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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

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APR 5 1976

MEMORANDUM FOR THE PRESIDENT

FROM : Frederick B. Dent

SUBJECT: Footwear Import Relief Case

On February 20, 1976, the U.S. International Trade Commission (USITC) by unanimous vote found the domestic footwear industry to be seriously injured by imports. This is the largest import relief case brought under the Trade Act of 1974, or under previous law. Over 600 plants employing 163,000 workers in 37 states are affected. Over \$1.1 billion of imports, representing 40% of domestic shoe consumption, is involved in this decision.

Relief can take the form of increased tariffs, a tariff-rate quota, or a quota, or the negotiation of orderly marketing agreements.

Your decision of whether to grant import relief to the domestic footwear industry must be published by April 20. Under the Trade Act, relief must be granted unless you determine that the provision of import relief would be contrary to the national economic interest.

Adjustment assistance is currently available to workers, firms and communities from the Departments of Labor and Commerce. However, in connection with the granting or denial of relief, you can direct that additional efforts be made to assist this industry.

Discussion

Several major issues are posed by this case. There is the danger that a second set of U.S. import restrictions (specialty steel and then shoes) will undermine our ability to provide leadership for other countries to resist protectionist pressures. Restrictions which substantially decreased imports of traditional

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E.O. 12356, Sec. 3.4.

MR 92-23, #12; NSC Mr. 6/24/93

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suppliers would also result in an immense compensation bill being owed or risk foreign retaliation. Since it is likely that there would be an increase in domestic consumption as the U.S. economy recovers from the recession, excessive import restrictions could result in substantial price increases. This would be especially serious given the fact that shoes represent 1.5% of the consumer price index.

Equally important, however, is the fact that this case is a major test of whether the Administration will uphold the commitments made to the Congress in obtaining the Trade Act of 1974. A general commitment was made that import-injured industries would receive relief unless this was contrary to the national interest. This is the basis upon which trade negotiating authority is granted to the President. Specific commitments, described below, were made with respect to how a footwear import relief case would be dealt with.

There is a clear division between agencies on whether relief should be granted. State, Treasury, Agriculture and CEA strongly oppose relief. They suggest that the remedy best suited to the needs of the shoe industry is increased efforts to deliver adjustment assistance. Commerce, Labor, CIEP and STR strongly recommend that moderate relief be granted in the form of a tariff-rate quota (excluding shoes for low income consumers). This would be designed to stabilize temporarily the erosion of the domestic industry. The Department of Defense favors imposition of a tariff-rate quota if the Administration has given its commitment to provide relief.

a. Injury to the domestic industry

No agency disputes the existence of injury. This case represents a dramatic example of a declining U.S. industry whose traditional market is being taken over by imports. During the period 1968 through 1975, there has been a decline in domestic production from 642 million to 433 million pairs. Imports have increased from 181 million to 288 million pairs (an increase in market share from 22% to 40% of footwear covered by the USITC finding). During this period, domestic employment declined by 30%, from 233,000 workers to 163,000 workers, half of the domestic companies have gone out of business, and approximately one third of the total number of plants have closed. The level of unemployment has been consistently more than twice that of the average for all manufacturing.

The major factor in the erosion of the U.S. producer's share of the domestic market appears to be the lower cost of labor

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abroad. Another important factor has been consumer demand for a wide variety of styles and qualities of footwear.

Along with the overall decline in domestic production over the period 1967 through 1974, there has been a tendency for the largest firms to increase their total production, while the medium-sized and smaller firms reduced production substantially or went out of business. In 1974, out of a total of 409 firms, the 21 largest firms accounted for 50% of domestic production.

b. Efforts to help the shoe industry

Adjustment assistance is available under existing programs. For workers, it takes the form of a supplement to unemployment insurance and re-training. For firms and communities, it takes the form of financial and technical assistance. Some 22,000 footwear workers have been certified eligible to apply for adjustment assistance to date. A total of 17 footwear firms have been certified eligible for firm adjustment assistance. Financial and technical assistance totaling \$14 million has been authorized for seven of these firms. It is estimated that some \$24 million to \$120 million would be required to fund additional firm assistance. Resources of this magnitude are not currently budgeted for this program, and there would have to be a decision to increase funding if it were proposed that increased reliance be placed on adjustment assistance. In addition, a supplemental appropriation would appear to be necessary.

The advantages of confining action in this case to the continued or intensified use of adjustment assistance are several. The national economic interest would be served by preserving unimpaired our ability to exercise the moral leadership necessary to effectively oppose protectionism abroad. There would also be no risk of sparking either foreign trade restrictions imposed in response to, or emulating, our own. We would not have to pay compensation in the form of lowering the import protection of other United States industries, or risk retaliation against our exports of agricultural or industrial products. Moreover, we would not be providing a blanket remedy which helped healthy firms to improve profits.

Those agencies which argue for a denial of relief point out that the entire shoe industry cannot be expected to adjust in any fundamental way, because lower foreign labor costs are a dominant factor in the continuing erosion of our domestic production. Therefore relief has consumer costs which may not be offset by long-term benefits to the domestic industry.

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On the other hand, adjustment assistance is currently available without any further Presidential action, and would be regarded (with some cause) as simply the denial of any relief. In 1971, when the footwear case was last presented to a President for action, no relief was granted. A public announcement was made of a comprehensive program of adjustment assistance. The program had little effect. While one of the USITC Commissioners recommended the provision of adjustment assistance in the current report, four Commissioners noted that this was not an effective remedy in the absence of import relief.

c. Impact on U.S. International economic interests

Temporary import relief can be fashioned so that there is no cut-back of imports from recent levels, and can be confined to stabilizing the growth rate of imports. This will minimize the adverse trade effects on our major suppliers. The tariff-rate quota proposed as Option II would have no effect on shoe imports from the Common Market, little effect on shoes from Spain, and a limited effect on Brazilian, Korean, and Taiwanese shoe exports. This would minimize the risk of retaliation against U.S. exports or demands for compensation. In fact, there has been some assurance already from the European Community that there would not be retaliation taken or compensation demanded if certain conditions are met.

As noted above, the major impact of granting relief will not be directly on the patterns of trade, but in the relatively imponderable area of the atmosphere in which countries abroad formulate their trade policies. There will be, and have been, charges that further restrictive action by the United States would undermine the Rambouillet statement and the OECD trade pledge, as well as the effectiveness of U.S. leadership against protectionism.

d. Administration commitments

To obtain the Trade Act, commitments were made both in general with respect to import-injured industries, and specifically in regard to the shoe industry. The price for obtaining from Congress Presidential authority to lower trade barriers was that import relief would be provided to U.S. industries injured by the policy of freer trade. Relief is to be granted unless the national economic interest dictates to the contrary. Moreover, the general presumption that relief is to be granted is bolstered by explicit Administration commitments in the case of shoes that it would be provided.

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During Congressional consideration of the Trade Act of 1974, Ambassador Eberle and his Deputy, Ambassador Malmgren, were the Administration representatives who sat in at the mark-up of this legislation, and coordinated its development for the White House. When this legislation was nearing a vote in the Senate, Senator McIntyre in a letter of December 6th, 1974, expressed grave concern as to the Trade Act's possible effect on the shoe industry. To reassure the Senator, Ambassador Eberle on December 11, 1974, wrote that the Trade Act:

"... contains provisions which, if passed by Congress, will allow the Executive Branch to work out suitable remedies for disruptive imports, remedies which are appropriate to the particular difficulties of industries or workers concerned.

. . . it seems to me that the escape clause provisions . . . are ideally suited for use by the American non-rubber footwear industry If such escape clause procedures were undertaken under the new law, priority attention would be given to the matter, and if the procedures suggested the need for import relief, you can be assured that the Administration would move expeditiously to provide it."

Subsequently, Senator McIntyre introduced a restrictive amendment relating to footwear on the floor of the Senate. Senator Long successfully urged defeat of the McIntyre Amendment on the grounds that: "It is our guess that if the shoe industry would seek relief under the terms of this Act, chances are 90 out of 100 that it would get relief."

Against this background, and as opposed to the industry's currently seeking an interantional footwear agreement called for in another section of the Trade Act, last summer I recommended that the industry pursue their grievances in accordance with the remedies provided under the Trade Act. They did so and received the unanimous USITC finding that this industry has been seriously injured by imports.

Another consideration in connection with Administration commitments to Congress is the possible implication that failure to provide any relief for footwear would have on future Administration sponsored trade legislation. We expect major progress to be made in the MTN in the nontariff barrier area. This will result in legislative proposals at the end of the talks. To be successful in these efforts to expand world trade, the Administration must be

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responsive to domestic needs and to the views of the Congress. Neglect of these concerns in the Kennedy Round led to failure to have the only two nontariff barrier agreements entered into in that negotiation accepted by the Congress.

Remedy Options

The six USITC Commissioners failed to agree on a remedy. This fact deprives the Congress of the ability to override your decision by concurrent resolution, an important factor in the specialty steel case. In this case, three Commissioners voted for substantially increasing footwear tariffs (with the less expensive shoes bearing a higher rate of duty) phased down over a period of five years. Two Commissioners voted for a tariff rate quota, with a high over quota rate phased down over five years, allocated to supplying countries on the basis of their 1974 share of United States imports. One Commissioner recommended that adjustment assistance be provided.

The Trade Policy Committee has the statutory responsibility for making recommendations to you with respect to import relief cases. The Committee met on April 1, 1976 and agreed that two basic options be recommended for your consideration. In connection with each option, the President would direct the Secretaries of Labor and Commerce to give expeditious consideration to petitions for adjustment assistance.

Option I. Adjustment assistance with no import relief. The President would determine that provision of import relief is not in the national economic interest of the United States. This option is strongly supported by State, Treasury, Agriculture and CEA.

Approve: _____

Disapprove: _____

Option II. Adjustment assistance combined with a moderate tariff quota based on recent trade patterns. See Annex A. Excluded would be low-priced shoes, to reduce costs to consumers. Growth would be provided,

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and the amount of relief would be phased down over a period of five years. Commerce, Labor, CIEP and STR strongly favor this option. DOD supports this option if you determine that the Administration is committed to giving relief.

Approve: _____

Disapprove: _____

Also included for your consideration are the proposals of the industry:

Option III: A stringent tariff rate quota based on recession levels of imports (1974) with a prohibitive over-quota rate. See Annex B. All footwear would be covered, without exception. This is the proposal of the American Footwear Industries Association. No agency recommends that you adopt this proposal.

Approve: _____

Disapprove: _____

Option IV. The President would announce on April 20 that he had decided to negotiate orderly marketing agreements. Agreements would be negotiated with five principal supplying countries. If agreements were not negotiated, the President would impose quotas on or before July 19, 1976, having a similar effect. The footwear union desires this remedy. No agency recommends that you adopt this proposal.

Approve: _____

Disapprove: _____

In light of the USITC's various remedy findings, no country has indicated a willingness to negotiate agreements. Moreover, the domestic industry, due to its belief that relief would be delayed and diluted through the negotiation of agreements, has indicated that it would prefer that a stringent tariff-rate quota be established.

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While increased tariffs was the remedy adopted by three of the six USITC Commissioners, this form of relief is not recommended because it would have a severe effect on European exports to the United States and would be very likely to lead to retaliation against our trade.

Implementation of decision

A decision by April 14 would allow sufficient time to conduct consultations with countries affected by the decision prior to its announcement. When informed of your decision, I will prepare the appropriate press release, notices to Congress, and Federal Register notices to implement your decision.

If you choose to grant relief, the necessary proclamation will be drafted. Relief must be effective within 15 days of your determination and announcement (not later than April 20) that it will be provided, unless you direct that orderly marketing agreements be negotiated, in which case the deadline for putting relief into effect is July 19.

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