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THE WHITE HOUSE

WASHINGTON

April 28, 1976

MEMORANDUM FOR PHILIP W. BUCHEN  
JAMES M. CANNON  
MAX FRIEDERSDORF  
JOHN O. MARSH  
BRENT SCOWCROFT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Certain Ceramic Tableware  
Escape-Clause Continuation Case

A memorandum from Ambassador Dent on certain ceramic tableware escape-clause continuation case is attached. I would appreciate your comments and recommendations on this memorandum no later than 3:00 p.m. Thursday, April 29, 1976.

Attachment

*Consider the Officers*  
*W. Schultz 4/29*



THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS  
WASHINGTON

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27 APR 1976

MEMORANDUM FOR THE HONORABLE L. WILLIAM SEIDMAN  
Assistant to the President  
for Economic Affairs

FROM: Ambassador Frederick B. Dent *F. B. Dent*  
SUBJECT: Escape-Clause Continuation Case - Certain  
Ceramic Tableware

Attached hereto are the recommendations of the inter-agency trade organization to the President on the ceramic tableware escape-clause continuation report submitted to him by the U.S. International Trade Commission (USITC). These recommendations are submitted to the President pursuant to the requirements of Section 242(b)(1) of the Trade Expansion Act of 1962, as amended.

Also attached are a draft press release, a draft Federal Register notice and a draft proclamation implementing the President's decision if he should accept the interagency recommendation. A copy of the attached proclamation has been cleared by the USITC, the Customs Services and the Justice Department.

Attachments

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THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS  
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

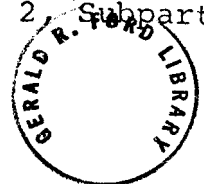
SUBJECT: Escape-Clause Continuation Case - Certain Ceramic  
Tableware

On March 31, 1976 the United States International Trade Commission reported to you the results of its investigation made under Sections 203(i)(2) and 203(i)(3) of the Trade Act of 1974, relating to certain ceramic tableware. Five Commissioners found that termination of import relief for certain ceramic tableware would adversely affect the competitive position of the domestic industry producing earthen table and kitchen articles. One Commissioner dissented from this opinion.

Under the provisions of the Trade Act of 1974, you are not required to take any action, in which case import relief will terminate on April 30. You may also elect to extend the relief or to modify (reduce) the level of relief on any or all of the items subject to escape action rates of duty. If you wish to take any action in this case, your decision must be made and Proclamation implemented by April 30, 1976.

This case has been considered by the interagency Trade Policy Committee structure, which has the statutory responsibility for making recommendations to the President on escape clause cases. Agencies were unanimous in recommending that you (1) terminate the escape-clause relief on earthen and china steins and mugs and certain other low-valued and medium-valued earthen tableware, (2) phase-out escape clause tariff rates on certain high-valued earthen dinnerware and other tableware and on certain low-valued and medium-valued china tableware, (3) that the Special Representative for Trade Negotiations be requested to review the classification and rates of duty on dinnerware and related articles (Schedule 5, Part 2, Subpart C

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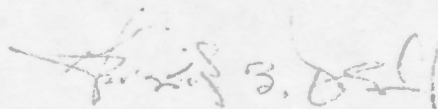
of the Tariff Schedules of the United States) to determine if changes are necessary to close tariff loopholes and change obsolete descriptions brought about by currency changes and inflation, and (4) enter into negotiations to make any changes he considers necessary.

I concur with the above recommendations.

Approve: \_\_\_\_\_

Disapprove: \_\_\_\_\_

For your information, I am attaching a copy of the position paper on this issue prepared by the Trade Policy Staff Committee. I am also enclosing a draft press release, a Federal Register Notice and a draft proclamation implementing your decision if you should accept the above recommendation.



Frederick B. Dent

Attachments

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## TRADE POLICY STAFF COMMITTEE

## ACTION RECORD

DATE: April 20, 1976

DOCUMENT: 76-21

SUBJECT: Certain Ceramic Tableware - Report to the President  
on USITC Investigation No. TA-203-1

SUBMITTED BY: Task Force

## ATTENDANCE:

Agency

STR	Allen Garland, Chairman; Hiram Lawrence
Agriculture	James Benson; Kerry Reynolds
Commerce	William Pounds; William Cavitt; Sterling Nicholson; Ann Garcia
Defense	
Interior	Howard Andersen
ITC	William Hart; John Boyd; William Wright; Jan Punaro; Cecelia Klein
Labor	Gloria Pratt; Marie Giovanelli; Richard Schulman
State	William Clark; William Diroll
Treasury	John Ray; William Barreda
OMB	Steve Farrar
NSC	Barbara Bowie
CIEP	Joseph Lackey

## COMMITTEE DECISION:

Paper approved.

## COMMITTEE COMMENT:

The Committee met on April 15, 16 and 20.

07  
Carolyn Frank  
Secretary

PROBLEM

The U.S. International Trade Commission (USITC) reported to the President on March 31, following its investigation of certain ceramic tableware articles under Sections 203(i)(2) and (3) of the Trade Act of 1974, that the termination of import relief applicable to certain ceramic tableware would adversely affect the competitive position of the domestic industry producing earthen table and kitchen articles. This finding was made by five Commissioners; one Commissioner dissented from this opinion.

Rates of duty on certain ceramic tableware articles were increased in part to pre-Kennedy Round levels in 1972 for a 4-year period commencing May 1, 1972 (Proclamation 4125 of April 22, 1972) following a finding of injury to the domestic industry under Section 301(b) of the Trade Expansion Act of 1962. Firms and workers in the U.S. earthenware industry were proclaimed eligible to apply to the Departments of Commerce and Labor, respectively, for certification for adjustment assistance. Import relief is scheduled to terminate on April 30 unless extended or reduced by the President.

RECOMMENDATIONS

That the President proclaim --

1. That escape-clause relief be terminated on earthen steins and mugs (item 923.03), china steins and mugs (item 923.11) and certain other low-valued and medium-valued



earthen tableware (items 923.05 and 923.07 pt.). That these rates revert to the trade agreement rates specified in TSUS items 533.31, 533.71, 533.33, 533.35, and 533.36 respectively.

2. That escape-clause tariff rates be phased-out on certain high-valued earthen dinnerware (item 923.01), certain other high-valued earthen tableware (item 923.07 pt.), and certain low-valued and medium-valued china tableware (items 923.13 and 923.15). That these rates be phased-down to the trade agreement rates specified in TSUS items 533.28, 533.38, 533.73, and 533.75, respectively. This phase-out should be accomplished by a one-third reduction of the escape-clause relief at the close of April 30, 1977, one-third April 30, 1978, and termination April 30, 1979.

3. That the Special Representative for Trade Negotiations be requested to review the U.S. tariff schedules of all earthen and china table and kitchen articles and to renegotiate them, as necessary, to conform with current commercial practices.

#### BACKGROUND

##### Tariff Treatment

Tariff relief has been provided on all or part of nine of 21 ceramic household table and kitchen article tariff categories.



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The nine tariff items include so-called popular priced earthen dinnerware and mugs, as well as other articles. The nine items do not include so-called popular priced china dinnerware, which competes with earthen dinnerware. The tariff items do include some lower-priced china table and kitchen articles that are not produced in the United States; these articles do, however, compete with low-priced domestically produced earthen table and kitchen articles.

Table 1 shows the escape clause and trade agreement rates on the nine tariff classifications that have been provided tariff relief. Based on 1975 imports, the ad valorem equivalents of the escape clause rates range from 19 to 59 percent; as trade agreement rates, the range is from 12 to 32 percent.

#### The Industry

Since May 1972 the basic structure of the industry has remained the same (see TSC 72-31 of April 4, 1972). The data in the latest ITC report is based on returns received from 16 domestic producers. Three of these firms have changed ownership since that time. Products produced by the industry are the same.

#### U.S. Consumption of all Earthenware

Producers' shipments, imports, exports, and apparent consumption of all earthen table and kitchen articles are shown in Table 2. The 1974-75 recession reduced the U.S. market for tableware; this is reflected by the decline in U.S. shipments and imports in those years.





ESCAPE ACTION AND TRADE AGREEMENT RATES OF DUTY

<u>TSUSA No.</u>	<u>ITEM</u>	<u>Escape Action Rate</u>	<u>Trade Agreement Rate</u>
<u>Earthenware:</u>			
533.28 (pt.)	Dinnerware, over \$12 but not over \$22 per norm <u>1/-</u> .	10¢ per doz. pcs. + 21% Ad. Val.	5¢ per doz pcs. + 10. Ad. Val.
533.31 (pt.)	Nondinnerware: Steins & mugs not over \$3.60 per doz.	10¢ per doz. pcs. + 25% Ad. Val.	5¢ per doz pcs. + 12. Ad. Val.
533.33	low valued ware	5¢ per doz. pcs. + 14% Ad. Val.	--do--
533.35	medium value ware	10¢ per doz. pcs. + 21% Ad. Val.	10¢ per do pcs. + 21% Ad. Val.
533.36	medium valued ware	--do--	--do--
533.38 (pt.)	high valued ware	--do--	5¢ per doz pcs. + 11% Ad. Val.
<u>Chinaware:</u>			
533.71 (pt.)	Nondinnerware: Steins & mugs, Not. over \$3.60 per doz.	45% Ad. Val.	22.5% Ad.V
533.73	low -valued ware	10¢ per doz. pcs. + 48% Ad. Val.	5¢ per doz pcs. + 22. Ad. Val.
533.75	medium valued ware	10¢ per doz. pcs. + 55% Ad. Val.	5¢ per doz pcs. + 30% Ad. Val.

1/ The composition of a norm is explained in headnote 2(b) to Part 2(c) of Schedule 5 of the TSUSA.

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EARTHEN TABLE AND KITCHEN ARTICLES: U.S. SHIPMENTS, IMPORTS, EXPORTS, AND APPARENT CONSUMPTION AND RATIO OF IMPORTS TO CONSUMPTION  
(Quantity in millions of dozen pieces)

<u>Year</u>	<u>Shipments</u>	<u>Imports</u>	<u>Exports</u>	<u>Apparent Consumption</u>	<u>Ratio of Imports to Consumption</u>
1971	12.2	15.0	0.1	27.2	55
1972	13.3	17.7	0.2	30.9	57
1973	11.8	16.0	0.2	27.8	58
1974	10.2	14.4	0.7	24.5	59
1975	10.7	14.4	1.4	25.0	58

Source: U.S. International Trade Commission

Marketing Characteristics

The concentration of sales of all earthen dinnerware by type of marketing outlet changed somewhat between 1972 and 1975. Sales of domestic earthen dinnerware were increasingly concentrated in discount department stores and chain variety stores by 1975 (46 percent). Premium outlets, which sold 30 percent of domestic dinnerware in 1972, accounted for only 12 percent in 1975. Sales of all imported earthen dinnerware were increasingly made by better department stores and specialty, gift, and jewelry stores by 1975 (66 percent). Premium outlets and mail order houses, which accounted for 54 percent of sales of imported earthen dinnerware in 1972, sold only 21 percent of imported earthen dinnerware in 1975.

The shift of sales of imported earthen dinnerware away from premium outlets and mail order houses towards other outlets reflects the increased amount of imported ware that sells for

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over \$30 per set at wholesale. Imported earthen dinnerware selling at wholesale for more than \$30 per set is not affected by the escape action tariff rates. In 1972 26 percent of all imported earthen dinnerware sold for over \$30 per set at wholesale; comparable sales in 1975 were 67 percent. In 1972 9 percent of domestically produced dinnerware was sold at wholesale for over \$30; the comparable figure for 1975 was 10 percent.

#### Capital Expenditures

Fourteen U.S. firms supplied the ITC with data on capital expenditures (research & development, plant modernization, and equipment). These firms reported average annual capital expenditures of \$1.6 million during 1972-75. Nine producers reported average annual capital expenditures of \$795 thousand for 1966-71. Increased capital expenditures in 1971-75 were generated by increases in net operating profits during this period.

#### Profit and Loss Experience of the Industry

Nine major earthen tableware producers supplied data to the Commission showing their net operating profits in 1971-75. Net operating profits as a percentage of net sales are shown in table 3.



TABLE 3

Net Sales and Net Operating Profits of  
9 U.S. Earthen Tableware Firms

<u>Year</u>	<u>Net Sales</u> <u>(\$ Millions)</u>	<u>Net Profits</u> <u>(\$ Millions)</u>	<u>Ratio of Net Operating Profit to Net Sales (Percent)</u>
1971	\$38.4	\$1.7	3.8%
1972	45.8	1.8	4.0
1973	50.8	1.5	6.7
1974	53.0	1.9	6.1
1975	55.0	2.7	8.3

In 1971-75 the nine firms consistently reported net operating profits; these profits ranged from 3.8 percent of sales in 1971 to 8.3 percent of sales in 1975 and averaged 6.0 percent per annum. In 1966-70 these same nine firms consistently reported net operating losses averaging 3.2 percent per annum. The ITC reported that Federal Trade Commission information reveals that average net operating profits for earthen tableware manufacturers in 1971-73 were almost 50 percent less than the equivalent ratio for all manufacturers of stone, glass and clay products in those years.

Employment

The number of production and related workers employed by the U.S. earthenware industry dropped from 5,217 in 1971 to 4,423 in 1975, a decrease of 15 percent. This decline in employment has paralleled efforts to improve efficiency and worker productivity by combining and/or eliminating certain



job positions and by introducing laborsaving machinery into the production process.

#### IMPORTS

##### Earthen Dinnerware

Total imports of earthen dinnerware increased from 9,036 thousand dozen pieces in 1972 to 9,522 thousand dozen pieces in 1975. As shown in table 4, imports of earthen dinnerware valued at escape action rates (from \$12 to \$22 per set) declined annually in 1972-75 from 2,283 thousand dozen pieces (25 percent of total earthen dinnerware imports) to 493 thousand dozen pieces (5 percent of total earthen dinnerware imports). During this same period, higher value imports not subject to escape action rates (over \$22 per set) increased annually from 6,327 thousand dozen pieces in 1972 (70 percent of all earthen dinnerware imports) to 8,964 thousand dozen pieces in 1975 (94 percent of all earthen dinnerware imports).

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TABLE 4

Earthen Dinnerware: U.S. Imports  
Quantity (1,000 dozen pieces)

<u>TSUSA No.</u>	<u>Value Bracket</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
533.23	Not Over \$3.30	18	16	7	11	5
533.25	From \$3.31 to \$7	202	96	25	54	17
533.26	From \$7.01 to \$12	276	314	149	24	43
923.01	From \$12.01 to \$22	6,830	2,283	1,963	799	493
533.28	Over \$22		6,327	6,869	8,104	8,964
Totals:		7,326	9,036	9,014	8,992	9,522

Source: U.S. International Trade Commission.

By 1975, the bulk of imports that had previously been entering in the \$12 to \$22 per set value category that is subject to the escape action rate were being entered in the over \$22 per set value category, which is not subject to the escape action rate.

The ITC reported that in 1975 imported dinnerware covered by the escape action rates of duty was most often sold for \$15 to \$30 per set at wholesale and that 62 percent of domestically produced earthen dinnerware was sold in this same price range. Applying the percentage for domestically produced Dinnerware to aggregate domestic dinnerware shipments and assuming that all exports fall in the \$15-\$30 per set price range, it can be estimated that imported dinnerware subject

to escape action rates of duty amounted to 7 percent of U.S. consumption of earthenware valued at \$15 to \$30 at wholesale in 1975.

### Steins and Mugs

Total U.S. imports of earthen and china steins and mugs and miscellaneous articles declined by 55 percent between 1972 and 1975. U. S. imports of earthen and china steins and mugs subject to escape action rates of duty (valued not over \$3.60 per dozen) declined by 62 percent between these same years.

All U.S. produced mugs are competitive in use and price with imports subject to escape action duties. Table 5 shows apparent U.S. consumption of steins and mugs valued not over \$3.60 per dozen in 1973-75. Data on domestic shipments of chinaware mugs are not available, however such shipments are thought to be very small relative to shipments of earthenware mugs.

TABLE 5

Steins and Mugs valued not over \$ 3.60 per dozen:  
U.S. Shipments, Imports and Apparent Consumption

<u>Year</u>	<u>Quantity (1,000 dozen pieces)</u>			<u>Imports as % of Consumption</u>
	<u>Shipments 1/</u>	<u>Imports</u>	<u>Apparent Consumption</u>	
1973	233	3,223	3,456	93
1974	228	1,530	1,758	87
1975	200	1,268	1,468	86

1/ Estimated.

Source: U.S. International Trade Commission.

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Between 1973 and 1975, U.S. consumption of steins and mugs valued not over \$3.60 per dozen declined by 57 percent. U.S. imports subject to escape action duties declined by 61 percent between these years whereas U.S. shipments declined by only 14 percent, indicating that escape action rates of duty have been effective to some extent in protecting the domestic industry.

#### Other Ceramic Tableware

Other ceramic tableware includes non-set dinnerware and kitchen articles. Escape action duties were applied only to non-set dinnerware. Little non-set dinnerware is made in the United States. Consumption is supplied almost wholly by imports. Such ware is, however, competitive to a large extent with domestically-produced dinnerware. Statistical data segregating non-set dinnerware imports from kitchen articles is only available for those categories subject to escape action rates of duty in 1972-75. Table 6 shows U.S. imports of other earthen and china table and kitchen articles subject to escape action duties and not subject to such duties.



TABLE 6

U.S. Imports of Non-Set Dinnerware Subject to Escape Action Duties and U.S. Imports of Non-Set Dinnerware and Kitchen Articles Not Subject to Escape Action Duties.

Quantity (1,000 dozen pieces)

<u>Year</u>	<u>Non-Set Tableware Imports At Escape Rates</u>	<u>Non-set Dinnerware and Kitchen Articles Not at Escape Rates</u>
1972	1,724	6,117
1973	1,961	4,164
1974	1,096	3,589
1975	1,070	3,113

Source: U.S. International Trade Commission

Between 1972 and 1975, imports of non-set dinnerware and kitchen articles not subject to escape action duties declined 49 percent; imports subject to escape action rates declined 38 percent. These declines corresponded with the decreasing importance of the premium ware sector of the tableware market, the traditional outlet for these types of goods.

In 1972-75 total imports of other earthen and china tableware articles declined in all value brackets. Hence, there is no evidence that escape action value brackets were avoided by increasing prices and moving imports into the next value bracket up. While imports of all high-valued articles declined from 2,208 thousand dozen pieces in 1972 to 2,197 thousand

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dozen pieces in 1975, their relative share of total other tableware imports increased from 28 percent to 52 percent.

Currency Realignments and Foreign Inflation

The ITC noted that currency revaluations, foreign inflation and increased energy costs resulted in certain imported ware, originally subject to escape-clause rates in 1972, being priced out of escape clause value ranges. Thus, the overall 1972-75 rate of decline in imports of all earthen and china tableware was about half that of imports subject to escape action rates.

Currency realignments in 1971-75 by the major supplying countries of ceramic tableware, expressed in percentage increases or (decreases) against the U.S. dollar, were 18 percent for Japan and (16 percent) for the United Kingdom. During this period, the Japanese wholesale price index increased 49 percent; the United Kingdom index increased 90 percent.

Adjustment Assistance to workers in the Industry

The Department of Labor has received 2 petitions for certificates of eligibility to apply for worker adjustment assistance from the earthenware industry. Workers of the Harker China Co., (Chester, W. Va.) applied and were certified; as of November 30, 1975, 143 of these workers had received \$367,000 in trade readjustment allowances. Workers of the Royal China Co. (Sebring, Ohio) also applied for certification but their application was denied.



... reported that the possibilities for training and relocation are very limited since the average industry employee is 50 years old and resists moving to other communities. Some of the areas where plants are located are high unemployment areas and skills are not readily transferrable to other industries; consequently alternative employment opportunities are very limited.

#### Adjustment Assistance to Firms in the Industry

One firm, the Louisville Stoneware Co. (Louisville, Kentucky), applied for adjustment assistance and was denied certification

#### Effectiveness of Import Relief to Promote Adjustment

The earthenware industry testified before the ITC that import relief granted by the escape action rates of duty has been most effective in aiding the industry to adjust to import competition. Imports of ceramic table and kitchen articles dutiable at escape clause rates amounted to 60 percent less, by volume, in 1975 than in 1972. Imports of all earthen and household china table and kitchen articles decreased by only 35 percent between these two years.

#### Efforts made by the Industry to Adjust to Import Competition

The ITC reported that substantial labor productivity and product quality gains have been achieved in the period since the imposition of the escape action rates of duty. A collective bargaining agreement, containing a "job combination" clause, was negotiated between U.S. earthenware producers and the

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International Brotherhood of Pottery and Allied Workers.

The "job combination" clause provided for the elimination and/or combination of certain positions and job descriptions in order to use existing employees more effectively. This has permitted the increased use of laborsaving machinery in the production and decoration processes and has contributed to an increase in output per man hour of 12 percent between 1972 and 1975. The ITC reported that domestic producers of lower priced earthenware, the type covered by escape action duties, have experienced even greater productivity increases than the earthenware industry in general.

The move towards increased automation has resulted in increased capital expenditures by the industry in 4 of the 5 years during 1971-75. Total expenditures of the fourteen firms reporting reached a record high of \$2.7 million in 1975, 59 percent higher than in 1971 and 136 percent above the average for 1966-70.

The ITC found that several factors, unforeseen when import relief was granted in 1972, have delayed complete adjustment to import competition and have worked against the industrys attempts to improve its competitiveness in intervening years. The 1974-75 recession reduced the domestic market for earthen tableware; the natural gas shortage and price increases of natural gas disrupted production and increased production costs in an industry completely dependent on this fuel. According

mental Protection Agency and Occupational Safety and Health Administration standards have deferred work and expenditures on automation and other productivity increasing activities that would otherwise have been undertaken, as well as increased their production costs.

Effect to import relief on consumers and on competition

The ITC reported that the maximum cost increases faced by consumers of ceramic table and kitchen articles as a direct result of the escape action rates of duty have averaged between 8 and 19 percent, depending on the type of imported ware. The maximum cost increase for imported dinnerware resulting from escape action duties is about 10 percent.

The bulk of U.S. production of earthen dinnerware has remained in the not over \$30 wholesale per 45-piece set during the escape action period, whereas imported earthen dinnerware has been increasingly sold in the higher wholesale price categories, over \$30 per 45-piece set, during this period. Japanese earthen dinnerware, the traditional low value imported earthen dinnerware, has shifted, in large part, into higher price ranges largely as a result of rising costs abroad and of dollar devaluations. However, new suppliers, primarily Korea and Brazil, have recently entered the U.S. market in the under \$30 price area; these countries could become sizable future suppliers.

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Sales of both domestic and imported ceramic table and kitchen articles have declined by one-fifth since the granting of import relief. In the same period, import penetration of the total earthen dinnerware market has increased from 42 to 49 percent. There is no indication that import relief has restricted the availability of imported table and kitchen articles of the type covered by escape action duties.

The effect of import relief on the International Economic Interests of the United States and on U.S. industries and firms.

The U.S. notified the GATT Contracting Parties on April 28, 1972 of its intention to raise duties on ceramic tableware under the provisions of GATT Article XIX and of its willingness to consult with Contracting Parties having a substantial trade interest. The Government of Japan notified the Government of the United States of its desire to consult and of its preference for compensation to retaliation. As the U.S. lacked the necessary authority to negotiate compensatory concessions, a joint letter was signed by both parties agreeing to defer the 90-day compensation/retaliation period provided in Article XIX:3. The U.S. deferred consultations until the passage of the Trade Act of 1974 in order to have the necessary authority to negotiate compensation. Bilateral discussions are now tentatively scheduled for May, 1976.

#### GEOGRAPHIC CONCENTRATION OF IMPORT SALES IN THE UNITED STATES

The ITC reported that the regional distribution of sales of imported ceramic table and kitchen articles in the United





States is as follows:

	<u>Percent</u>
Northeast region-----	37
Northcentral region-----	23
Southern region-----	25
Western region-----	15
	<u>100</u>

The extent to which the U.S. market is the focal point for exports

Japan is the major export supplier to the world of the types of articles covered by the escape rate action. The United Kingdom, Italy, the Benelux countries, W.Germany, France, Sweden, Norway and Spain maintain quantitative restrictions (QRs) against imports of these types of articles from Japan; the United States and Canada do not maintain QRs against these articles. The Japanese Government export allocation of ceramic tableware to the United States/Canadian market is several times larger than allocations to the rest of the world combined.

Economic and Social costs incurred if import relief were or were not provided.

Decreased consumption of articles covered by escape action rates is primarily attributable to higher export prices, due to exchange rate adjustments and the high rate of Japanese inflation. However, to the extent that escape action rates have reduced U.S. consumption of certain ceramic tableware by raising prices, retail sales and profits have been reduced,

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thereby reducing sales and business taxes. Retail employment may have also been affected. These conditions could be expected to continue if escape action rates were continued.

The reduction or removal of escape action duties would lessen protection to the U.S. earthenware industry from import competition as imports would fall within directly competitive price ranges. If this reduction or removal caused a severe decline in domestic sales, the industry could be forced to reduce output and lay off workers. Economic costs that could result include unemployment insurance payments, income maintenance, food stamps and reduced tax receipts at all levels. Social cost could result from added unemployment in high impacted and depressed unemployment areas, including Appalachia.

#### OPTIONS

##### Continuation of Tariff Relief

Announce that it is in the national interest to extend tariff relief at present levels for one 3-year period.

##### Discussion

--Continuation of escape action tariffs would maintain the existing level of protection for U.S. producers of earthen tableware. Imports affected by escape action duties are directly competitive in price with domestically produced earthen tableware.

--Termination of import relief at this time would probably result in increased imports of low-value ceramic tableware.





A significant increase in low-valued imports would adversely affect U.S. producers' sales, profits and employment. A decline in profits would prevent further needed capital expenditures from being made to increase industry efficiency and productivity. Increased unemployment in economically depressed areas could result. Six tableware producers are located in Appalachia. Nine other firms are located in higher than average unemployment areas. The possibilities for training and relocating displaced workers in this industry are very limited.

--Factors unforeseen when import relief was granted in 1972 have delayed the complete adjustment by the industry to import competition by hampering the industrys attempts to improve its competitiveness in intervening years. The 1974-75 recession temporarily reduced the domestic market for earthen tableware. Natural gas shortages have disrupted production; natural gas price increases have added substantially to production costs. Expenditures necessitated by the Environmental Protection Agency and by the Occupational Health and Safety Administration have deferred industry spending on automation and other productivity-increasing activities that would have otherwise been undertaken.

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--If relief is not continued, it is possible that the industry would immediately petition the ITC for another escape clause action.

--While traditional foreign suppliers of dinnerware shifted a large part of their sales to a higher value category not covered by escape action duties in 1972-75, several developing countries increased their shipments of lower valued ware subject to escape action rates to the United States. These countries, primarily the Republic of Korea and Brazil, have the capability of producing larger quantities of low valued ware for shipment to the United States. If escape action rates are terminated, these countries could be the primary beneficiaries.

--As long as the escape action rates remain in effect, the ceramic tableware articles involved cannot be considered for possible tariff concessions in the Multilateral Trade Negotiations currently being conducted in Geneva.

--There is no indication that import relief has restricted the availability of imported table and kitchen articles. In 1972-75 import penetration of the earthen dinnerware



market increased from 42 to 49 percent.

--The United States would have to pay compensation to Japan. Bilateral discussions on this subject are tentatively scheduled for next month. Compensation could be based on pre-recession trade levels, when imports were valued at more than twice than 1975 levels. Losses from compensation would probably be greater than U.S. revenue gains from tariff increases and would reduce the level of protection to domestic producers of products on which compensation is paid.

(In the event that the relief were to be terminated, the United States might have to pay compensation, even though at a lower rate).

--Escape action duties have had an inflationary effect to the extent that these duties have reduced U.S. consumption of certain ceramic tableware by raising prices. However, the effect of escape action rates on prices has probably been minor in comparison to the price effects that currency realignments and foreign price increases have caused.

#### Modification of Tariff Relief

Announce that it is in the national interest to modify the

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levels of tariff relief. Tariff levels could be lowered for all or some tariff items subject to escape action rates and/or they could be phased-out on all or some items. Tariffs cannot be raised on items presently subject to escape action rates.

Discussion

--Since the industry has enjoyed 4 years of tariff relief without this relief being phased-down, the United States could be criticized on the management of its international economic relations. Phasing-down the rates would demonstrate the U.S. commitment to the phasing-out of tariff relief.

--Phase-out would permit the industry to adjust over a period of time rather than instantly.

--Assuming that the United States has to pay compensation to Japan, it would have to pay a smaller amount to the extent that any duties are reduced, phased-out or terminated.

--Tariff relief for mugs and steins and/or non-set dinnerware could be reduced and/or phased out. The premium ware market, the primary outlet for these types of goods, has declined in importance to domestic producers and to importers since 1972. Maintenance of escape action rates on these categories maintains industry competitiveness.

in a declining market.

--The Task Force has no specific recommendation as to how escape action rates of duty could be modified.

--The industry has not completely adjusted to import competition. Further profits must be generated to fund additional investment in plant, equipment, and research and development to improve productivity. Modification of escape action rates could result in increased imports that adversely affect producers sales and profits levels. If industry profits were to decline substantially, funds necessary to improve industry competitiveness would not be available and U.S. producers would be unable to fully adjust to import competition.

--If low-valued tableware imports increased substantially as a result of tariff modification, industry employment levels would be adversely affected. This could result in higher unemployment and/or underemployment levels in economically depressed areas. The unemployment level in the United States is currently very high; the Administration does not favor any action at this time that could result in higher unemployment or underemployment, .....

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particularly in economically distressed areas.

--The escape action protection provided on dinnerware has already been eroded by increased prices of such imports due to inflationary effects.

--An increase of lower-valued imports of steins and mugs from non-traditional suppliers could adversely affect several U.S. producers that make large quantities of mugs. If tariff modification resulted in substantial increases of non-set dinnerware imports, some sales of domestically-produced dinnerware could be displaced.

#### Terminate Import Relief

--Take no action and permit import relief to expire on April 30.

#### Discussion

--The United States could notify Japan that tableware tariffs had been returned to trade agreement rates and that, from the U.S. viewpoint, compensation is no longer an issue. The U.S. might gain four years of import protection for the tableware industry at no compensating cost.

--While the industry has not completely adjusted to import competition, it has substantially improved its

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competitive position over the last 4 years. Manpower resources are being utilized more efficiently. Capital expenditures for plant modernization, new equipment and research and development have increased. These efforts have substantially improved industry productivity and profitability since 1972.

--The competitive relationship between domestic and foreign goods changed in 1972-75. Currency realignments, high rates of foreign inflation and increased energy costs made imported tableware more expensive in the U.S. market. Imports of certain tableware can no longer undersell domestic tableware by wide margins, as in 1972. By 1975, only 33 percent of all imported earthen dinnerware was sold at prices competitive with most domestically-produced dinnerware (under \$30 per set wholesale).

--Continuation of the present form of import relief for earthen dinnerware is likely to have only a minor impact on the level of dinnerware imports from traditional suppliers. Imported earthen dinnerware is the principal item of interest to the U.S. industry. Between 1972 and 1975, higher export prices caused a large portion of that earthen dinnerware originally subject to the escape action duty to shift into a higher value category not subject to the escape action duty. In 1972-75, total earthen dinnerware imports increased by 5 percent; however, in 1975, dinnerware imports subject

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to escape action duties amounted to only 42 percent of their 1972 level.

--The premium ware market, the primary outlet for mugs and steins and non-set dinnerware, has declined in importance to U.S. producers and to traditional importers. Consequently, escape action rates could be terminated without causing serious market disruption problems for U.S. producers.

--If the termination of escape action duties results in increased imports of certain tableware which, in turn, causes unemployment or underemployment in the tableware industry, the workers affected can apply for certification for adjustment assistance. Under the Trade Act of 1974, the President is no longer required to proclaim that workers of a given industry may request certification for eligibility to apply for adjustment assistance. Any group of workers may now file a petition for certification of eligibility for adjustment assistance directly with the Secretary of Labor.

--Imports of articles covered by escape action duties declined by 61 percent in 1972-75, whereas imports of all earthen dinnerware and earthen and nonbone china tableware articles declined by about half this rate.

--Termination of escape action rates would probably result in increased imports of certain tableware articles from



Japan and various developing countries. Most Western European countries maintain quantitative restrictions against imports of these articles; the United States and Canada do not. Several developing countries, primarily Korea and Brazil, have the capability of shipping larger quantities of low valued ware to the United States.

--The Administration does not favor any action at this time that could result in higher unemployment or underemployment. The unemployment rate in this industry is already at a very high level.

--If no relief is provided, it is possible that the industry would immediately file for an escape action investigation under Sec. 201 of the Trade Act.



DRAFT PRESS RELEASE

OFFICE OF THE SPECIAL REPRESENTATIVE  
FOR TRADE NEGOTIATIONS

President Ford decides to Terminate  
Import Relief Tariff Rates for some  
Ceramic Tableware, and to Extend Import  
Relief Tariff Rates for one year and to  
subsequently phase them out on some other  
Ceramic Tableware

Import relief tariff protection for domestic producers of certain ceramic earthen table and kitchen articles -- granted in 1972 -- will be terminated on some items and continued for one year and subsequently phased-out on others, President Ford has determined. These decisions were announced today by Ambassador Frederick B. Dent, the President's Special Representative for Trade Negotiations.

The President's determinations are in response to the recommendations of the interagency Trade Policy Committee, following findings and recommendations of the U.S. International Trade Commission resulting from its investigation of a petition by the American Dinnerware Emergency Committee for continuance of the higher tariff relief, filed last October 30.



The President determined that the ceramic dinnerware industry has substantially -- but not completely -- adjusted to import competition which caused serious injury to domestic firms and workers.

Since the purpose of "escape clause" import relief is to provide temporary assistance to domestic producers to adjust to such competition, the President ended the tariff increases on items which he determined to have adjusted to competition, and ordered the extension of tariff increases for one year and their subsequent phase down and out over a three year period for those items which are still in the process of adjusting.

The President also directed the Special Representative for Trade Negotiations to review the classification and rates of duty on dinnerware and related articles (Schedule 5, Part 2, Subpart C of the Tariff Schedules of the United States) to determine if changes are necessary to close tariff loopholes and change obsolete descriptions brought about by currency changes and inflation, and to enter into negotiations to make any changes he considers necessary.

Parts of seven categories of ceramic tableware under the Tariff Schedules of the United States (TSUS) received import relief in the form of higher tariffs as a result of the 1972 escape clause case.



As a result of today's announcement, increased duties will be terminated as of the close of business April 30 on earthen and china steins and mugs, and on low-priced earthen tableware, and phased down and terminated on April 30, 1979 on certain high-priced earthen dinnerware and other tableware and on certain low-priced and medium-priced china tableware.





DRAFT DECISION MEMORANDUM

MEMORANDUM FOR  
THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Pursuant to Section 203(h) (3) of the Trade Act of 1974, (PL 93-618, 88 Stat. 1978), I have determined the actions I will take with respect to the report of the United States International Trade Commission (USITC), dated March 31, 1976, concerning the results of its investigation of a petition for continuation of import relief filed by the American Dinnerware Emergency Committee.

I have decided to extend the increased rates of duty currently in effect on imports of certain earthen dinnerware, and certain other ceramic tableware provided for in items 923.01, 923.07pt. (that part related to item 533.38), 923.13 and 923.15 of the TSUSA for one year. These temporary duty increases will subsequently be phased-down and will revert to trade agreement rates beginning May 1, 1979, unless terminated before that time. Escape action rates of duty on steins and mugs and certain other ceramic tableware, provided for in items 923.03, 923.11, 923.05 and 923.07pt. respectively of the TSUSA will revert to the trade agreement rates at the close of business April 30, 1976. I have determined that these actions are in the National interests of the United States.



Since May 1, 1972, the U.S. earthenware industry has made substantial economic adjustments to import competition. Profit and productivity levels have increased. The labor force is more efficiently utilized and the industry is more automated. However this adjustment process is not yet complete. Additional capital improvements are needed to complete this process.

The major product of the U.S. industry is earthen dinnerware. Many earthen dinnerware producers are located in areas of economic depression and high unemployment. The immediate termination of all escape action duties on earthen dinnerware and certain other tableware that competes with earthen dinnerware would adversely affect the industry's efforts to adjust to import competition and would be detrimental to our national employment policies.

Since the purpose of escape action import relief is to provide temporary assistance to domestic producers to adjust to such competition, I am ending the tariff increases on those items that I determine to have adjusted to competition.

Since the Kennedy Round of trade negotiations, when the U.S. Tariff schedules of earthen and china table and kitchen articles were last negotiated, duty rate disparities have resulted in tariff loopholes, and currency changes and inflation



have made many of the categories in this schedule obsolete.

I am directing you, therefore, as the Special Representative for Trade Negotiations, to review the classification and rates of duty on dinnerware and related articles (Schedule 5, Part 2, Subpart C of the Tariff Schedules of the United States) to determine if changes are necessary to close tariff loopholes and change obsolete descriptions brought about by currency changes and inflation, and to enter into negotiations to make any changes you consider necessary.

This determination is to be published in the Federal Register.



EXTENSION AND MODIFICATION OF CERTAIN INCREASED  
RATES OF DUTY ON CERAMIC TABLEWARE

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

1. Pursuant to the authority vested in him by the Constitution and the statutes, including section 350(a)(1)(B) of the Tariff Act of 1930, as amended (19 U.S.C. 1351(a)(1)(B)); and sections 201(a)(2), 302(a)(2) and (3), and 351(a) of the Trade Expansion Act of 1962 (19 U.S.C. 1821(a)(2), 19 U.S.C. 1902(a)(2) and 19 U.S.C. 1902(a)(3), and 19 U.S.C. 1981(a)); and in accordance with Article XIX of the General Agreement on Tariffs and Trade (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) (hereinafter referred to as "the GATT"), the President, by Proclamation No. 4125 of April 22, 1972 (86 Stat. 1624), proclaimed, effective on and after May 1, 1972, and until the close of business April 30, 1976, or until the President otherwise earlier proclaimed, increased duties on imports of certain types of ceramic tableware defined in items 923.01 through 923.15, inclusive, in Subpart A of Part 2 of the Appendix to the Tariff Schedules of the United States (hereinafter referred to as "the TSUS");

2. Having taken into account advice received from the International Trade Commission on March 31, 1976, pursuant to section 203(i) of

the Trade Act of 1974 (19 U.S.C. 2253(i)) (hereinafter referred to as "the Trade Act"), and the considerations described in section 202(c) of the Trade Act (19 U.S.C. 2252(c)), I have determined, pursuant to section 203(h)(3) of the Trade Act (19 U.S.C. 2253(h)(3)), that it is in the national interest to extend and modify in stages, as hereinafter proclaimed, the increased rates of duty currently in effect on imports of some of the articles of ceramic tableware now provided for in items 923.01, 923.07, 923.13, and 923.15 of the TSUS.

NOW, THEREFORE, I, GERALD R. FORD, President of the United States of America, acting under the authority vested in me by the Constitution and the statutes, including section 203(h)(3) of the Trade Act, and in accordance with Article XIX of the GATT, do proclaim that--

(1) The modified tariff concessions on ceramic tableware provided for in items 533.28, 533.38, 533.73, and 533.75 in Part I of Schedule XX to the GATT are further modified as set forth in the annex to this proclamation and in paragraph 3 hereof;

(2) In Subpart A of Part 2 of the Appendix to the TSUS, headnote 1 thereof and the provisions of items 923.01 through 923.15, inclusive, are modified as set forth in the annex to this



proclamation and in paragraph 3 hereof;

(3) The rates of duty in column numbered 1 of the annex hereto for articles provided for in items 923.01, 923.07, 923.13 and 923.15 are modified to read as follows:

: Rate of duty effective on and after--			
Item	:	:	:
	May 1, 1976	May 1, 1977	May 1, 1978
923.01	: 10¢ per dozen : pieces + 21% ad val.	: 8.5¢ per dozen : pieces + 17.5% ad val.	: 7¢ per dozen pieces : + 14% ad val.
923.07	: 10¢ per dozen : pieces + 21% ad val.	: 8.5¢ per dozen : pieces + 17.5% ad val.	: 7¢ per dozen pieces : + 14% ad val.
923.13	: 10¢ per dozen : pieces + 48% ad val.	: 8.5¢ per dozen : pieces + 39.5% ad val.	: 7¢ per dozen pieces : + 31% ad val.
923.15	: 10¢ per dozen : pieces + 55 % ad val.	: 8.5¢ per dozen : pieces + 47% ad. val.	: 7¢ per dozen pieces : + 38.5% ad val.

(4) The modifications of Part I of Schedule XX to the GATT and of the Appendix to the TSUS made by paragraphs (1), (2), (3) and the Appendix hereto, shall be effective as to articles entered, or withdrawn from warehouse, for consumption on and after May 1, 1976, and before the close of business April 30, 1979.

IN WITNESS WHEREOF, I have hereunto set  
my hand this            day of April in the year of  
our Lord nineteen hundred and seventy-six, and  
of the Independence of the United States of  
America the two hundredth.

GERALD R. FORD

## ANNEX

Item	Articles	Rates of Duty	
		1	2
	<p><u>Subpart A headnote:</u></p> <p>1. This subpart contains the temporary modifications of the provisions of the tariff schedules proclaimed by the President pursuant to the procedures prescribed in sections 301 and 351 or 352 of the Trade Expansion Act of 1962, and sections 201, 202, 203, and 406 of the Trade Act of 1974.</p> <p>Articles chiefly used for preparing, serving, or storing food or beverages, or food or beverage ingredients:</p> <p>Of fine-grained earthenware or of fine-grained stoneware:</p> <p>Available in specified sets:</p> <p>In any pattern for which the aggregate value of the articles listed in headnote 2(b) of subpart C, part 2 of schedule 5 is over \$12 but not over \$22 (provided for in item 533.28).....</p>		
923.01		10¢ per doz. pcs. + 21% ad val.	No change
923.07	<p>Cups valued over \$1.70 but not over \$3.10 per dozen; saucers valued over \$0.95 but not over \$1.75 per dozen; plates not over 9 inches in maximum diameter and valued over \$1.55 but not over \$2.85 per dozen; plates over 9 but not over 11 inches in maximum diameter and valued over \$2.65 but not over \$4.85 per dozen; and creamers, sugars, vegetable dishes or bowls, platters or chop dishes, butter dishes or trays, gravy boats or gravies and stands, any of the foregoing articles valued over \$3.40 but not over \$6.20 per dozen (provided for in item 533.38).....</p>	10¢ per doz. pcs. + 21% ad val.	No change
923.13	<p>Of nonbone chinaware or of subporcelain:</p> <p>Household ware:</p> <p>Cups valued not over \$1.35 per dozen; saucers valued not over \$0.90 per dozen; plates not over 9 inches in maximum diameter and valued not over \$1.30 per dozen; plates over 9 but not over 11 inches in maximum diameter and valued not over \$2.70 per dozen; and creamers, sugars, vegetable dishes or bowls, platters or chop dishes, butter dishes or trays, gravy boats or gravies and stands, any of the foregoing articles valued not over \$4.50 per dozen (provided for in item 533.73).....</p>	10¢ per doz. pcs. + 48% ad val.	No change
923.15	<p>Cups valued over \$1.35 but not over \$4 per dozen; saucers valued over \$0.90 but not over \$1.90 per dozen; plates not over 9 inches in maximum diameter and valued over \$1.30 but not over \$3.40 per dozen; plates over 9 but not over 11 inches in maximum diameter and valued over \$2.70 but not over \$6 per dozen; creamers, sugars, vegetable dishes or bowls, platters or chop dishes, butter dishes or trays, gravy boats or gravies and stands, any of the foregoing articles valued over \$4.50 but not over \$11.50 per dozen (provided for in item 533.75).....</p>	10¢ per doz. pcs. + 55% ad val.	No change