

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONFIDENTIAL

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3 May 1984

Textiles Surveillance Body

ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES

Notification under Article 11:4

Restraints under the Hong Kong/United States Agreement

Note by the Chairman

Attached is some additional information received from Hong Kong concerning its notification made under Article 11:4.

* English only/Anglais seulement/Inglés solamente.

REQUEST BY HONG KONG FOR THE TEXTILES SURVEILLANCE BODY TO
CONSIDER THE DISAGREEMENT ARISING FROM THE CONSULTATIONS
BETWEEN THE UNITED STATES (US) AND HONG KONG (HK) ON CATEGORY
652 AND CATEGORY 637 : THE DETAILED CASE

PREFACE

This paper elaborates on the case set out in the HK Government Office letter of 6 April 1984, which had attached to it the relevant market statements provided by the US. Para. 2. of that letter summarises the relevant Export Authorisation provisions of the HK/US Textiles Agreement. Paras. 3 and 4 of that letter summarise the course of the consultation on the two categories in question.

2. During the consultation, the US produced a summary of the "US Textile and Apparel Industry Situation" which showed that in most respects the overall situation had improved in 1983 over 1982 (copy attached).

BACKGROUND

3. The following facts are worth emphasising :

- (a) The Agreement is made under Article 4 of the Arrangement. Article 4 makes it clear that agreements under that Article are in order among other things" ... to eliminate real risks of market disruption (as defined in Annex A) in importing countries ..."
- (b) In essence, Annex A provides for two tests of whether there is a situation of "market disruption" :
 - the "existence of serious damage to domestic producers or actual threat thereof" which shall be determined by examining appropriate factors having a bearing on the evolution of the state of the industry, examples of

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which are given in Annex A,I; and

- whether such damage is demonstrably caused by the factors set out in Annex A,II, and not by factors such as technological change, etc.

CATEGORY 652 (MMF UNDERWEAR)

4. The main reasons why HK considers that a situation of "market disruption" has not been established are :

I Serious damage or actual threat thereof (Annex A,I)
US Production

- (i) The main "appropriate factor" relating to Category 652 for which the US provided statistics was US production for 1979-82, as follows :

	<u>1,000 dozen</u>
1979	70,220
1980	66,157
1981	64,206
1982	62,973*

*(This is referred to in the text of the market statement as the figure for 1983 but this is a misprint)

- (ii) However, official US statistics also exist for US exports, and these enable the retained production to be calculated. In addition, a rough estimate of 1983 production can be derived from the statement that the ratio of imports to domestic production for 1983 "probably was between 7.0 and 7.5 percent." This enables a fuller picture to be obtained (statistics in thousand dozens) :

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	<u>US Production</u>	<u>US Exports</u>	<u>Retained production</u>
1979	70,220	1,629	68,591
1980	66,157	1,900	64,257
1981	64,206	2,208	61,998
1982	62,973	1,500	61,473
1983	64,391**	1,100	63,291

(iii) Clearly in assessing serious damage or actual threat thereof in relation to a call made in 1984, statistics relating to the recent past are of particular relevance. This applies with even more force when it is borne in mind that the current Agreement (in which this category was left as an EA category) was negotiated as recently as 1982. It can be seen that the decline in US retained production between 1981 and 1982 was minimal, at about 0.8%. Whilst an accurate figure for 1983 is apparently not yet available, the indication is that the trend in US retained production was upwards in that year.

(iv) No evidence was provided on a number of other appropriate factors, such as turnover, market share, profits, employment and productivity. Figures were provided on the ratio of imports to production; it is not clear that such a ratio gives substantial guidance as to the state of the industry.

(v) The HK conclusion is that a case of serious damage or actual threat thereof has not been made.

** Taking the I/P ratio as the average of 7.0 and 7.5%, ie, 7.25%, and the 1983 total imports (4,668 thousand doz), the 1983 production may be computed by dividing the imports by 7.25%, to arrive at an estimated production of 64,391 thousand doz.

- (vi) As a more general point relating to the reliability or otherwise of data, it should be noted that 1979 US production was estimated in US statistics at 66,544 thousand dozen in June 1981, but that this figure was revised upwards to 70,220 thousand dozen in June 1982.

II Damage caused by factors in Annex A,II

Price data

- (i) The data provided in the US market statement was as follows :

"Three-fourths of the imports of Category 652 from Hong Kong enter under TSUSA No. 378.6030, which are non-ornamented briefs and bikinis for women. These items are entering at duty-paid landed values below the US producer prices for comparable garments."

<u>"TSUSA No. and Source</u>	<u>Value/Price</u> (US Dollars per Doz)
378,6030	
Hong Kong	4.71
China	4.05
Philippines	4.93
US producer price	5.50 - 6.00"

- (ii) Prior to the consultation, Hong Kong obtained clarification that

- the HK price was based on imports from HK during October-December 1983
- the US producer price was an estimate as there was very little difference between the year's average and October-December average.

(iii) At the consultation, Hong Kong was informed that

(a) The prices of TSUSA no. 378.6030 items from other suppliers were : -

	<u>US\$/dozen</u>
Haiti	7.63
Taiwan	11.04
Mexico	7.62

The US delegation said these prices were not comparable to the data supplied earlier because they relate to different products; but this conclusion was reached on the basis of the price data alone, without reference to the goods in question.

(b) Both HK and US prices given were now said to relate to the same period, viz, Oct-Dec 1983;

(c) Price data for imports were compiled from the general import data which were in turn based on importers' declarations.

(d) As regards the US producer price for Cat. 652, this was based on interviews with two US producers in early 1984. The actual calculations for Cat. 652 were not available.

(iv) Subsequent to the consultation, further clarification was sought and obtained on the US method of calculating price data:

The general approach to price data is as follows :

(a) based on census data on landed duty paid value of imports from, eg, Hong Kong, an average price for Hong Kong goods will be calculated;

- (b) based on the above average price, imports from Hong Kong will be classified as either high, medium or low end goods;
- (c) US producers in the relevant high, medium or low end market will be located and their price data obtained;
- (d) if (c) is not possible, Commerce will go out to stores, find US manufactured garments of similar quality and deduce the producer price after deducting an average mark-up;
- (e) prices for other suppliers are calculated based on census data as in (a) above.
- (v) The HK conclusion is that it has not been demonstrated that one of the factors causing the alleged market disruption is that the HK products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country. The statistics provided are inadequate and their method of calculation unsatisfactory. Attention is particularly drawn to paras. (iii) (a) and (d), and (iv) (a) and (d) above.

Conclusion on Category 652

5. Accordingly, it is HK's view that the case for restraint has not been made and that the US should rescind its request for restraint made under paragraph 7(e)I of the HK/US Textiles Agreement.

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CATEGORY 637 (MMF PLAYSUITS, SUNSUITS, WASHSUITS, ETC.)

6. The main reasons why HK considers that a situation of "market disruption" has not been established are :

I Serious damage or actual threat thereof (Annex A,I)
US Production

- (i) The main "appropriate factor" relating to Category 637 for which the US provided statistics was US production for 1980-82, as follows :

	<u>1,000 dozen</u>
1980	5,811
1981	4,872
1982	5,354

- (ii) Unfortunately, no US statistics for US exports in this category appear to be available, so the extent to which fluctuations in production result from fluctuations in US exports rather than changes in imports into US cannot be assessed. However, as with Cat. 652, a rough estimate of 1983 production can be calculated, at 5,454 thousand dozen.*
- (iii) Applying the same logic as for Cat. 652 to argue that statistics relating to the recent past are of particular relevance, it can be seen that the most recent figures show US production between 1981 and 1982 increasing substantially, by 9.9%. Furthermore, the rough estimate for 1983 suggests the trend in that year has continued to be upward.
- (iv) The HK conclusion is that a case of serious damage or actual threat thereof has not been made.

* Calculated on the basis of an I/P ratio of about /...
15%, indicated in the US market statement.

II Damage caused by factors in Annex A,II

(a) "A sharp and substantial increase or imminent increase of imports of particular products from particular sources"

(i) According to US statistics :

(Dozens)	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>%</u>
<u>Total imports</u>	716,260	641,924	568,839	818,190	(100)
of which					
<u>Hong Kong</u>	33,858	11,778	10,086	34,967	(4.3)
Philippines	240,941	238,992	256,509	308,330	(37.7)
Taiwan	245,113	247,629	203,006	286,514	(35.0)
China	5,112	8,987	33,367	107,894	(13.2)
Production	5,811,000	4,872,000	5,354,000	5,454,000*	

* Estimate, explained at para. 6 I (ii).

(ii) In the absence of US exports data, the "market" must be taken as total imports plus US production, so :

	<u>Market</u>	<u>HK market share</u>
1982	5,922,839 doz	0.17%
1983	6,272,190 doz	0.56%

(iii) Even if one assumes a high percentage increase in imports from HK in 1984, the HK figures are still insignificant. For example, even if imports from HK increased by 50% in 1984, to 52,450 dozen (considerably more than the export authorisations issued at the time of the call) the increase of 17,483 dozen over 1983 HK imports would only represent 0.3% of the 1983 US market. And indeed, the total 1984 imports from HK would still be less than 1% of the 1983 US market.

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(iv) Accordingly, the HK view is that the insignificance of imports from HK is alone sufficient to cause the US case to fail :

- "serious damage" can hardly be caused by such small imports;
- nor can an increase of the size in question be described as a "substantial" increase.

(b) Price data

(i) The data provided in the US market statement was as follows :

"Approximately 24 percent of the Cat. 637 imports from Hong Kong entered under TSUSA No. 383.2330 - infants' ornamented playsuits and 36 percent under TSUSA No. 383.8645 - women's, girls' and infants' non-ornamented playsuits. These garments are being entered at duty-paid landed values below the US producer prices for comparable garments."

<u>"TSUSA No. and Source</u>	<u>Value/Price</u> (US Dollars per Doz)
<u>383.2330</u>	
Hong Kong	11.14
Haiti	12.38
US Producer Price	13.75-14.25
<u>383.8645</u>	
Hong Kong	45.38
Philippines	43.07
US Producer Price	55.00-60.00"

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(ii) Prior to the consultation, Hong Kong obtained clarification that

- the HK price was based on imports from HK during October-December 1983
- the US producer price referred to prices in effect during September-December 1983.

(iii) During the consultation, HK was informed that

(a) The prices of TSUSA 383.2330 and TSUSA 383.8645 items from other suppliers were : -

<u>TSUSA No. 383.2330</u>	<u>US\$/dozen</u>
Philippines	21.56
Taiwan	21.93
China	16.33

<u>TSUSA No. 383.8645</u>	<u>US\$/dozen</u>
Taiwan	25.56
China	48.70

The US delegation said these prices were not comparable to the data supplied earlier because they relate to different products; but this conclusion was reached on a basis of the price data alone, without reference to the goods in question.

- (b) Both HK and US prices given were now said to apply to the same period, viz, Oct-Dec 1983;
- (c) Price data for imports were compiled from the general import data which were in turn based on importers' declarations.

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- (d) As regards the US producer price for Cat. 637, this was obtained by visits to stores, ascertaining prices of US garments of comparable quality to HK products, and deducting an average mark-up. No details of this calculation have been made available.
- (iv) The further clarification given for Cat. 652 in paragraph 4 II (iv) also applies here.
- (v) The HK conclusion is that it has not been demonstrated that one of the factors causing the alleged market disruption is that the HK products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country. The statistics provided are inadequate and their method of calculation unsatisfactory. Attention is particularly drawn to paras. (iii)(a) and (d) above.

III Other Factors

Clearly a case for restraint of one supplier, even if substantiated on other grounds, is not made if other substantial suppliers are allowed to fill the gap in supply created by restraining the first supplier. In the case of Cat. 637, two suppliers with a larger market share than HK are not subject to specific restraint. Unless the US can clarify the position of other larger suppliers, it is HK's view that the US has failed on this ground also to establish a case.

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Conclusion on Category 637

7. Accordingly, it is HK's view that the case for restraint has not been made and that the US should rescind its request for restraint made under paragraph 7(e)I of the HK/US Textiles Agreement.

General

8. Whilst it is HK's prime concern to have the two requests for restraint rescinded, it is also suggested that the unsatisfactory nature of the production data and price data may have more general significance.

March 1984

U.S. Textile and Apparel Industry Situation

FRB Production Index

1983 textile production up 13.1% over 1982, but only 3.8% above 1981 and 1.6% above 1980.

Man-Hours

1983 textile weekly manhours up 7.5% over 1982, but down 8.2% from 1981 and 12.2% below 1980.

1983 apparel weekly manhours up 4.7% over 1982, but down 5.3% from 1981 and 6.3% below 1980.

Employment

1983 textile employment down 0.8 % from 1982 and 9.6% and 12.2% below 1981 and 1980, respectively.

1983 apparel employment up 0.5% over 1982, but down 6.0% from 1981 and 7.4 % below 1980.

Unemployment

Textile unemployment averaged 9.6% in 1983, down from 13.5% and 10.6% in 1982 and 1981, respectively, but up from 8.4 percent in 1980.

Apparel unemployment averaged 12.4% in 1983, down from 15.4% in 1982, but up from 11.5% and 11.6% in 1981 and 1980, respectively.

Plant and Equipment Expenditures

1983 textile plant and equipment expenditures up 4.5% over 1982, but down 10.9% from 1981 and 14.2% below 1980.

Recent textile investment has been aimed more at productivity improvements and cost reduction than at capacity expansion.

Capacity Utilization

1983 textile capacity utilization averaged 80.2% in 1983, 10.3 percentage points above 1982, but only 3.7 percentage points and 1.6 percentage points above 1981 and 1980, respectively.

The increase in capacity utilization is partly the result of production increases and partly the result of plant closings. With domestic textile demand soft in recent years, due in part to the surge in imports, many marginal and uneconomic textile facilities have been closed.

Domestic Mill Consumption (Spinning System)

1983 cotton consumption up 12.3% over 1982, 3.0% above 1981, and 0.7% above 1980.

1983 MMF consumption up 14.0% over 1982, but down 5.6% from 1981.

U.S. Broadwoven Fabric Production

1983 broadwoven fabric production up 15.3% over 1982, but down 5.6% from 1981 and 6.6% below 1980.

- o Cotton up 10.2% over 1982 and 6.4% above 1981, but 6.9% below 1980.

- o Wool up 14.8% over 1982, but down 15.8% from 1981 and 12.2% below 1980.

- o MMF up 17.5% over 1982, but down 9.7% from 1981 and 6.4% below 1980.

Textile Inventories

Inventories of textile products at the end of December 1983, \$6.8 billion, up 12.2% from the \$6.1 billion at the end of December 1982.

Textile Corporate Sales

January-September 1983 textile corporate sales, \$34.8 billion, up 12.2% over the same period in 1982, but 4.8% below Jan-Sept. 1981.

1983 U.S. Imports (Million SYE)

Total: 7,411.7; up 24.9% over 1982, 28.3% above 1981, and 51.7% above 1980.

Textiles: 3,544.1; up 38.8% over 1982, 34.3% above 1981, and 77.2% above 1980.

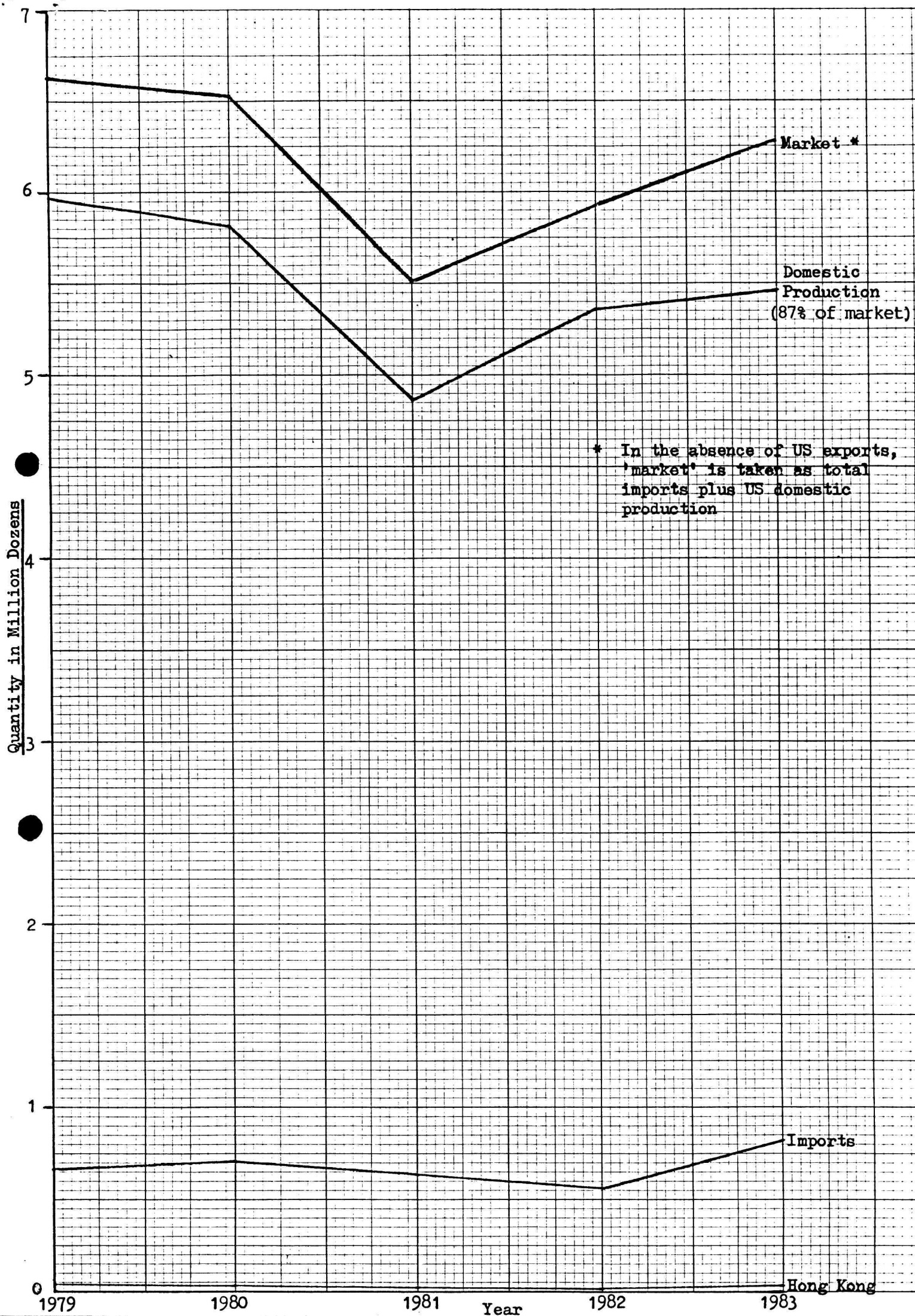
Apparel: 3,867.6; up 14.3% over 1982, 23.3% above 1981, and 34.1% above 1980.

1983 Textile and Apparel Trade Deficit (Billion \$)

Imports: \$11.9; up 17.1% over 1982, 21.8% above 1981, and 45.5% above 1980.

Exports: \$2.9; down 15.2% from 1982, 35.5% below 1981, and 34.9% below 1980.

Trade Deficit: \$9.0; up 33.6% over 1982, 70.9% above 1981, and 141.8% above 1980.



Cat. 652 - MEF Underwear

