

CERTAIN MUSHROOMS

**Report to the President on
Investigation No. TA-203-9
Under Section 203
of the Trade Act of 1974**



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Note.--Information which would disclose confidential operations of individual concerns may not be published and therefore has been deleted from this report.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

REPORT TO THE PRESIDENT ON
INVESTIGATION NO. TA-203-9

CERTAIN MUSHROOMS

UNITED STATES INTERNATIONAL TRADE COMMISSION
September 11, 1981

In accordance with section 203(i)(2) of the Trade Act of 1974 (19 U.S.C. 2253(i)(2)), the United States International Trade Commission herein reports the results of an investigation (No. TA-203-9) conducted with respect to certain mushrooms.

Summary of advice of the Commission

The Commission unanimously advises, on the basis of information obtained in the investigation, that termination of the import relief presently in effect with respect to imports of certain mushrooms would not have an adverse economic effect on the domestic industry producing prepared or preserved mushrooms. Specifically, the Commission advises that exclusion from import relief of the following mushroom products will not have an adverse economic effect on the domestic industry: frozen battered or frozen breaded mushrooms; straw mushrooms, golden mushrooms, oyster mushrooms, and summer oyster mushrooms, whole, in airtight containers of nine ounces or less; wild specialty mushrooms in airtight containers; and cultivated specialty mushrooms in airtight containers valued over \$3.00 per pound; all the foregoing provided for in item 144.20 of the Tariff Schedules of the United States. The Commission also advises that termination of the import relief presently in effect with respect to the other mushroom products specified in the letter of May 19, 1981, to the Commission from the U.S. Trade Representative (USTR) would have a significant adverse economic effect on the domestic industry. 1/

1/ Detailed advice on the probable economic effect on the domestic industry concerned of the termination of the import relief presently in effect with respect to each of the mushroom products specified in the letter to the Commission from USTR is contained in the statement of the Commission which follows. The Commission's statement also contains advice on four additional issues, as requested by USTR.

Background

The investigation was instituted on May 28, 1981, following receipt of a request for such an investigation from USTR on May 19, 1981. Public notice of the investigation and hearing was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register of June 3, 1981 (46 F.R. 29793). A public hearing in connection with the investigation was held on July 30, 1981, in Washington, D.C. All interested persons were afforded an opportunity to be present, to present evidence, and to be heard.

The information contained in this report was obtained from fieldwork, from questionnaires sent to domestic manufacturers and importers, from the Commission's files, from other Government agencies, from information received at the hearing, from briefs filed by interested parties, and from other sources.

Statement of the Commission

The issue of the impact of imported mushrooms on the domestic industry has a long history before the Commission. From 1964 to 1980, the Commission has conducted six investigations regarding the domestic mushroom industry. In the most recent investigation, 1/ conducted under section 201 of the Trade Act of 1974 (19 U.S.C. § 2251) and completed in August 1980, the Commission determined (Commissioner Bedell not participating) that mushrooms, prepared or preserved, provided for in item 144.20 of the Tariff Schedules of the United States (TSUS), were 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 an article like the imported article. Thereafter, the President proclaimed an increase in the duty of imported mushrooms, prepared or preserved, pursuant to section 203(a)(1) of the Trade Act of 1974 (19 U.S.C. § 2253(a)(1)).

The present investigation was requested by the U.S. Trade Representative (USTR) on May 19, 1981, in order to provide advice upon which the President can base his decision on whether to modify the mushroom import relief program presently in place. 2/ Normally, a section 203 investigation examines, among other things, an industry's adjustment to import competition during the period of import relief. However, the scope of the Presidential request for this section 203 investigation is more narrow. We have been asked to determine whether the proposed termination of that relief program with respect to the following mushroom categories would have an adverse economic effect on the domestic industry: frozen battered and frozen breaded; champignon de Paris,

1/ Mushrooms, Inv. No. TA-201-43, USITC Publication 1089 (1980).

2/ The Commission's authority to conduct this investigation is based upon the receipt of a request for advice from the President made pursuant to sec. 203(i)(2) of the Trade Act of 1974 (19 U.S.C. § 2253(i)(2)), which provides: Upon request of the President or upon its own motion, the Commission shall advise the President of its judgment as to the probable economic effect on the industry concerned of the extension, reduction, or termination of the import relief provided pursuant to this section.

chanterelle, cepe, morel, and mixed mushrooms valued over \$1.60 per pound (drained weight); chanterelle mushrooms valued over \$8.50 per pound (drained weight) and straw, golden, oyster, and summer oyster mushrooms. In addition, we address four separate questions posed by USTR with respect to the above mushroom types.

Probable economic effects of termination

Frozen Battered and Frozen Breaded Mushrooms

Modification of the import relief program currently in effect with respect to imported frozen battered and frozen breaded mushrooms 1/ would have no adverse economic effect on the domestic industry. It is true that such imported mushrooms compete with U.S.-produced frozen battered and frozen breaded mushrooms, as well as other frozen mushrooms sold to the institutional market. 2/ However, the value of imported frozen battered mushrooms has been consistently higher than that of the domestic product. The unit value of the Canadian imports averaged \$1.28 per pound in 1978 and increased to \$1.30 per pound in 1980. In contrast, the comparable price for domestic frozen battered and frozen breaded mushrooms averaged \$1.01 per pound in 1978 and \$1.09 in 1980. The price of other domestic frozen mushrooms averaged \$0.81 and \$0.98 per pound for the same 2 years. Further, import penetration of frozen battered mushrooms to domestic production of frozen battered and frozen breaded mushrooms declined from about 7 percent in 1978 to about 6 percent in 1980, before declining precipitously to about 2 percent in January-March 1981. 3/ At the same time, domestic production has steadily increased as domestic capacity utilization has risen from 47 percent in 1978 to 68 percent in 1980. 4/ Also persuasive is the fact that the majority of the domestic

1/ Although the Commission was asked to consider frozen battered and frozen breaded mushrooms, only frozen battered mushrooms are currently imported into the United States.

2/ Staff report, p. A-37.

3/ Id., p. A-15.

4/ Id., p. A-17.

freezers of battered or breaded mushrooms responding to questionnaires indicate that sales were not lost to, and prices were not depressed by, import competition. 1/ Furthermore, we do not believe that the limited importation of frozen battered and frozen breaded mushrooms is such a significant factor in the market as to affect the canned mushroom industry.

Wild Specialty Mushrooms

Wild specialty mushrooms imported in cans are valued 2 to 5 times higher than are U.S.-produced canned Agaricus mushrooms and are sold to gourmet retail outlets or to restaurants featuring gourmet menus. The large price difference and different markets in which wild specialty mushrooms are sold limit direct competition between these mushrooms and U.S.-produced canned Agaricus mushrooms. 2/ In addition, the import penetration ratio of imported canned wild specialty mushrooms to domestically produced canned Agaricus mushrooms is very small (0.2 percent). Thus, we conclude that the domestic industry would not suffer a significant adverse economic effect by an exemption to the import relief currently in place. 3/

Cultivated Specialty Mushrooms

Imported canned cultivated specialty mushrooms (champignon de Paris) are of the same genus (Agaricus) as domestically produced mushrooms and compete with them. In our view, exemption of such mushrooms would have a significant adverse economic effect on the domestic industry unless a price break is

1/ Staff report, p. A-37.

2/ Id., pp. A-28.

3/ One firm in the United States sells fresh wild mushrooms (limited to chanterelles at this time) to gourmet restaurants at prices comparable with those of the canned wild mushroom imports. Initial sales of this product were in the spring of 1981. Supply is dependent on purchases of fresh mushrooms from about 2,000 independent pickers who generally gather mushrooms in U.S. forests and on the land of lumber companies. The growing season for these mushrooms occurs from mid-July through December, and because of the perishable nature of fresh mushrooms, distribution is restricted to these months. In the off-season the firm distributes a limited amount of dried mushrooms.

established at a level to assure that imports are of a specialty nature. Imported canned cultivated mushrooms were valued at about \$2.00 per pound in 1980 compared with a value of \$1.39 per pound for U.S.-produced canned Agaricus mushrooms in containers of comparable size. 1/ This price differential has been attributed to the use of high-grade mushrooms and better methods of cutting and canning. 2/ The import penetration ratio for this product was less than 2 percent of U.S. production of canned whole and sliced mushrooms from 1979 to 1980. 3/ It has been suggested that canned cultivated specialty mushrooms be exempted from relief on the basis of a price break of over \$1.60 per pound. However, a significant amount of mushroom imports in 1980 was valued at levels so close to \$1.60 that it would be advantageous for both exporters and importers to have the f.o.b. price raised to \$1.61 per pound to circumvent the import relief tariff. 4/ Further, inflation would bring an increasing volume of imports closer to this price break. Therefore, the Commission has recommended that only cultivated specialty mushroom imports valued over \$3.00 per pound be exempted from the relief. At this price break, circumvention is unlikely given current prices of canned mushroom imports.

Straw and Certain Other Oriental Mushrooms

Exemption of imported straw mushrooms, which compete with domestic Agaricus mushrooms in several areas, would have a significant adverse economic effect on the domestic industry. Although whole straw mushrooms have a distinctive shape, they lose many of the features that distinguish them from canned Agaricus mushrooms when chopped or sliced, especially if used in sauces, soups, etc. 5/ The possibility of import competition in the institutional-use market is greatly increased by the fact that imported canned straw mushrooms significantly undersell the domestic canned Agaricus

1/ Staff report, p. A-22.

2/ Id., p. A-28.

3/ Id., p. A-28.

4/ Id., p. A-29.

5/ Id., p. A-32.

mushrooms. The price per pound (drained weight) of straw mushrooms, chopped into stems and pieces and sold in institutional size containers, rose from \$0.71 per pound in 1978, to \$0.98 for January-March 1981; during the same period, the price for similarly chopped and packaged canned Agaricus mushrooms rose from \$1.23 to \$1.30 per pound. 1/

However, imported whole straw mushrooms in retail-size cans (9 ounces or less) supply a separate market normally for home use in oriental cuisine. They are not known to be marketed through major supermarket chains but rather through shops specializing in oriental food products. Accordingly, the domestic industry would not suffer an adverse economic effect if these mushrooms were exempted from the import relief program.

Competition between imported canned golden, oyster, and summer oyster mushrooms, and canned domestic mushrooms follows the same pattern as that described above for canned straw mushrooms and U.S.-produced canned mushrooms. 2/ When these oriental mushrooms are chopped or sliced, they are readily substitutable for domestic canned mushroom stems and pieces, especially in the institutional market. 3/ However, whole golden, oyster, and summer oyster mushrooms in containers of 9 ounces or less supply a separate oriental cuisine market and are not known to be sold in the same stores as most canned Agaricus mushrooms. Therefore, exemption of whole golden, oyster, and summer oyster mushrooms in containers of 9 ounces or less would not cause an adverse economic effect to the domestic industry.

Specific questions posed by USTR

The following questions were posed by the United States Trade Representative: (1) to what extent does each category of imported mushroom compete with the domestic product; (2) how would import levels be affected by

1/ Transcript of the hearing, pp. 46, 108, and 180.

2/ Staff report, p. A-34.

3/ Id., p. A-34.

specific exemptions; (3) would specific exemptions be administratively feasible; and (4) what circumvention problems can be expected if exemptions are granted.

Frozen Battered and Frozen Breaded Mushrooms

As noted above, imported frozen battered and frozen breaded mushrooms compete most directly with the corresponding segment of the domestic industry. They compete to a lesser extent, if at all, with domestic canned mushrooms.

Importation of frozen battered and frozen breaded mushrooms is not likely to increase significantly in the event that they are exempted from increased duties. Omstead Foods Ltd., which accounts for almost all imported frozen battered and frozen breaded mushrooms, is presently experiencing difficulty in obtaining the type of fresh mushroom that it maintains it requires for production. 1/ Thus, although its exports to the United States increased from 1978 to 1980, they fell precipitously in January-March 1981, in part because of supply shortages. 2/ Moreover, it is not expected that Omstead's supply constraints will permit it to significantly increase its exports to the United States above their 1980 level. 3/ Although other foreign producers might enter the frozen battered or frozen breaded mushroom market, the possibility is remote in view of the considerable cost of installing necessary facilities. 4/ It should be noted that certain companies in Taiwan currently export frozen mushrooms to the United States. However, Omstead estimates these companies would face conversion costs of \$200,000 to enter production of frozen breaded or frozen battered mushrooms. 5/ No evidence was presented to

1/ Staff report, p. A-37.

2/ Id., p. A-37.

3/ Id., p. A-37.

4/ Omstead's prehearing brief, p. 20.

5/ Staff report, p. A-38.

suggest that any Taiwanese company currently plans to enter this market. Therefore, given the supply constraints, increased future imports based on past trends do not appear to be likely.

The U.S. Customs Service has submitted a report discussing the administrative feasibility of applying exemptions to the current import relief for the categories of mushrooms considered in this investigation. With respect to frozen breaded and frozen battered mushrooms, manufacturers' invoices always provide a clear description. Further, even without invoices, Customs can readily identify frozen battered and frozen breaded mushrooms.

Wild Specialty Mushrooms

As stated above, canned imports of wild specialty mushrooms do not compete with the domestic industry producing canned mushrooms.

The Universal Import Group 1/ estimates that importation of canned wild specialty mushrooms could rise as much as 35 percent a year in the absence of the current relief. 2/ Based on this estimate, imports of canned wild specialty mushrooms could increase to 253,000 pounds in 1983. 3/ However, the import penetration ratio is so low and the price differentials so great that we do not believe such expansion will have a significant effect on the domestic industry.

Uncultivated specialty mushrooms pose an administrative problem for customs agents in that such mushrooms are not always identified as to type by their invoices. However these mushrooms are priced at far higher levels than are other mushrooms and, therefore, can readily be identified on that basis by customs agents.

1/ The Universal Import Group represents a number of firms that import wild mushrooms.

2/ Staff report, p. A-29.

3/ Id., p. A-29.

Because wild specialty mushrooms can only be grown in forest areas and in certain climates, the potential for large increases in production is restricted. 1/ Therefore, it is unlikely that the intent of the import relief could be circumvented if an exemption from the import relief is granted for this product.

Cultivated Specialty Mushrooms

As discussed in greater detail above, cultivated specialty mushrooms priced below \$3.00 per pound do compete with the domestic product.

The French Mushroom Canning Association 2/ estimates that U.S. imports of canned cultivated specialty mushrooms could increase as much as 15 percent in the absence of the current relief. 3/ According to this estimate, imports of canned cultivated specialty mushrooms could increase to 262,000 pounds in 1983. 4/

Customs reports that cultivated specialty mushrooms will be easy to identify despite the fact that they belong to the Agaricus genus because the imports have entered in such large quantities over recent years that Customs agents have become quite familiar with their appearance.

As discussed above, exemption of canned cultivated mushrooms would lead to circumvention if a sufficiently high price break were not established in order to prevent circumvention.

Straw and Certain Other Oriental Mushrooms

As noted above, whole straw and certain other oriental mushrooms imported in containers of 9 ounces or less do not compete with the domestic product.

1/ Id., p. A-28.

2/ This association represents most producers of canned cultivated specialty mushrooms.

3/ Staff report, p. A-29.

4/ Id., p. A-29.

Whole straw and other oriental mushrooms imported in containers larger than 9 ounces, as well as such mushrooms chopped or sliced in containers of any size, do compete.

An estimate for future imports of canned straw mushrooms, if exempted from the relief, is based on the volume growth of imports from 1979 to 1980. If all straw mushrooms are exempted, imports could be expected to reach 4.7 million pounds in 1983. 1/ Imports of straw mushrooms in institutional-size cans compete directly with similarly packaged domestic Agaricus mushrooms and are, therefore, expected to take a larger share of this increase if all canned straw mushrooms are exempted. 2/ Because of the relatively limited and specialized market in the United States for this product, imports of whole straw mushrooms in retail-size cans will probably not increase if exempted. Further, it is not economically feasible to purchase straw mushrooms in retail-size cans (9 ounces or less) for institutional use.

An estimate for future imports of other oriental mushrooms (golden, oyster, and summer oyster), if exempted from the relief, is based on the average annual volume of growth of imports from 1978 to 1980. If these oriental mushrooms are exempted, imports could be expected to reach 1.1 million pounds in 1983. 3/ Because these canned mushrooms compete with canned domestic Agaricus mushrooms in the same way as canned straw mushrooms, similar conclusions can be drawn regarding imports of institutional and retail-size containers.

Conclusion

On the basis of the information before the Commission in this investigation, it is our judgment that termination of the import relief presently in effect with respect to frozen battered and frozen breaded

1/ Staff report, p. A-33.

2/ Id., p. A-33.

3/ Id., p. A-33.

mushrooms, wild specialty mushrooms, 1/ cultivated specialty mushrooms 2/ valued at over \$3.00 per pound (drained weight), and straw and certain other oriental mushrooms 3/ imported whole in airtight containers of 9 ounces or less (drained weight) will not have an adverse economic effect on the domestic industry currently benefiting from the above import relief. However, it is also our judgment that termination of the import relief presently in effect with respect to cultivated specialty mushrooms valued at \$3.00 or less per pound (drained weight), and straw and other oriental mushrooms, imported whole in airtight containers larger than 9 ounces, or imported sliced or chopped in containers of any size will have a significant adverse economic effect on the domestic industry. 4/ We therefore recommend that portions of the current tariff relief be terminated as indicated herein.

1/ These mushrooms are of the following type and genera: chanterelle (Cantharellus), cepe (Boletus), morel (Morchella), and mixed mushrooms (Boletus luteus, Lactarius deliciosus, Rozites caperata, Suillus grevillei, and Suillus granulatus).

2/ These mushrooms are champignon de Paris (Psalliota).

3/ These mushrooms are of the following type and genera: straw mushrooms (Volvariella volvacea), golden mushrooms (Flammulina velutipes), Oyster mushrooms (Pleurotus ostreatus), and summer oyster mushrooms (Pleurotus abalon).

4/ Presidential Proclamation No. 4801 (45 F.R. 72617 (1980)) set forth the import relief for the domestic industry producing mushrooms, prepared or preserved, provided for in TSUS item 144.20. That import relief is scheduled to terminate on Oct. 31, 1983, unless earlier suspended, modified, or terminated by the President pursuant to sec. 203(h)(3) of the Trade Act of 1974.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On May 28, 1981, the U.S. International Trade Commission instituted an investigation under section 203(i)(2) of the Trade Act of 1974 (19 U.S.C. 2253(i)(2)) for the purpose of gathering information in order that it might advise the President of its judgment as to the probable economic effect on the domestic industry concerned of the termination of certain of the import relief presently in effect with respect to mushrooms, otherwise prepared or preserved, provided for in item 144.20 of the Tariff Schedules of the United States (TSUS). Import relief presently in effect with respect to such articles will terminate on October 31, 1983, unless suspended, modified, or terminated by the President at an earlier date. The relief, in the form of increased duties described in TSUS item 922.55, is provided for in Presidential Proclamation No. 4801 of October 29, 1980 (45 F.R. 72617). 1/

This relief was proclaimed following an investigation completed by the Commission in August 1980 (TA-201-43) under section 201 of the Trade Act of 1974. In that investigation, the Commission determined by a unanimous vote that mushrooms, prepared or preserved, provided for in TSUS item 144.20 were 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.

The Commission instituted the present investigation following receipt of a request for such an investigation from the United States Trade Representative (USTR) on May 19, 1981. 2/ The Governments of Canada, West Germany, and Switzerland, and the Commission of the European Communities (on behalf of France) had requested exemptions from the increased duty for certain of their mushroom products which they argue have special characteristics which remove them from competition with mushrooms produced in the United States. In addition, the Association of Food Distributors requested that certain oriental mushrooms also be exempted from the import relief. Specifically, the imported products classified in TSUS item 144.20 which are under consideration for exemption from import relief are frozen battered or frozen breaded mushrooms which are currently imported from Canada and have been processed by washing fresh, whole (usually button) mushrooms, dusting them with flour, dipping them in batter and/or bread crumbs, and then deep frying them just long enough to set the batter (approximately 30 seconds), followed by freezing and packing them in containers. Also included are mushrooms valued at over \$1.60 per pound (drained weight) of the following genera: champignon de Paris (Psalliota), chanterelle (Cantharellus); cepe (Boletus), morel (Morchella), and mixed mushrooms (Boletus luteus, Lactarius deliciosus, Rozites caperata, Suillus grevillei, and Suillus granulatus); mushrooms valued at over \$8.50 per pound (drained weight) of the genus chanterelle (Cantharellus); and the following oriental mushrooms: straw mushrooms (Volvariella volvacea), golden mushrooms (Flammulina velutipes), oyster mushrooms (Pleurotus ostreatus), and summer oyster mushrooms (Pleurotus abalon).

1/ A copy of Proclamation No. 4801 is presented in app. A.

2/ A copy of the USTR's letter is presented in app. B.

