.

Consideration of the Causal Relationship Between  
Imports of the Subject Merchandise and the Alleged Injury

U.S. imports

U.S. imports of sewn cloth headwear <sup>1/</sup> increased by 25 percent from 13.0 million dozen in 1985 to 16.3 million dozen in 1987. During January-March 1988, imports totaled 4.2 million dozen, the level reached by imports in the corresponding period of 1987 (table 12). Taiwan was the principal source of imports of sewn cloth headwear in 1985 and 1986, with China becoming the major supplier of imports to the United States in 1987 and in January-March 1988. China supplied 22 percent of the total quantity of imports in 1985, 24 percent in 1986, 38 percent in 1987, and 49 percent in January-March 1988. Korea was also a principal source of imports during the period. The unit values of imports of sewn cloth headwear from China were lower than the other principal suppliers throughout the period, decreasing from \$8.18 per dozen in 1985 to \$7.26 in 1987, before increasing to \$7.60 in January-March 1988.

Monthly imports from China in 1987 and in January-March 1988 are presented in table 13. Imports of sewn cloth headwear from China fluctuated throughout 1987, reaching a high of 656,000 dozen in May before dropping to a low of 366,000 dozen in October. Imports from China reached their highest levels in January and February 1988, amounting to 842,000 dozen and 723,000 dozen, respectively.

Imports of sewn cloth headwear from China compete throughout the United States. In 1987, principal ports of entry for U.S. imports of sewn cloth headwear included Los Angeles, New York City, Philadelphia, Laredo, and Boston. U.S. imports from China and all other countries in 1987, by customs districts, are presented in table 14.

Respondents testified at the conference that although imports from China have increased, these imports have largely filled a void in the market left by declining imports from Korea and Taiwan. In its postconference brief counsel for respondents added that "to the degree that MFA quotas might eventually limit substitution from traditional suppliers such as Taiwan and Korea, other foreign suppliers would promptly fill the gap." Therefore, counsel contends, if imports from China were reduced, there would be a prompt substitution of alternative foreign sources of supply at much the same price as the Chinese price for headwear. <sup>2/</sup> Petitioner contends that since China is the lowest price seller of sewn cloth headwear, prices would have to rise well above current levels before other foreign suppliers could effectively compete against Chinese products. <sup>3/</sup>

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<sup>1/</sup> U.S. imports of headwear of vegetable fibers, manmade fibers, and visors, are separately presented in app. E.

<sup>2/</sup> Transcript, pp. 118, 121, and 127; postconference brief, pp. 31-33.

<sup>3/</sup> Postconference brief, p. 26.

Table 12

Sewn cloth headwear: U.S. imports for consumption, by principal sources, 1985-87, January-March 1987, and January-March 1988

Source	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
China.....	2,913	3,552	6,207	1,610	2,057
Taiwan.....	4,334	5,248	4,743	1,100	907
Korea.....	3,194	3,498	3,461	870	825
Hong Kong.....	987	793	566	214	119
All other.....	1,572	1,572	1,322	377	263
Total.....	12,999	14,663	16,298	4,171	4,170
Value (1,000 dollars) 1/					
China.....	23,836	25,936	45,049	10,906	15,640
Taiwan.....	44,810	52,996	52,978	11,367	11,161
Korea.....	36,142	40,287	40,950	9,146	10,139
Hong Kong.....	9,580	6,406	5,056	1,744	1,033
All other.....	21,270	22,715	20,997	5,666	4,535
Total.....	135,638	148,340	165,031	38,829	42,509
Unit value (per dozen)					
China.....	\$8.18	\$7.30	\$7.26	\$6.77	\$7.60
Taiwan.....	10.34	10.10	11.17	10.33	12.31
Korea.....	11.32	11.52	11.83	10.51	12.29
Hong Kong.....	9.71	8.08	8.94	8.13	8.70
All other.....	13.53	14.45	15.88	15.05	17.25
Average.....	10.43	10.12	10.13	9.31	10.19

1/ C.i.f., duty paid.

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



Table 13

Sewn cloth headwear: U.S. imports for consumption from China, by months, January 1987-March 1988

Period	Quantity	Value 1/
	1,000 dozen	1,000 dollars
1987:		
January.....	486	3,556
February.....	654	4,011
March.....	470	3,339
April.....	454	3,347
May.....	656	4,728
June.....	549	3,909
July.....	529	3,875
August.....	573	3,917
September.....	473	3,675
October.....	366	2,822
November.....	509	3,966
December.....	487	3,903
1988:		
January.....	842	6,151
February.....	723	5,616
March.....	491	3,874

1/ C.i.f., duty-paid basis.

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

Table 14

Sewn cloth headwear: U.S. imports for consumption from China and all other countries, by customs districts, 1987

(In thousands of dozens)			
Customs district	China	All other countries	Total
Los Angeles, CA.....	1,862	2,923	4,785
New York City, NY.....	884	1,840	2,724
Philadelphia, PA.....	656	142	798
Laredo, TX.....	484	89	573
Boston, MA.....	443	574	1,017
Miami, FL.....	342	476	819
Seattle, WA.....	267	911	1,179
St. Louis, MO.....	232	195	426
Baltimore, MD.....	189	307	496
All other.....	848	2,633	3,482
Total.....	6,207	10,091	16,298

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

The Commission asked in its questionnaire for firms to report their imports of sewn cloth headwear by fiber content and by type of headwear. A summary of imports from China reported by U.S. importers is presented in the following tabulation (in thousands of dozens):

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>January-March--</u>	
				<u>1987</u>	<u>1988</u>
Sewn cloth headwear of vegetable fiber:					
Hats.....	***	***	***	***	***
Caps.....	***	***	***	***	***
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	214	184	658	112	144
Sewn cloth headwear of manmade fiber:					
Hats.....	***	***	***	***	***
Caps.....	***	***	***	***	***
Visors.....	***	***	***	***	***
Other headwear.....	***	***	***	***	***
Total.....	254	385	502	74	177

#### U.S. market penetration

Based on appendix 28 to the petition and Exhibit C of petitioner's postconference brief, U.S. market penetration (by quantity) from all sources increased from 58.6 percent in 1985 to 70.4 percent in 1987. Imports from China increased their share from 13.5 percent in 1985 to 27.1 percent in 1987. U.S. market share by imports from China (by value) increased from 9.1 percent in 1985 to 17.0 percent in 1987.

The following U.S. market penetration ratios in this section are overstated because only 10 U.S. producers provided domestic shipment data. It is, therefore, more appropriate for the Commission to look at trends rather than absolute levels. <sup>1/</sup> On the basis of responding U.S. producers' shipments, U.S. market penetration by imports (by quantity) from all sources increased from 81.5 percent in 1985 to 85.5 percent in 1987 (table 15). The ratio declined from 86.5 percent during January-March 1987 to 85.5 percent in the corresponding period of 1988. Imports from China increased their share from 18.3 percent in 1985 to 32.6 percent in 1987. The market share of imports from China continued to increase, rising from 33.4 percent in January-March 1987 to 42.2 percent during the corresponding period of 1988.

U.S. market penetration by imports from China (by value) increased from 10.7 percent in 1985 to 17.8 percent in 1987. The market share of imports from China continued to increase, rising from 18.1 percent in January-March 1987 to 23.8 percent in January-March 1988.

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<sup>1/</sup> The trends in market penetration by imports, in app. 28, were increasing throughout 1985-87, as are the market penetration ratios shown in table 15.

Table 15

Sewn cloth headwear: U.S. producers' domestic shipments, imports from China and all other countries, and apparent consumption, 1985-87, January-March 1987, and January-March 1988

Item	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
U.S. producers' shipments....	2,961	2,701	2,772	651	708
Imports from--					
China.....	2,913	3,552	6,207	1,610	2,057
All other sources.....	10,086	11,111	10,091	2,561	2,113
Total.....	12,999	14,663	16,298	4,171	4,170
U.S. consumption.....	15,960	17,364	19,070	4,822	4,878
Share of consumption quantity (percent)					
U.S. producers' shipments....	18.6	15.6	14.5	13.5	14.5
Imports from--					
China.....	18.3	20.5	32.6	33.4	42.2
All other sources.....	63.2	64.0	52.9	53.1	43.3
Total.....	81.5	84.5	85.5	86.5	85.5
Value (1,000 dollars)					
U.S. producers' shipments....	86,732	81,739	87,942	21,610	23,327
Imports from--					
China.....	23,836	25,936	45,049	10,906	15,640
All other sources.....	111,802	122,404	119,982	27,923	26,869
Total.....	135,638	148,340	165,031	38,829	42,509
U.S. consumption.....	222,370	230,079	252,973	60,439	65,836
Share of consumption value (percent)					
U.S. producers' shipments....	39.0	35.5	34.8	35.8	35.4
Imports from--					
China.....	10.7	11.3	17.8	18.1	23.8
All other sources.....	50.3	53.2	47.4	46.2	40.8
Total.....	61.0	64.5	65.2	64.3	64.6

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

Source: U.S. producers' shipments compiled from data submitted in response to questionnaires of the U.S. International Trade Commission; imports, compiled from official statistics of the U.S. Department of Commerce.

In terms of quantity, U.S. shipments of U.S.-produced sewn cloth headwear decreased from 18.6 percent of the market in 1985 to 14.5 percent in 1987. U.S. producers' shipments increased their market share from 13.5 percent in January-March 1987 to 14.5 percent in the corresponding period of 1988.

## Prices

Market characteristics.--The prices of different sewn cloth headwear products vary according to differences in the type and amount of cloth in the different styles of headwear and the degree of decoration or embroidery. Prices of caps can differ substantially based on the complexity of the decoration/embroidery, including the number of stitches, the variety of colors, the type of imprinting, and the volume ordered.

Questionnaire information is mixed regarding the relative quality of U.S.-produced and imported Chinese sewn cloth headwear. Commenting on quality, four of the nine responding U.S. producers and six of the eight responding importers indicated that there was no difference in quality between the subject domestic and imported headwear. Five U.S. producers and two importers reported, however, that the U.S.-made sewn cloth headwear was better in quality than the imported Chinese headwear. Several product features of the domestic products were cited as superior, including better workmanship (cutting, sewing, and decoration), higher quality materials, fuller cut caps, and better blocking and packing.

Most U.S. producers reported selling their headwear from price lists, whereas the majority of importers reported that they did not use price lists. Those firms selling from price lists indicated that the list prices are generally adhered to. Both U.S. producers and importers typically quote prices f.o.b. their U.S. plants and/or warehouses and offer similar payment terms; net 30 days or 2/10 net 30 days/end of month.

Questionnaire price data.--The Commission requested net U.S. f.o.b. selling prices and quantities for two specific mesh baseball cap products from U.S. producers and importers of the Chinese products. U.S. producers and importers were requested to report the f.o.b. price data separately for sales of these products to premium account end users and to distributors. 1/ The price data were requested for each firm's largest sale, by quarters, during January 1985-March 1988. In addition, the value of total sales during each quarter was requested. The two products for which the price data were requested are identified below. 2/

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1/ Premium account end users are firms like Budweiser Co., which typically buy baseball caps to advertise their company and its products. These firms often buy the caps already decorated or embroidered, but they buy some plain caps and contract with a third firm for the desired decoration/embroidery. Distributors purchase both decorated and plain caps. Some distributors decorate or embroider the plain caps themselves and others contract with another firm for this work.

2/ Economic Consulting Services, Inc. (ECS), economic consultant for the petitioner, The Headwear Institute of America, identified these two products as representative of a significant amount of competition between the domestic and imported Chinese sewn cloth headwear subject to this investigation. ECS indicated that both product categories were sufficiently narrow to obtain meaningful price data to calculate price trends and to make price level comparisons between the domestic and imported products. In addition, ECS felt it was useful to collect pricing data by the two types of purchaser categories, as end-user prices allegedly differed from distributor prices.

PRODUCT 1: MESH BASEBALL CAPS--Mesh baseball caps (all or part of the crown constructed of knit mesh fabric), of manmade or vegetable fibers, plain (no decoration or embroidery), with or without braids.

PRODUCT 2: MESH BASEBALL CAPS--Mesh baseball caps (all or part of the crown constructed of knit mesh fabric), of manmade or vegetable fibers, decorated or embroidered, with or without braids.

Three U.S. producers of sewn cloth headwear and four U.S. importers of the subject foreign products reported the requested price data, but not necessarily for every product or period. 1/ Because the reported questionnaire price data were limited, any price trends or price comparisons based on these data should be used cautiously. The reported sales quantities for the two specified headwear products accounted for \* \* \* percent of total reported U.S. shipments (based on questionnaire responses) of the subject domestic headwear sold during January 1985-March 1988, and \* \* \* percent of total U.S. imports (based on official statistics of the Department of Commerce) of these products from China during this period.

Price trends.--Price trends for the domestic and subject imported sewn cloth headwear are based on indexes of the reported quarterly weighted-average net f.o.b. selling prices to premium account end users and to distributors during January 1985-March 1988. The net selling prices were based on total sales values and volumes of the specified products to each type of purchaser. Indexes of these prices are shown in table 16 for U.S.-produced caps and table 17 for imported Chinese caps.

Based on indexes of the weighted-average net U.S. f.o.b. prices of U.S. producers, quarterly selling prices of the specified domestic caps sold to premium account end users and to distributors fluctuated, showing mixed trends during January 1985-March 1988 (table 16). 2/ Selling prices of domestic cap product 1 (plain) to end users fluctuated but ended about \* \* \* percent below their initial-period value during January 1985-March 1988. But prices of

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1/ The three responding U.S. producers accounted for approximately \* \* \* percent of the total reported volume of U.S. producers' domestic shipments of sewn cloth headwear in 1987. This share is overstated because the total volume of domestic shipments is based on questionnaire responses from a limited number of U.S. producers. During the same period, the four responding U.S. importers accounted for about \* \* \* percent of the total volume of U.S. imports of the subject headwear from China. The total volume of imports is based on official statistics of the U.S. Department of Commerce.

2/ Based on producer price indexes (PPI) reported by the U.S. Bureau of Labor Statistics, U.S. producers' quarterly selling prices of cloth hats and caps rose by 1.5 percent during July 1985-December 1987 (the earliest and latest periods for which data were available). In comparison, the quarterly PPI for all apparel rose by 3.7 percent during this period. The BLS price data may include some list prices and therefore may not accurately reflect changes in actual transaction prices.

Table 16

Sewn cloth headwear: Indexes of weighted-average net U.S. f.o.b. selling prices of sewn cloth headwear produced in the United States, by types of customer, by specified products, and by quarters, January 1985-March 1988 <sup>1/</sup>

Period	Sales to premium accounts		Sales to distributors	
	Product 1	Product 2	Product 1	Product 2
1985:				
Jan.-Mar.....	***	***	***	***
Apr.-June.....	***	***	***	***
July-Sept.....	***	***	***	***
Oct.-Dec.....	***	***	***	***
1986:				
Jan.-Mar.....	***	***	***	***
Apr.-June.....	***	***	***	***
July-Sept.....	***	***	***	***
Oct.-Dec.....	***	***	***	***
1987:				
Jan.-Mar.....	***	***	***	***
Apr.-June.....	***	***	***	***
July-Sept.....	***	***	***	***
Oct.-Dec.....	***	***	***	***
1988:				
Jan.-Mar.....	***	***	***	***

<sup>1/</sup> The price indexes were based on total sales of these products to premium account end users and to distributors.

Note--January-March 1985=100, unless otherwise specified.

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

Table 17

Sewn cloth headwear: Indexes of weighted-average net U.S. f.o.b. selling prices of sewn cloth headwear imported from China, by type of customer, by specified products, and by quarters, January 1985-March 1988 <sup>1/</sup>

Period	Sales to premium accounts		Sales to distributors	
	Product 1	Product 2	Product 1	Product 2
1985:				
Jan.-Mar.....	2/	2/	2/	***
Apr.-June.....	2/	2/	***	***
July-Sept.....	2/	2/	***	***
Oct.-Dec.....	2/	2/	***	***
1986:				
Jan.-Mar.....	2/	***	***	***
Apr.-June.....	2/	***	***	***
July-Sept.....	2/	***	***	***
Oct.-Dec.....	2/	***	***	***
1987:				
Jan.-Mar.....	2/	***	***	***
Apr.-June.....	2/	***	***	***
July-Sept.....	2/	***	***	***
Oct.-Dec.....	2/	***	***	***
1988:				
Jan.-Mar.....	2/	***	***	***

<sup>1/</sup> The price indexes were based on total sales of these products to premium account end users and to distributors.

<sup>2/</sup> No price data were reported.

Note--January-March 1985=100, unless otherwise specified.

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

domestic cap product 2 (decorated) sold to end users rose by about \* \* \* percent during this period. Prices of product 1 sold to distributors rose by \* \* \* percent during January 1985-March 1988, and prices of product 2 sold to distributors fell by \* \* \* percent.

Based on indexes of the weighted-average net U.S. f.o.b. prices of the imported Chinese products, quarterly selling prices of the imported caps showed mixed trends during the periods reported (table 17). Selling prices of the imported Chinese product 2 (decorated) sold to end users fell by \* \* \* percent during the partial period reported, January 1986-March 1988. 1/ In comparison, prices of the domestic product fell by about \* \* \* percent during this latter period. Selling prices of the imported Chinese product 1 (plain) sold to distributors fluctuated widely, but rose by \* \* \* percent during the period reported, April 1985-March 1988. In comparison, prices of the domestic product 1 sold to distributors rose by \* \* \* percent during this latter period. Prices of the imported product 2 sold to distributors rose by \* \* \* percent during January 1985-March 1988. As noted above, prices of domestic product 2 sold to distributors fell by about \* \* \* percent during this period.

Price comparisons.--Price comparisons between the U.S.-produced and imported Chinese caps are based on the quarterly weighted-average net f.o.b. selling prices of product 1 (plain) sold to distributors during April 1985-March 1988. The net selling prices were based on total reported sales of product 1 to distributors. 2/ Comparisons of f.o.b. prices may be appropriate in this investigation, as U.S. producers and importers generally reported in their questionnaire responses that U.S. freight costs were not significant in competition between the domestic and imported sewn cloth headwear. Table 18 shows the weighted-average selling prices of the domestic and imported product 1 sold to distributors and any price differences between the domestic and foreign product.

Based on questionnaire responses of U.S. producers and importers, the reported net U.S. f.o.b. selling price data resulted in 12 quarterly price comparisons between the domestic and imported cap product 1 sold to distributors during April 1985-March 1988 (table 18). All 12 price comparisons showed that the imported product was priced less than the domestic product. Prices of the imported product 1 ranged from \* \* \* to \* \* \* percent below prices of the U.S. product during these quarters. These price comparisons should be viewed with caution. The very limited price data are based on prices reported by a single U.S. producer and three importers and, therefore, may not be representative of market prices in general. 3/ In addition, the much larger sales quantities reported by the U.S. importers compared with the responding U.S. producer, shown in table 18, may result in a downward bias to prices of the imported product vis-a-vis reported prices of the domestic product. Petitioners testified at the conference that they have lost large volume sales to the imported Chinese caps, and are increasingly

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1/ U.S. importers did not report any price data for product 1 (plain) sold to premium account end users.

2/ Price comparisons between the U.S.-produced and imported Chinese product 2 were not possible because of differences in the decoration/embroidery between suppliers.

3/ \* \* \*.



Table 18

Sewn cloth headwear: Net U.S. f.o.b. selling prices and quantities of PRODUCT 1 produced in the United States and imported from China and sold to distributors, and margins of under/(over) selling, 1/ by quarters, January 1985-March 1988 2/

Period	United States		China		Margins of under/(over) selling	
	Price	Quantity	Price	Quantity	Per doz.	Percent
	Per doz.	Dozens	Per doz.	Dozens		
1985:						
Jan.-Mar.....	\$***	***	<u>3/</u>	<u>3/</u>	<u>4/</u>	<u>4/</u>
Apr.-June.....	***	***	\$***	***	\$***	***
July-Sept.....	***	***	***	***	***	***
Oct.-Dec.....	***	***	***	***	***	***
1986:						
Jan.-Mar.....	***	***	***	***	***	***
Apr.-June.....	***	***	***	***	***	***
July-Sept.....	***	***	***	***	***	***
Oct.-Dec.....	***	***	***	***	***	***
1987:						
Jan.-Mar.....	***	***	***	***	***	***
Apr.-June.....	***	***	***	***	***	***
July-Sept.....	***	***	***	***	***	***
Oct.-Dec.....	***	***	***	***	***	***
1988:						
Jan.-Mar.....	***	***	***	***	***	***

1/ Price differences between the U.S. and imported Chinese products were calculated as ratios to the U.S. producers' prices.

2/ The selling prices are weighted-average prices based on total sales of product 1 sold to distributors.

3/ No price data were reported.

4/ Not applicable.

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

supplying small-volume orders. 1/ Staff conversations with purchasers identified in lost sales allegations also indicate that purchasers look to domestic producers to fill small-volume orders, especially those that require quick delivery. See the lost sales section of this report for a discussion of these conversations.

#### Transportation factors

U.S. producers and importers reported in their questionnaire responses that domestic and imported Chinese sewn cloth headwear are generally shipped by truck to their U.S. customers. Based on limited questionnaire responses of four U.S. producers and three importers, U.S. freight costs ranged from 1 to 10 percent of the U.S. f.o.b. selling prices. But these producers and importers also indicated that the transportation costs did not significantly affect price competition between the U.S.-produced and subject imported headwear. 2/ Questionnaire responses of seven U.S. producers and eight importers suggest that, in comparison with the U.S. importers, U.S. producers sell a higher proportion of their headwear products to customers located more than 100 miles from the supplying firms' U.S. selling locations.

Although freight costs of 10 percent should affect sales, this may not always be the case where the higher freight costs reflect only a small proportion of sales. Average U.S. freight costs may be at the low end of the reported range, but are not reflected in the responses of so few firms. In addition, freight costs at the upper end of the range may reflect higher cost transport modes for quick delivery of small-volume orders. Such purchases are likely to be insensitive to freight costs and more dependent on availability of the products ordered.

#### Exchange rates

Market values of the Chinese yuan are not readily known. The Chinese Government pegs the yuan to the value of the U.S. dollar and limits convertibility of the yuan with other currencies.

#### Lost sales

Two U.S. producers of the subject sewn cloth headwear reported specific lost sales allegations related to imports from China and involving four purchasers. 3/ The Commission staff telephone conversations with the four purchasers are discussed below.

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1/ Transcript, p. 14.

2/ In addition, three U.S. producers and five importers who were not able to report transportation costs reported that U.S. transportation costs did not affect their U.S. sales of sewn cloth headwear vis-a-vis other suppliers of these products to the U.S. market. On the other hand, one U.S. producer and two importers reported that U.S. transportation costs affected their competitiveness in the U.S. market.

3/ \* \* \* reported the lost sales allegations.

\*\*\* named \*\*\* in a lost sales allegation involving cloth mesh baseball caps imported from China. \*\*\* asserts that in \*\*\* it quoted a price of \$\*\*\* per dozen to \*\*\* for an order of \*\*\* dozen caps, but lost the sale to Chinese caps selling at \$\*\*\* per dozen. \*\*\*, buyer of caps and other promotional items for \*\*\*, stated that the order was for about \*\*\* dozen caps and \*\*\*'s price was about \$\*\*\* per dozen. \*\*\* indicated that his firm purchased the Chinese caps instead of domestic caps because of the lower price of the imported product and because of poor service from \*\*\*. \*\*\* complained that \*\*\* would not return telephone calls, was late in deliveries, promised small-volume delivery and then would refuse when \*\*\* placed an order, would not provide quick delivery service, and would bill \*\*\* for caps at prices higher than those originally agreed upon. \*\*\* explained that for giveaway promotional programs he imports caps directly from China in order sizes of \*\*\* caps or more, but for other promotional purchases buys mostly domestic caps in smaller order sizes. 1/ He noted that it was not feasible to import small-volume requirements. \*\*\* felt that if buyers were careful in purchasing Chinese caps, they could get imported caps that were similar in quality to caps made in the United States. During 1985-87, U.S. caps that were imprinted averaged about \$\*\*\* per cap compared with about \$\*\*\* for the imported Chinese caps, according to \*\*\*.

\*\*\* named \*\*\* 2/ in a lost sales allegation involving polyester mesh baseball caps imported from China. \*\*\* alleged that in \*\*\* it quoted a price of \$\*\*\* per dozen to \*\*\* for an order of \*\*\* dozen caps, but lost the sale to Chinese caps selling at \$\*\*\* per dozen. \*\*\*, buyer of caps and other promotional items for the firm, could not recall any such purchase and stated that he has never placed an order for that many caps. \*\*\* felt the U.S. caps were a little better in quality than the imported Chinese caps, citing the better sizing of the domestic caps. 3/ He indicated that during 1985-87 domestic plain mesh baseball caps were priced higher than imported Chinese caps. According to \*\*\*, in 1987 the domestic caps averaged about \$\*\*\* per dozen compared with \$\*\*\* for the imported caps. \*\*\* also commented that the domestic caps would be purchased at \$\*\*\* per dozen if lower priced caps were not available, because the plain caps would still be priced less than \*\*\*, which cost him about \$\*\*\*.

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1/ \*\*\* stated that for large giveaway promotions, he would not spend much more than \$\*\*\* for an imprinted cap, but would spend \$\*\*\* for an imprinted cap on promotions where the caps would be sold. \*\*\* commented that domestic producers were not interested in selling imprinted caps for \$\*\*\* per cap, and, therefore, felt that such imported caps did not compete with U.S.-made caps. He indicated that if \$\*\*\* caps were not available for giveaway promotions, he would buy other advertising products like pens, pencils, etc.

2/ \*\*\* purchases headwear \*\*\* without any decoration and sells these products to firms specializing in imprinting \*\*\*. These latter firms imprint, embroider, or otherwise decorate the blank headwear \*\*\* before selling the finished products.

3/ \*\*\* stated that, despite the higher price, he buys about \*\*\* percent of his caps from U.S. producers. He explained that some customers prefer domestic caps, because they are using the caps to promote products identified as "made in the United States." \*\*\* cited \*\*\* as examples of firms preferring the domestic caps.

\*\*\* named \*\*\* in a lost sales allegation involving polyester caps with emblems imported from China. \*\*\* reported that in \*\*\* it quoted a price of \$\*\*\* per dozen caps to \*\*\* for an order of \*\*\* dozen caps, but lost the sale to Chinese caps selling at \$\*\*\* per dozen. \*\*\*, buyer of caps and other promotional items for \*\*\*, could not recall the purchase cited, but felt the reported price difference was exaggerated. \*\*\* felt that U.S.-made caps were of a higher quality than the imported Chinese caps, citing better colors and embroidery of the domestic caps. According to \*\*\*, during 1985-87 imprinted caps produced in the United States averaged about 10 percent higher in price than imprinted caps imported from China. \*\*\* buys mostly \*\*\* for resale in his retail stores, and, despite the higher price, plans to buy only U.S.-made caps for its \*\*\*. \*\*\* reported buying imprinted caps at prices ranging from \$\*\*\* to \$\*\*\* per cap and retailing them for \$\*\*\* per cap.

\*\*\* named \*\*\* in a lost sales allegation involving plain polyester caps imported from China. \*\*\* reported that in \*\*\* it quoted a price of \$\*\*\* per dozen caps to \*\*\* for \*\*\* dozen caps, but lost the sale to Chinese caps selling at \$\*\*\* per dozen. The senior buyer of caps for \*\*\*, \*\*\*, was the firm's cap buyer in \*\*\*, but he could not recall domestic producers quoting prices of caps to \*\*\*. \*\*\* commented that, since 1982, his firm has purchased only imported caps, including those from China, and because of the higher price of domestic caps, has not considered domestic producers as a source of caps. \*\*\* also indicated that \*\*\* began buying the plain mesh cap from China in \*\*\*. According to \*\*\*, another buyer for the firm, in 1987 the delivered price of the imported plain mesh baseball cap from China was \$\*\*\* per cap compared with \$\*\*\* per cap for the U.S.-produced cap. \*\*\* felt that the imported Chinese and domestic caps were similar in quality.

#### Price suppression/depression

One U.S. producer of the subject sewn cloth headwear, \*\*\*, reported specific allegations of price suppression/depression related to imports of these products from China. The volume of sales cited in these allegations which involved 11 purchasers, varied considerably. The Commission staff investigated the larger volume sales; telephone conversations with the purchasers contacted are discussed below.

\*\*\* identified \*\*\* in a lost revenue allegation involving polyester mesh baseball caps. On a reported sale of \*\*\* caps to \*\*\*, \*\*\* allegedly reduced its price from \$\*\*\* per dozen to \$\*\*\* per dozen because of competition from lower priced caps from China. \*\*\*, purchaser for the firm, could not recall the precise figures on a \*\*\* purchase, but felt that the numbers sounded reasonable. He indicated buying the imported Chinese caps instead of the domestic caps because of the lower price of the imported caps. \*\*\* felt the quality of the imported caps was somewhat inferior to the domestic caps, citing poorer sizing of the imported caps.

\*\*\* was cited in a lost revenue allegation involving polyester caps with emblems. On a reported sale of \*\*\* caps to \*\*\* in \*\*\*, \*\*\* allegedly reduced its price from \$\*\*\* per dozen to \$\*\*\* per dozen because

of competition from lower priced caps from China. \* \* \* of the firm could not recall the purchase.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \*. \* \* \* allegedly reduced its price from \$\* \* \* per dozen to \$\* \* \* per dozen because of competition from lower priced caps from China. \* \* \*, purchaser for \* \* \*, could not recall purchasing these caps from \* \* \*. He indicated that \* \* \* buys baseball caps to complement its \* \* \*. \* \* \* stated that \* \* \* his firm stopped buying baseball caps from China because of poor quality, citing printing difficulties with the imported caps and poor color matching of the cap panels. \* \* \* also indicated that with the imported Chinese caps it is difficult to return damaged caps; whereas U.S. producers will quickly replace any damaged caps. \* \* \* noted that the Chinese caps are packed tighter and are cheaper to ship than the domestic caps, but often have a poorer appearance because of the packing. \* \* \* stated that the domestic and imported Chinese caps each have their place in the U.S. market. According to him, the higher quality domestic caps are used as promotional items by firms who have strong union ties or are trying to promote a "made-in-America" product image. The domestic caps are also purchased by firms retailing caps principally as a headwear item rather than as a promotional item. \* \* \* felt the Chinese baseball caps are used primarily as a vehicle for advertising by firms sensitive only to price, not quality, and substitute readily with other promotional items like headbands, bandannas, mugs, key rings, pens, etc., depending on the relative prices of these products.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \*. \* \* \* allegedly reduced its price from \$\* \* \* per dozen to \$\* \* \* per dozen because of competition from lower priced caps from China. \* \* \* could not recall purchasing these caps from \* \* \* and noted that his firm typically buys quantities of \* \* \* dozen. \* \* \* felt the U.S.-produced caps were better in quality than the imported Chinese caps, citing better sizing and sewing of the domestic caps. According to \* \* \*, during 1985-87 the Chinese caps were priced about \* \* \* percent less than domestic caps. He indicated that his firm does not consider domestic and imported Chinese caps comparable.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \*. \* \* \* allegedly reduced its price from \$\* \* \* per dozen to \$\* \* \* per dozen because of competition from lower priced caps from China. \* \* \* of the purchasing firm was unwilling to discuss the figures because of confidentiality concerns, but commented that this purchase involved competing \* \* \*. Imported caps from China were not considered by his firm because of inferior quality. \* \* \* noted that during 1985-87 the imported Chinese caps were generally priced about \* \* \* percent less than domestic caps.

\* \* \* reportedly purchased \* \* \* dozen polyester mesh caps with emblems from \* \* \*. \* \* \* allegedly reduced its price from \$\* \* \* per dozen to \$\* \* \* per dozen because of competition from lower priced caps from China. \* \* \* could not recall the transaction but commented that imported caps from China would not be a consideration at the price levels mentioned. \* \* \* noted that he buys caps with embroidered emblems from \* \* \* because \* \* \*. \* \* \* also purchased \* \* \* baseball caps from \* \* \*, when \* \* \*. \* \* \* indicated that he imports \* \* \* caps from China. According to \* \* \* is available from U.S. producers.



APPENDIX A

FEDERAL REGISTER NOTICES





**INTERNATIONAL TRADE  
COMMISSION**

[Investigation No. 721-TA-405  
(Preliminary)]

**Sewn Cloth Headwear From the  
People's Republic of China**

**AGENCY:** International Trade  
Commission.

**ACTION:** Institution of a preliminary  
antidumping investigation and  
scheduling of a conference to be held in  
connection with the investigation.

**SUMMARY:** The Commission hereby gives  
notice of the institution of preliminary  
antidumping investigation No. 731-TA-  
405 (Preliminary) under section 733(a) of  
the Tariff Act of 1930 (19 U.S.C. 1673(a))  
to determine whether there is a  
reasonable indication 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 from the People's  
Republic of China of sewn cloth  
headwear<sup>1</sup> and visors provided for in  
items 702.06, 702.08, 702.12, 702.14,  
702.20, 702.32, 703.05, 703.10, 703.16 and  
part 6F of Schedule 3 of the Tariff  
Schedules of the United States, that are  
alleged to be sold in the United States at  
less than fair value. As provided in  
section 733(a), the Commission must  
complete preliminary antidumping  
investigations in 45 days, or in this case  
by July 11, 1988.

For further information concerning the  
conduct of this investigation and rules of  
general application, consult the  
Commission's Rules of Practice and  
Procedure, Part 207, Subparts A and B  
(19 CFR Part 207), and Part 201, Subparts  
A through E (19 CFR Part 201).

**EFFECTIVE DATE:** May 26, 1988.

**FOR FURTHER INFORMATION CONTACT:**  
Valerie Newkirk (202-252-1190), Office  
of Investigations, U.S. International  
Trade Commission, 500 E Street SW.,  
Washington, DC 20436. Hearing-  
impaired individuals are advised that  
information on this matter can be  
obtained by contacting the  
Commission's TDD terminal on 202-252-  
1810. Persons with mobility impairments  
who will need special assistance in  
gaining access to the Commission  
should contact the Office of the  
Secretary at 202-252-1000.

<sup>1</sup> For purposes of this investigation, sewn cloth  
headwear refers to hats, caps, visors, and other  
headwear, whether or not ornamented, each  
comprising cut-and-sewn woven or knit fabric of  
vegetable fibers (including cotton, flax, and ramie),  
of man-made fibers, or of blends thereof, provided  
for in the cited provisions of the tariff schedules.

**SUPPLEMENTARY INFORMATION:****Background**

This investigation is being instituted  
in response to a petition filed on May 26,  
1988, by counsel on behalf of the  
Headwear Institute of America, New  
York, New York.

**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 (19  
CFR 201.11), not later than seven (7)  
days after publication of this notice in  
the Federal Register. Any entry of  
appearance filed after this date will be  
referred to the Chairman, who will  
determine whether to accept the late  
entry for good cause shown by the  
person desiring to file the entry.

**Service List**

Pursuant to § 201.11(d) of the  
Commission's rules (19 CFR 201.11(d)),  
the Secretary will prepare a service list  
containing the names and addresses of  
all persons, or their representatives,  
who are parties to this investigation  
upon the expiration of the period for  
filing entries of appearance. In  
accordance with § 201.16(c) and 207.3 of  
the rules (19 CFR 201.16(c) and 207.3),  
each document filed by a party to the  
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 accept a  
document for filing without a certificate  
of service.

**Conference**

The Director of Operations of the  
Commission has scheduled a conference  
in connection with this investigation for  
9:30 a.m. on June 16, 1988, at the U.S.  
International Trade Commission  
Building, 500 E Street SW., Washington,  
DC. Parties wishing to participate in the  
conference should contact Valerie  
Newkirk (202-252-1190) not later than  
June 13, 1988, to arrange for their  
appearance. Parties in support of the  
imposition of antidumping duties in this  
investigation and parties in opposition  
to the imposition of such duties will  
each be collectively allocated one hour  
within which to make an oral  
presentation at the conference.

**Written submissions**

Any person may submit to the  
Commission on or before June 20, 1988, a  
written statement of information  
pertinent to the subject of the

investigation, as provided in § 207.15 of the Commission's rules (19 CFR 207.15). A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with section 201.8 of the 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 must 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).

**Authority:** This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.12 of the Commission's rules (19 CFR 207.12).

By order of the Commission.

**Kenneth R. Mason,**  
*Secretary.*

Issued: May 31, 1988.

[FR Doc. 88-12444 Filed 6-2-88; 8:45 am]

BILLING CODE 7020-01-M

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[A-570-801]

**Initiation of Antidumping Duty Investigation; Certain Headwear from the People's Republic of China****AGENCY:** Import Administration, International Trade Administration, Commerce.**ACTION:** Notice.

**SUMMARY:** On the basis of a petition filed in proper form with the U.S. Department of Commerce, we are initiating an antidumping duty investigation to determine whether imports of certain headwear from the People's Republic of China (PRC) are being, or are likely to be, sold in the United States at less than fair value. We are notifying the U.S. International Trade Commission (ITC) of this action so that it may determine whether imports of this product materially injure, or threaten material injury to, a U.S. industry. If this investigation proceeds normally, the ITC will make its preliminary determination on or before July 11, 1988. If that determination is affirmative, we will make a preliminary determination on or before November 2, 1988.

**EFFECTIVE DATE:** June 21, 1988.

**FOR FURTHER INFORMATION CONTACT:** Rick Herring, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230; telephone (202) 377-0187.

**SUPPLEMENTARY INFORMATION:****The Petition**

On May 26, 1988, we received a petition in proper form filed by the Headwear Institute of America on behalf of the domestic headwear industry. On June 1, 1988, we received

an amendment which clarified the scope of the petition by the addition of TSUS items and the exclusion of parts of the subject headwear. In compliance with the filing requirements of 19 CFR 353.3 petitioner alleges that imports of certain headwear from the PRC are being, or are likely to be, sold in the United States at less than fair value within the meaning of section 731 of the Tariff Act of 1930, as amended (the Act), and that these imports materially injure, or threaten material injury to, a U.S. industry.

**United States Price and Foreign Market Value**

United States price was based on purchase price methodology using invoice prices for sales to U.S. importers. Petitioner made no adjustments to these invoice prices.

Alleging that the PRC is a state-controlled-economy country, petitioner's estimate of foreign market value was based on prices for corresponding headwear in the Philippines, a non-state-controlled-economy country (surrogate country), in accordance with the provisions of 19 CFR 353.36(a)(8). The Department has considered the Philippines as an appropriate surrogate country in the past for the PRC.

Petitioner alleges that there is no significant Philippine domestic market for the subject merchandise; therefore used Philippine export prices of the subject headwear to the United States. These prices are taken from a purchaser's invoice and the average unit value of U.S. imports from the Philippines. Petitioner also calculated the foreign market value using the headwear prices of other countries which export to the United States, except the PRC. Petitioner adjusted, where appropriate, for packing costs, embroidery costs, and direct and indirect selling expenses.

Based upon a comparison of United States price and foreign market value petitioner alleges dumping margins of between 25.1 percent and 62.7 percent.

Petitioner also alleges that "critical circumstances" exist with respect to imports of certain headwear from the People's Republic of China.

**Initiation of Investigation**

Under section 732(c) of the Act, we must determine, within 20 days after petition is filed, whether it sets forth allegations necessary for the initiation of an antidumping duty investigation and whether it contains information reasonably available to the petitioner supporting the allegations.

We examined the petition on certain headwear from the PRC and found that

it meets the requirements of section 732(b) of the Act. Therefore, in accordance with section 732 of the Act, we are initiating an antidumping duty investigation to determine whether imports of certain headwear from the PRC are being, or are likely to be, sold in the United States at less than fair value. We will also make a determination as to whether critical circumstances exist with respect to the subject merchandise.

In the course of our investigation, we will determine whether the economy of the PRC is state-controlled to an extent that sales of such or similar merchandise in the home market or to third countries do not permit determination of foreign market value. If the PRC is determined to be a state-controlled economy, we will then choose a non-state-controlled economy surrogate country for purposes of determining foreign market value. If our investigation proceeds normally, we will make our preliminary determination by November 2, 1988.

#### Scope of Investigation

The United States has developed a system of tariff classification based on the international harmonized system of Customs nomenclature. Congress is considering legislation to convert the United States to this Harmonized System (HS). In view of this, we will be providing both the appropriate *Tariff Schedules of the United States Annotated* (TSUSA) item numbers and the appropriate HS item numbers with our product descriptions on a test basis, pending Congressional approval. As with the TSUSA, the HS item numbers are provided for convenience and Customs purposes. The written description remains dispositive.

We are requesting petitioners to include the appropriate HS item number(s) as well as the TSUSA item number(s) in all new petitions filed with the Department. A reference copy of the proposed HS schedule is available for consultation at the Central Records Unit, Room B-099, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, DC 20230. Additionally, all Customs officers have reference copies and petitioners may contact the Import Specialist at their local Customs office to consult the schedule.

The products covered by this investigation are certain headwear from the PRC currently provided for under TSUSA item numbers 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, 702.3200, 703.0510, 703.0520, 703.0530, 703.0540, 703.0550, 703.0560, 703.1000, 703.1610, 703.1620, 703.1630, 703.1640, 703.1650, 384.0438, 384.0954, 384.2211, 384.2608,

384.2707, 384.2723, 384.2741, 384.2752, 384.2784, 384.2796, 384.3436, 384.5216, 384.5365, 384.5427, 384.5485, 384.5533, 384.5685, 384.5698, 384.8676, 384.9443 and currently classifiable under HS item numbers 6505.90.15, 6505.90.20, 6505.90.25, 6505.90.90, 6502.00.20, 6502.00.90, 6504.00.90, 6505.90.50, 6505.90.70, 6505.90.60, 6505.90.80, 6114.20.00, 6211.42.00, 6114.30.30, 6211.43.00, 6114.30.20, 6104.49.00, 6204.51.00, 6204.23.00, 6204.29.40, 6211.32.00, 6110.90.00, 6204.12.00, 6211.49.00.

The subject headwear includes caps, hats, and visors made from knitted or woven cloth of vegetable fibers including cotton, flax, and ramie, of man-made fibers, and/or of blends thereof, and which is cut and sewn. The subject headwear may be adorned with braid, embroidery, or other applied, printed or sewn decoration or may be plain. This investigation does not include headwear of straw, felt or wool.

#### Notification of ITC

Section 732(d) of the Act requires us to notify the ITC of this action and to provide it with the information we used to arrive at this determination. We will notify the ITC and make available to it all nonprivileged and nonproprietary information. We will allow the ITC access to all privileged and business proprietary information in our files, provided it confirms in writing that it will not disclose such information either publicly or under administrative protective order without written consent of the Acting Assistant Secretary for Import Administration.

#### Preliminary Determination by ITC

The ITC will determine by July 11, 1988 whether there is a reasonable indication that imports of certain headwear from the PRC materially injure, or threaten material injury to, a U.S. industry. If its determination is negative, the investigation will terminate; otherwise, it will proceed according to the statutory and regulatory procedures.

This notice is published pursuant to section 732(c)(2) of the Act.

June 15, 1988.

Joseph A. Spetrini,  
Acting Assistant Secretary for Import  
Administration.

[FR Doc. 88-13948 Filed 6-20-88; 8:45 am]

BILLING CODE 3510-05-M

APPENDIX B  
CALENDAR OF THE CONFERENCE



CALENDAR OF THE CONFERENCE

Investigation 731-TA-405 (Preliminary)

SEWN CLOTH HEADWEAR FROM THE PEOPLE'S REPUBLIC OF CHINA

Those persons listed below appeared at the United States International Trade Commission's conference held in connection with the subject investigation on June 16, 1988, in the Hearing Room of the U.S. International Trade Commission, 500 E St., SW, Washington, DC.

In support of the imposition of antidumping duties

Taft, Stettinius & Hollister--Counsel  
Washington, DC  
on behalf of--

The Headwear Institute of America

Norman Rubenstein, President  
Paramount Manufacturing Co.

Quentin Hatfield, Vice President,  
Marketing, K-Products, Inc.

Economic Consulting Services Inc.

Mark Love, Vice President  
Kenneth R. Button, Ph.D.,  
Senior Economist

Randolph J. Stayin)--OF COUNSEL  
Marcela B. Stras )--OF COUNSEL

In opposition to the imposition of antidumping duties

Arnold & Porter--Counsel  
Washington, DC  
on behalf of--

China National Arts & Crafts Import & Export Corporation

Ms. Huongwei Chen

China National Light Industrial Products Import and Export Corporation

Ms. Gueifang Yao

Gary Bromberg, Midway Industries

Robert E. Herzstein)--OF COUNSEL  
Alan O. Sykes )--OF COUNSEL  
Darina C. McKelvie )--OF COUNSEL





APPENDIX C

MEMBERS OF THE HEADWEAR INSTITUTE OF AMERICA



Allen D. Everitt Knitting Company  
234 West Florida Street  
Milwaukee, Wisconsin 53204

American Hat Company  
908 Live Oak Drive  
Houston, Texas 77001

Annex Manufacturing Corp.  
234 Sixteenth Street  
Jersey City, New Jersey 07302

Apex Mills Corp.  
8 Freer Street  
Lynbrook, New York 11563

Arlington Hat Company, Inc.  
47-00 34th Street  
Long Island City, New York 11101

Bailey Hat Company  
2558 San Fernando Road  
Los Angeles, California 90065

Barbisco Hats, Inc.  
P.O. Box 728  
Sparta, New Jersey 07871

Beatty-Page National Hatters  
360 Furman Street  
Brooklyn, New York 11201

Bee Hat Company  
101225 Washington Avenue  
St. Louis, Missouri 63101

Borsalino U.S.A., Inc.  
41 Plymouth Street  
Fairfield, New Jersey 07006

Brizel Leather Corp.  
180 Varick Street  
New York, New York 10014

C.M. Offray & Son, Inc.  
39 West 32nd Street  
New York, New York 10001

Cali Fame of Los Angeles, Inc.  
2800 East 11th Street  
Los Angeles, California 90023

Cap America, Inc.  
500 Lincoln Drive  
Fredericktown, Missouri 63645

The Charles Townsand Corp.  
201 East Main Street  
Leesburg, Florida 32748

Crown Cap/Morris Harris  
3758 Choutcau  
St. Louis, Missouri 63110

Derby Cap Manufacturing Company  
700 West Main Street  
Louisville, Kentucky 40232

Doran Brothers, Inc.  
30 Shelter Rock Road  
Danbury, Connecticut 06810

Dorfman-Pacific Company, Inc.  
7900 Edgewater Drive  
Oakland, California 94621

Eagel Buckman Company, Inc.  
8 Washington Place  
New York, New York 10003

Eds West, Inc.  
10 West 33rd Street  
New York, New York 10018

Eleja Casual Corp.  
225 West 37th Street  
New York, New York 10018

Frank Allaire, Inc.  
1440 Broadway, Suite 1951  
New York, New York 10018

F&M Hat Company, Inc.  
103 Walnut Street  
Denver, Pennsylvania 17517

F.D.R. Industries, Inc.  
670 Broadway  
New York, New York 10012

Geo. W. Bollman & Company, Inc.  
110 East Main  
Adamstown, Pennsylvania 19501

Georgia Bonded Fibers, Inc.  
1040 W. 29th Street  
Buena Vista, Virginia 24416

Jay Gerish Company  
277 Fairfield Road  
Fairfield, New Jersey 07006

Gould Sales International  
120 Maple  
So. Plain Field, New Jersey 07080

Headwear U.S.A., Inc.  
11700 West 85th Street  
Lenexa, Kansas 66214

Henry the Hatter  
1307 Broadway  
Detroit, Michigan 48226

Idea Corp.  
401 Main Street  
Caldwell, Idaho 83605

International Hat Company ("IHC")  
2528 Texas Avenue  
St. Louis, Missouri 63104

Jason Mills, Inc.  
200 Lexington Avenue  
Hackensack, New Jersey 07601

Jay Lord Hatters  
30 West 39th Street  
New York, New York 10018

Jobre Cap Company  
1630A Plant Avenue  
Waycross, Georgia 31501

Julie Hat Company  
Industrial Park Drive  
Patterson, Georgia 31557

K-Products, Inc.  
Industrial Air Park  
Orange City, Iowa 51041

K-Studio/Diversified  
5433 Eagle Industrial Court  
Hazlewood, Missouri 63090

Korber Hat, Inc.  
394 Kilburn Street  
Fall River, Massachusetts 02723

Gold Star c/o Kraft Hat Manufacturers, Inc.  
1230 Zerega Avenue  
Bronx, New York 10462

Lambert Manufacturing Company  
105 Elm Street  
Chillicothe, Missouri 64601

Langenberg Hat Company  
320 Front Street  
Washington, Missouri 63090

M&B Headwear Company  
2323 East Main Street  
Richmond, Virginia 23223

Memphis Cap Company, Inc.  
85-87 South Second Street  
Memphis, Tennessee 38103

Milano Hat Company, Inc.  
2701 Market Street  
Garland, Texas 75041

Okefenokee Caps, Inc.  
8641 Baypine Road, Suite 4  
Jacksonville, Florida 32216

Paramount Cap Manufacturing, Inc.  
1 Paramount Drive  
Bourbon, Missouri 65441

Roberts, Cushman & Co., Inc.  
119 West 24th Street  
New York, New York 10011

Rockmount Ranchwear  
1626 Wazee Street  
Denver, Colorado 80217-0065

Sentry Unifrom Cap Company, Inc.  
106 New Lots Avenue  
Brooklyn, New York 11212

Singer & Michaeli, Inc.  
59 Fountain Street  
Farmingham, Massachusetts 01701

Stylemaster Apparel, Inc.  
801 North Oak Street  
Union, Missouri 63084

Sunshine Cap Company  
1142 West Main Street  
Lakeland, Florida 33801

Swingster  
5799 Broadmoor  
Shawnee Mission, Kansas 66202

Trimore Distributors, Inc.  
11969 Plano Road  
Dallas, Texas 75243

United Backing Corp.  
70 Flushing Avenue  
Brooklyn, New York 11205

Vogue Hat Block & Die Corp.  
252 Norman Avenue  
Brooklyn, New York 11222

Western Textile Products  
3400 Treet Court  
Industrial Boulevard  
St. Louis, Missouri 63122

Worth & Worth Ltd.  
331 Madison Avenue  
New York, New York 10017





APPENDIX D

IMPACT OF IMPORTS ON U.S. PRODUCERS'  
GROWTH, INVESTMENT, AND ABILITY TO RAISE CAPITAL



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 sewn cloth headwear from the People's Republic of China on their firm's growth, investment, and ability to raise capital. Their responses are shown below:

\* \* \* \* \*



APPENDIX E

IMPORTS OF SEWN CLOTH HEADWEAR BY TSUSA CLASSIFICATION



Table E-1

Sewn cloth headwear of vegetable fibers: 1/ U.S. imports for consumption, by principal sources, 1985-87, January-March 1987, and January-March 1988

Source	1985	1986	1987	January-March-	
				1987	1988
Quantity (1,000 dozen)					
China.....	1,395	1,498	2,580	814	1,010
Korea.....	1,932	2,237	1,932	509	475
Taiwan.....	1,811	2,190	1,833	336	348
Hong Kong.....	462	314	286	110	46
All other.....	225	269	311	101	96
Total.....	5,826	6,507	6,943	1,871	1,974
Value (1,000 dollars) 2/					
China.....	10,138	10,346	18,969	5,165	7,709
Korea.....	21,736	25,787	23,838	5,567	6,257
Taiwan.....	16,931	19,246	19,108	3,397	4,562
Hong Kong.....	4,656	2,970	2,438	921	506
All other.....	3,108	4,177	4,984	1,238	1,796
Total.....	56,569	62,526	69,337	16,289	20,830
Unit value (per dozen)					
China.....	\$7.27	\$6.90	\$7.35	\$6.34	\$7.63
Korea.....	11.25	11.53	12.34	10.93	13.18
Taiwan.....	9.35	8.79	10.42	10.10	13.11
Hong Kong.....	10.07	9.45	8.52	8.38	11.06
All other.....	13.83	15.55	16.04	12.22	18.77
Average.....	9.71	9.61	9.99	8.71	10.55

1/ Items 702.0600, 702.0800, 702.1200, 702.1400, 702.2000, and 702.3200 of the Tariff Schedules of the United States Annotated.

2/ C.i.f., duty paid.

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

Table E-2

Sewn cloth headwear of manmade fibers: 1/ U.S. imports for consumption, by principal sources, 1985-87, January-March 1987, and January-March 1988

Source	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
China.....	1,462	1,911	3,291	707	885
Taiwan.....	2,272	2,527	2,405	565	428
Korea.....	1,161	1,050	1,335	318	318
Philippines.....	561	703	436	124	76
Hong Kong.....	446	347	193	64	41
All other.....	774	584	542	144	89
Total.....	6,675	7,122	8,202	1,921	1,838
Value (1,000 dollars) 2/					
China.....	13,373	14,787	24,066	5,202	6,914
Taiwan.....	25,952	30,196	30,180	6,571	5,398
Korea.....	13,559	12,999	15,582	3,246	3,576
Philippines.....	5,744	6,110	4,612	880	676
Hong Kong.....	4,376	2,610	1,784	490	225
All other.....	12,238	12,105	10,897	3,468	2,033
Total.....	75,242	78,807	87,121	19,857	18,822
Unit value (per dozen)					
China.....	\$9.15	\$7.74	\$7.31	\$7.36	\$7.81
Taiwan.....	11.42	11.95	12.55	11.64	12.60
Korea.....	11.68	12.38	11.67	10.20	11.26
Philippines.....	10.25	8.69	10.57	7.09	8.85
Hong Kong.....	9.81	7.53	9.22	7.64	5.45
All other.....	15.82	20.74	20.10	24.15	22.86
Average.....	11.27	11.06	10.62	10.33	10.24

1/ Items 703.0540, 703.0550, 703.0560, 703.1000, 703.1640, and 703.1650 of the Tariff Schedules of the United States Annotated.

2/ C.i.f., duty paid.

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



Table E-3

Sewn cloth headwear (visors) of cotton and manmade fibers, ornamented and not ornamented: 1/ U.S. imports for consumption, by principal sources, 1985-87, January-March 1987, and January-March 1988

Source	1985	1986	1987	January-March--	
				1987	1988
Quantity (1,000 dozen)					
China.....	56	143	336	89	161
Taiwan.....	250	531	504	199	131
Korea.....	100	211	193	43	33
Hong Kong.....	78	132	86	40	32
All other.....	13	17	33	8	2
Total.....	498	1,034	1,153	379	358
Value (1,000 dollars) 2/					
China.....	325	802	2,015	539	1,017
Taiwan.....	1,928	3,553	3,690	1,399	1,201
Korea.....	847	1,502	1,530	332	305
Hong Kong.....	548	827	833	332	303
All other.....	180	324	504	80	31
Total.....	3,827	7,008	8,572	2,683	2,857
Unit value (per dozen)					
China.....	\$5.78	\$5.63	\$5.99	\$6.06	\$6.30
Taiwan.....	7.70	6.69	7.32	7.03	9.20
Korea.....	8.43	7.12	7.92	7.79	9.38
Hong Kong.....	7.01	6.28	9.70	8.23	9.54
All other.....	14.12	19.30	15.14	10.53	15.46
Average.....	7.69	6.78	7.44	7.08	7.98

1/ Items 384.0438, 384.0954, 384.2211, 384.2608, 384.3436, 384.5216, 384.8676, and 384.9443 of the Tariff Schedules of the United States Annotated.

2/ C.i.f., duty paid.

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

