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INTERNATIONAL TRADE COMMISSION

[Investigation No. TA-201-44]

45 FR 85194

December 24, 1980

**Certain Motor Vehicles and Certain Chassis and Bodies
Report to the President**

TEXT: December 3, 1980.

Determination

On the basis of the information developed in the course of the investigation, the Commission has determined (Commissioners Moore and Bedell dissenting in part) n1 that automobile trucks, on-the-highway passenger automobiles, and bodies (including cabs) and chassis for automobile trucks, provided for in items 692.02, 692.03, 692.10, 692.11, 692.20, and 692.21 of the Tariff Schedules of the United States (TSUS), are not 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 industries producing articles like or directly competitive with the imported articles.

n1 Commissioners Moore and Bedell determined that on-the-highway passenger automobiles, provided for in items 692.10 and 692.11 of the Tariff Schedules of the United States, are 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 articles like or directly competitive with the imported articles.

Background

The Commission instituted the present investigation, No. TA-201-44, on June 30, 1980, following the receipt, on June 12, 1980, of a petition for import relief filed by the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW). The investigation was instituted pursuant to section 201(b)(1) of the Trade Act of 1974 (19 U.S.C. 2251(b)(1)) in order to determine whether --

automobile trucks (except automobile truck tractors and truck trailers imported together); on-the-highway passenger automobiles; and bodies (including cabs) and chassis for automobile trucks (except truck tractors); provided for in items 692.02 and 692.03; 692.10 and 692.11; and 692.20 and 692.21 of the TSUS;

are 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.

Views of Chairman Bill Alberger

Section 201(b) of the Trade Act of 1974 requires that each of the following conditions be met before an affirmative determination can be made:

(1) There are increased imports (either actual or relative to domestic production) of an article into the United States;

(2) The domestic industry producing an article like or directly competitive with the imported article is being seriously injured, or threatened with serious injury; and

(3) Such increased imports of an article are 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.

While I find the first two conditions met for both passenger automobiles and light trucks, I do not find the third to be satisfied, and therefore my determination with respect to these items is in the negative. Medium and heavy trucks do not satisfy the first criterion, and therefore also mandate a negative determination.

In analyzing the above criteria, it is first necessary to define the scope of the domestic industries against which each imported article should be assessed. The issue raised by petitioners of how to treat Canadian imports must then be resolved. Finally, it is possible to analyze whether imports of each particular article have increased within the meaning of the statute, whether the corresponding industry is being seriously injured and whether such increased imports constitute a substantial cause of such harm.

The Domestic Industry

This case raises a number of issues with respect to the scope of the industry or industries to be analyzed. The judgment of how to define an industry depends largely upon the nature of the imported products, the competitive conditions in the domestic market, and the nature of U.S. production. It is therefore difficult to rely exclusively on general legal prescriptions for ascertaining the appropriate industry definition; rather, each determination will necessarily depend heavily on our perceptions of the particular facts of each case. The definition of industry can have a major impact on the question of serious injury, however, and must be made with a clear understanding of both the statutory scheme and Commission precedent relating to the particular fact situation.

The language of section 201 is straightforward. It requires an examination of serious injury to "the domestic industry producing an article like or directly competitive with the imported article;"ⁿ² but as the Commission majority observed in our most recent ruling under section 201,ⁿ³ the problems attending the application of this language are substantial. Reasonable persons are bound

to differ on the ultimate issue of how to apply this seemingly simple phrase to a particular set of facts. This is especially true in the case of products as multifarious as automobiles and trucks. But the important thing to emphasize is that the definition of an industry under section 201 is based on precise legal standards, and may not necessarily coincide with the generic description everyone uses when they refer to "the auto industry."

n2 Trade Act of 1974, Section 201(b)(1), 19 U.S.C. 2251(b)(1).

n3 Mushrooms, Inv. TA-201-43, USITC Pub. 1089, Views of Chairman Alberger, Vice Chairman Calhoun and Commissioner Stern, 6-14 (1980).

The methodology which I believe to be appropriate for delimiting the relevant industries was fully described in TA-201-43 (Mushrooms). n4 Briefly stated, it is as follows:

n4 Id.

Since the phrase "like or directly competitive" is clearly expressed in the disjunctive, and since the adjectives "like" and "directly competitive" were not intended to be synonymous or explanatory of each other, n5 the escape clause may be invoked where either type of producers satisfies the statutory requirements of injury under section 201. Thus, our initial task is to draw distinctions where possible between the "like product" to the imported article (i.e., that which is "the same or nearly the same in inherent or intrinsic characteristics") n6 and those which are "directly competitive" with it (i.e., "substantially equivalent for commercial purposes, that is, * * * adapted to the same uses and * * * essentially interchangeable therefor"). n7 If these groups of producers can clearly be treated as separate and distinct industries in terms of production, sales, employment, etc., and if such action is consistent with the realities of the marketplace, then a showing of serious injury to either group (assuming increased imports were a substantial cause of such injury) will satisfy the criteria for relief and mandate an affirmative result.

n5 S. Rep. 93-1298, 93d Cong., 2d Sess., 121-22 (1974).

n6 Id. 7 Id.

Applying these principles to the facts at hand, I believe we are faced with three separate and distinct industries -- in essence any combination of groupings with respect to products either "like" or "directly competitive" with the imported articles yields only three possibilities. These industries could be defined as firms and facilities devoted to the production of (1) all passenger automobiles of the type classified under items 692.10 and 692.11 of the TSUS, (2) light trucks of under 10,000 lbs. gvw (of the type classified as automobile trucks under items 692.02 and 692.03 of the TSUS) and (3) medium and heavy trucks (also of the type classified under 692.02 and 692.03) but not truck tractors and trailers imported together, which we specifically excluded from the scope of our investigation. Since our report covers bodies (including chassis) for automobile trucks, it is also important to point out that we would consider domestic producers of these articles to fall within the same general industry definition (either light

trucks or medium/heavy trucks) as the assembled product. I reach this industry segmentation on the basis of the following rationale:

1. There is no persuasive basis on which to segment passenger automobiles into more than one industry, as requested by several importers. While there may be an endless variety of sizes and characteristics, there is no clear dividing line between "large autos" and "small autos" for example. Furthermore, all passenger automobiles have substantially similar uses, and there is certainly ample evidence that all are -- to a greater or lesser extent) directly competitive. While various government bodies, industry groups and trade publications do subdivide cars into different groups, these classifications are somewhat arbitrary and vary considerably.

2. Light trucks are inherently distinct from passenger vehicles in terms of their characteristics and principal uses. All types are, to some extent, able to carry substantial quantities of freight, materials or supplies. While many are also adapted to passenger transport, they are purchased by a wide variety of consumers for utilitarian purposes. I believe this is enough of a qualitative difference to make them unlike passenger vehicles. Moreover, there is insufficient evidence to conclude that they compete "directly" with passenger vehicles, although they are produced by the major auto manufacturers and sold through automobile dealerships.

3. Medium and heavy trucks, which are not the main focus of this investigation, are essentially distinct from either passenger vehicles or light trucks. The vast majority are commercial vehicles designed for specific commercial purposes. They are produced by a different group of firms and marketed separately (although the major auto companies do have heavy truck divisions).

The testimony and written submissions extensively discussed the question of whether large cars, small cars and various types of light trucks should be classified in separate industries. Some European importers even contend that their products are unique and do not compete with domestic products of any sort. The importers point to the great number of differences between "large" and "small" passenger vehicles. Most propose a classification based upon weight, size, engine specifications, wheelbase and other factors. They contend that it is logical to draw a line somewhere between "large" and "small" cars on this basis -- that the auto industry itself draws several classifications based upon these criteria. Furthermore, they purport to demonstrate through consumer surveys and other cross-elasticity studies how demand for these two basic vehicle types differs, thus suggesting that they are not "directly competitive."

I believe that the reasoning which would lead to a subdivision of passenger autos into two or more industries is flawed in many respects. First, the very uncertainty about where to draw the dividing line illustrates vividly that what really exists is a full continuum of products. There is an endless choice of sizes and features. The same basic car body can be given a larger engine and a few optional features, thereby transforming it into a substantially larger car than the

stripped-down model. Most domestic producers offer a "full line" of products, from subcompact to large and luxury cars, and all have a range of options that might change their classification. In reviewing the classification of "small" versus "large" autos suggested by one importer, n8 it becomes obvious that one can find more similarity between the largest small car and the smallest large car than between products at either end of the small car spectrum. n9

n8 Prehearing brief of Toyota Motor Sales, U.S.A., Inc., Exhibit 1.

n9 An example would be the Ford Granada, which is classified as a small car, but which is closer to the Dodge Diplomat -- a large car -- than it is to the subcompact Chevette in terms of size and gas mileage.

Another factor which militates against the segmentation of large and small cars is that all are designed as private vehicles for the principal purpose of transporting passengers. The fact that some might be faster, hold more passengers, or consume less fuel is not something which alters their basic similarity of uses.

Importers also seek to create meaningful distinctions between small and large cars in terms of competitiveness, arguing essentially that consumer surveys show a marked lack of direct competitiveness between these classes. There appears to be an inherent contradiction here, because the same parties cite the shift in demand from large to small cars as an important cause of injury. This shift merely demonstrates why these goods are "directly competitive." In essence, an increase in the cost of owning one size car -- brought on by rising fuel costs -- has led to increased demand for the other. This suggests a high degree of cross-elasticity. It is true that importers have focused primarily on the "small" end of the market while domestic producers previously seemed content with concentrating primarily on large autos, but this does not alter the fact that these products are "substantially equivalent for commercial purposes" and are "essentially interchangeable." n10 Both importers and domestic producers serve a single -- admittedly heterogeneous but nevertheless unitary -- domestic market.

n10 S. Rep. 93-1298, 93d Cong. 2d sess. 122 (1974).

A final argument in favor of treating passenger autos as one industry is the notion, referred to in our last decision, n11 that it is difficult to analyze profit and loss data, employment, costs and other factors on a model-by-model basis. While few production lines turn out more than one type of vehicle, some produce a particular type with different options that may lead to different classifications. As already noted, the major domestic firms produce a full line, and this leads to nightmarish problems in attempting to allocate profits, production costs and employment data (many of the executive and product development personnel work on both groups of products). Given that no other factors argue in favor of further segmentation, this practical difficulty merely emphasizes the inappropriateness of such a recommendation.

n11 Mushrooms, Inv. TA-201-43, USITC Pub. 1089 at 11 (1980).

With respect to trucks, I am not persuaded by the petitioners' arguments regarding the likeness of small trucks, vans and light utility vehicles to passenger automobiles. Not only do they differ from passenger autos in design shape and engineering, but most of these vehicles have as a primary use the transportation of materials. While they may also be used quite frequently for the sole purpose of carrying passengers, the capacity for use in carrying supplies or equipment is the obvious feature which prompts ordinary consumers to purchase a truck-like vehicle. A dealer with experience in truck sales acknowledged in our hearings that light trucks and passenger vehicles had little if any interchangeability. n12 Moreover, the record before us is insufficient to conclude that there is high cross-elasticity of demand between cars and light trucks or that the products are "commercially equivalent." Therefore, I cannot find them to be "like or directly competitive" with passenger autos.

n12 Hearing Transcript at 505-07.

Medium and heavy trucks are overwhelmingly used as commercial vehicles, sold through separate outlets and purchased by an entirely different class of consumers than light trucks. I find them to constitute a separate industry, although the precise scope and definition are not essential in this case because they are not alleged to be the recipient of any injury.

Increased Imports

Total U.S. imports of the types of motor vehicles included in the scope of this investigation increased substantially from 1975 through January-June 1980. From just over 2.4 million units in 1975, imports of those vehicles peaked in 1978 at just under 3.8 million units, but then declined to 3.6 million units in 1979. During January-June 1980 imports of all such vehicles were about 9.5 percent higher than the levels recorded in the corresponding period of 1979.

Trends in imports of both passenger automobiles and light trucks reveal an overall increase during 1975-79. Imports of passenger automobiles rose from just over 2 million units in 1975 to over 2.9 million units in 1978, an increase of 43 percent. In 1979 imports of passenger automobiles fell by about 4 percent from 1978 levels to about 2.8 million units. Imports of light trucks and cab/chassis increased from 374,609 in 1975 to a peak of 859,500 units in 1978, before falling by about 6.5 percent in 1979 to 803,700 units.

Comparison of U.S. imports of automobiles and light trucks and cab/chassis during January-September 1979 with the corresponding period of 1980 reveal similar trends for the two motor vehicles segments. Imports of passenger automobiles increased from 2.2 million units in January-September 1979 to 2.5 million units in the corresponding period of 1980 or by 13.6 percent. Imports of trucks and cab/chassis increased from 472,320 units during January-September of 1979 to 531,012 units in the corresponding period of 1980, or by 12.4 percent.

Clearly, imports of automobiles and light trucks (including cab chassis) are each increasing in terms of the statute. Imports of medium and heavy trucks, on the other hand, have declined significantly throughout the period of investigation, both absolutely and relative to domestic production. The market share of imports has steadily declined from about 18 percent in 1976 to below 8 percent in 1979. Thus, with respect to this industry, the first criterion is not met.

Serious Injury

To determine serious injury, Section 201(b)(2) of the Trade Act requires that "the Commission shall take into account all economic factors which it considers relevant, including (but not limited to) -- the significant idling of productive facilities in the industry, the inability of a significant number of firms to operate at a reasonable level of profit, and significant unemployment or underemployment within the industry. We have also considered the decline in domestic sales and the increases in inventories.

There can be little argument that the two domestic industries under primary investigation (passenger autos and light trucks) manifest serious injury when all of these factors are analyzed. While most importers argued that only the "large car" segment is being injured, the facts and testimony before us overwhelmingly demonstrate that the passenger automobile industry in the aggregate is in serious difficulty. Data for light truck production yields a similar analysis. The injury which I find to exist commenced in early 1979, but has become most pronounced in the first six months of 1980. When this latter period is examined, the declines in production, employment, profitability and sales are devastating. While sales have rebounded slightly in the most recent quarter, third quarter losses are reported to be of record proportions. Thus, I find both industries to be suffering "serious injury" within the meaning of the statute. The following facts lend support to this finding:

In the aggregate most of the indices of the U.S. automobile producers' performance during the period of investigation reveal a healthy picture from 1976 through 1978 and rapidly declining trends thereafter. Domestic production of passenger automobiles reached a peak of slightly over 9.1 million units in 1978, but by 1979 production had declined to 8.4 million units and continued to decline during January-June 1980. Domestic production of light trucks declined from 3.3 million units in 1978 to 2.7 million units in 1979, or by 17 percent, and further declined by 60 percent in January-June 1980. Domestic sales, as reflected in data on total shipments, followed the trends in production -- increasing substantially until 1978 and then declining. The decline in shipments for passenger autos was almost entirely due to the drop in sales of large cars. Subcompact and compact car shipments actually increased throughout 1979-80.

Trends in domestic capacity to produce passenger automobiles as compared to those for light trucks differed somewhat during the period of investigation. Domestic capacity to produce passenger automobiles of all sizes fluctuated very

little from 1975 through January-June 1980. Capacity to produce automobiles increased slightly from 10.7 million units in 1975 to a peak of 10.8 million units in 1977, but then declined slightly in every period through the first half of 1980. During the period of investigation there were notable shifts in capacity to produce different sizes of automobiles. The capacity of domestic producers to build larger-size cars declined, while their ability to produce smaller-size cars, especially subcompacts, increased in response to the shift in demand toward smaller, more fuel-efficient cars. Domestic capacity to produce light trucks increased steadily from 2.7 million units in 1975 to 3.2 million units in 1979. However, during January-June 1980, capacity to produce such vehicles declined by about 9.3 percent from the corresponding period of 1979.

Capacity utilization figures indicate significant idling of productive facilities during the period of investigation. Utilization of domestic capacity to produce passenger automobiles reached a high of 86.2 percent in 1978, declined to 79.5 percent in 1979, and continued to fall to 66.5 percent during January-June 1980. Utilization of domestic capacity to produce light trucks followed a trend similar to that for automobiles, but the downturn in utilization of light truck facilities after 1977 is even more pronounced than for automobiles. Capacity utilization of domestic light truck facilities was over 100 percent as recently as 1977, but by January-June 1980 had dropped markedly to 41.5 percent.

Since most U.S. producers do not maintain inventories, it is necessary to look at dealers' inventories of new vehicles if this factor is to be assessed. While the absolute figures do not reveal any particular trend, the ratio of inventories to annual shipments has been increasing since 1978. This is particularly true of large cars, the vehicles which cost the most to carry on inventory because of their higher sales prices.

Financial data provided by domestic firms clearly reveal the inability of a significant number of firms to operate at a reasonable level of profit. From 1978 to 1979, the net operating profit for U.S. producers on their U.S. automotive operations fell by 76 percent from \$5.6 billion to \$1.3 billion, and continued to fall to a net loss of \$2.9 billion in January-June 1980. The major losses recorded in these recent periods are indicative of the financial status of most of the producers of passenger automobiles and light trucks. During January-June 1980 the only U.S. producer to report a profit was Volkswagen of America. The declining financial position of the U.S. motor vehicle manufacturers is also revealed in the substantial drop in cash flow. U.S. producers' cash flow from operations declined from \$8.9 billion in 1978 to \$5.1 billion in 1979, and then to a negative \$356 million in January-June 1980.

Similarly, employment patterns declined during 1979 and the first half of 1980. The average number of all employees in U.S. establishments producing passenger automobiles and light trucks declined from 1,003,430 in 1978 to 971,929 in 1979 and then in January-June 1980 declined again by about 22 percent below the level recorded for the corresponding period of 1979. Other employment indices, including the average number of production workers, man-hours worked, and output per 1,000 man-hours, mirror trends for all employees.

In April 1980, the U.S. Department of Transportation issued projections of employment changes in the auto industry based on several assumptions, including peak consumption levels of 11 million units per year, employment levels reached in 1978/79, and a return to a 15 percent import penetration level. Based on these assumptions, the report indicates that a decline in employment of auto manufacturers due to productivity gains could be as great as 150,000 by 1985. Employment gains of about 48,000 jobs due to changes in the market by 1985 offset somewhat the 150,000 loss related to increased productivity, indicating a total projected decline in employment resulting from both productivity gains and changes in the market of about 100,000 from 1978/79 levels. Thus, with increased demand for automobiles and light trucks and substantially reduced imports, employment in these industries would still not return to previous levels.

There is no doubt that both the passenger automobile and light truck industries are seriously injured.

Substantial Cause

While I find the domestic industries producing passenger automobiles and light trucks to be suffering serious injury within the meaning of Section 201(b)(1), I do not find that increased imports are a substantial cause of such injury. The statute defines the term "substantial cause" as "a cause which is important and not less than any other cause." n 23 Applying this test, I have found the decline in demand for new automobiles and light trucks owing to the general recessionary conditions in the United States economy to be a far greater cause of the domestic industries' plight than the increase in imports. While I also believe that the rapid change in product mix necessitated by the shift of consumer preference away from large, less fuel-efficient vehicles is an important cause of the present injury, I do not view this factor to be a more important cause than increased imports.

n 23 Trade Act of 1975, Section 201(b)(4), 19 U.S.C. 2251(b)(4).

The Decline in Overall Demand

One noticeable factor in this case is the apparent lack of correlation between the growth in import volume and the state of health of domestic producers. Our investigation reveals that the period 1976-78 was characterized by strong domestic sales and record profits. n24 Yet it was during this period that the largest increase in total imports occurred. (Passenger automobile imports increased from 2 million units in 1975 to 2.9 million in 1978, while light truck imports grew from 375,000 in 1975 to 859 in 1978.) Imports actually declined in 1979, when the recession began in earnest. Even Japanese imports grew most dramatically in the prior period, and remained about steady in 1979. While Japanese imports have increased by a more alarming rate in the first 6 months of 1980 (by about 200,000 units over the comparable period of 1979), imports from other sources have declined. This juxtaposition of events becomes even more curious when we consider the testimony of petitioners that the injury began in

early 1979 and has deepened over the past 18 months. n25 Given the relatively slight import growth in that period, and considering how healthy the monthly sales figures were before 1979, one obviously begins to look for other explanations of the current injury.

n 24 This fact was essentially acknowledged by domestic industry representatives during the hearing.

n 25 Hearing transcript at 124-125, 177-78,

One figure that stands out in stark contrast to the rather marginal import increases for 1979-80 is the very large decline in overall consumption of both passenger autos and light trucks. Consumption of passenger autos fell by almost 1 million units in 1979, a decline of 7.8 percent. Moreover, consumption in January-June 1980 was 1.1 million units or 18.5 percent below the figure for January-June 1979. For light trucks the decline in 1980 was over 700,000 units or 19.3 percent, and the January-June 1980 figure was 47 percent below the comparable figure in 1979. It is therefore clear that domestic producers faced seriously declining demand in the period January 1979-June 1980. While imports did improve their market share substantially during this period by maintaining constant or slightly increasing volume in the face of falling demand, the downturn in demand itself is obviously a variable factor which must be independently assessed for its impact on U.S. producers.

At the most fundamental level, then, it is useful to allocate the decline in domestic producers' shipments in 1979 and 1980 into two basic components: that portion accounted for by the reduced overall consumption of autos and light trucks because of general economic conditions, and that portion attributable to the increasing market share of import vehicles. The relative magnitude of these two causes can be assessed by comparing the actual decline in domestic shipments to the decline that might have occurred if imports had not increased their market share in 1979-80, i.e., if imports and domestic vehicles had shared equally in the overall decline in sales. The difference between these two figures represents the maximum potential loss in sales due to increased imports. This amount can then be compared to the volume of loss attributable solely to reduced demand. The following tables, based upon data available in the Commission's report, reveal the results of this exercise...

TABLE 1. -- Passenger Automobiles: U.S. Apparent Consumption, U.S. Producers' Domestic Shipments, Imports for Consumption, Imports' Share of Consumption, 1978 and 1979, and Relative Increases or Declines in Imports and Producers' Shipments in 1979, if the Share of Imports Is Held Constant at the 1978 Level

Item	1978	1979
Actual 1978 and 1979 data:		
Apparent consumption -- 1,000 units	11,185.0	10,315.3
U.S. producers' domestic shipments -- 1,000 units	8,256.9	7,518.2
Imports for consumption -- 1,000 units	2,928.1	2,797.1
Ratio of imports to consumption -- percent	26.2	27.1
Estimated data for 1979, holding import share of consumption constant at 1978 level and using actual 1979 consumption data:		
Imports, if held at 1978 share of consumption -- 1,000 units	(1)	2,702.6
U.S. producers' domestic shipments, if held at 1978 share of consumption -- 1,000 units	(1)	7,612.7
Net change from 1978 to 1979:		
Total actual decline in U.S. producer's shipments -- 1,000 units	(1)	738.7
Net decline due to increasing import share -- 1,000 units	(1)	94.5
Net decline due to declining demand -- 1,000 units	(1)	644.2
Share of declining shipments due to declining demand -- percent	(1)	87.2

1 Not applicable.

Source: Compiled from data presented in table 19 of the staff report.

[Tables 2, 3 and 4 showing the decline in demand for the six-month period of January-June 1979 and 1980 and the decline in demand for light trucks are omitted.]

I believe that these tables demonstrate graphically why imports are not a "substantial cause" of either industry's present malaise. They suggest that declining demand accounted for over 80 percent of the net decline in U.S. producers' domestic shipments of both automobiles and trucks from 1978 to 1979, as compared with less than 20 percent of the decline in U.S. producers' domestic shipments being attributable to imports' increasing share of U.S. consumption. Between January-June 1979 and January-June 1980, about two-thirds of the decline in U.S. producers' domestic shipments was attributable to declining demand and only a third was due to the increased share of the U.S. market accounted for by imports. Thus, even if the import share had been held constant during these critical 18 months, and even if all of those sales which went into the increased import share had instead gone to U.S. producers, domestic firms' sales still would have fallen by over 80 percent of their actual decline in 1979 and by over 60 percent of their actual decline in January-June 1980. While the legislative history cautions against the application of a pure mathematical test, it is necessary to assess the relative impact of these factors, and I think these percentages reveal why one is so overwhelmingly greater than the other.

The Shift in Demand

A general understanding of how purchasers are reacting to changes in the marketplace is helpful in assessing the significance of the shift in demand and Detroit's reaction to it. With the high cost of new cars and high interest rates seriously affecting consumer confidence, it appears that a number of would-be purchasers are keeping their vehicles longer. This is verified by our information regarding the average age of motor vehicles. n27 Such data shows a substantial change in buying habits from the days when trade-ins were encouraged every 2 or 3 years. At the same time, the rising cost of fuel creates a shift in demand, so that consumers who do have the economic means to make purchases want a more fuel-efficient model. Some consumers perhaps see the rapid improvements in fuel economy and decide to delay purchases another year or two until their favorite models have substantially better mileage ratings. In short, the rapid changes in product mix may be creating some of the buying uncertainty. The shift to smaller cars also affects the trade-in value of used cars, which in turn increases the cost of purchasing a new model. All of these problems result in a general reluctance to enter the market until prices and credit rates stabilize, general economic conditions improve, and buyers become convinced that the new generation of products are sufficiently fuel-efficient and well made.

n27 Prehearing Report to the Commission and Parties, issued September 10, 1980, at A-134.

This theory of consumer behavior explains much of the current recessionary difficulty, but it also raises the inevitable question of whether shift in demand to

smaller cars is itself a more important cause of serious injury than increased imports. The facts speak for themselves about the size of this change in consumer preference. n28 One of the difficulties in assessing such a factor quantitatively is that it is inextricably bound together with the increase in imports. While a shift from big to small is conceptually different than a change from domestic to imported, the fact is that two-thirds of the recent increase in small car sales has accrued to the benefit of importers. Ultimately, one becomes involved in a tautological debate about whether increased imports of small cars are an effect of the shift in demand or the explanation for it. Thus, it is only possible to make certain qualitative judgments about the shifting product mix within the domestic industry itself.

n28 Infra A-70 through A-71.

Ordinarily, the shift to another product within the same industry should not necessarily be injurious to that industry. However, the lead times associated with introducing new models and the magnitude of capital investments required make the auto industry unique. In order to be able to accommodate a shift, they must anticipate it by 3 to 5 years. Industry estimates of the need to alter production between 1975 and 1980 did not accurately predict how fast Americans would abandon their large cars. Due largely to unforeseen events such as the Iranian revolution and subsequent oil shortage, and because of the lead-time problem associated with auto production, U.S. producers' plans for expanding small car output lagged far behind the market and its needs. In fact, Ford Motor Co. had made a conscious decision not to downsize its entire fleet as far back as 1976, and instead concentrated on creating the entirely new Escort/Lynx model. Thus, Ford found itself with little flexibility to expand small car production when market forces changed, and in addition found itself needing to accelerate capital expenditures and squeeze them into a shorter time-frame in order to react to sweeping changes in consumer preference. Chrysler found itself in much the same situation, but it received substantial Federal support which helped to offset some of its capital expenditures. Moreover, its small car plans were further along than Ford's, although Chrysler still had excess large car capacity. Only General Motors, with superior capital resources, was in a position to face the trend toward smaller cars. Its downsizing was well along, and it had substantial numbers of small car models in production.

Clearly then, the rapid transition to smaller autos and trucks disturbed U.S. producers' plans for a slow, orderly transition. They had hoped to finance their plans for new, fuel-efficient models through the profits on large autos. Without these profits being generated, they found themselves incurring huge capital costs when they could least afford them. Our investigation also reveals that the profit margin on small cars has traditionally been much less, so the industry found itself shifting into a product line which resulted in a lower ratio of net profits to sales. Yet they were not producing such models on sufficient economies of scale to yield the type of profits that sales of large cars -- loaded with expensive "extras" - - could produce.

Finally, there may be some implication from the record in this investigation that we should give greater weight to the shift in demand as a cause because the industry brought injury upon itself by refusing to recognize in a timely manner the long-term change in consumer preference away from "gas guzzlers." This "self inflicted injury" theory has superficial appeal. It appears to be popular among a large segment of the public. However, it ignores the fact that large car sales were exceedingly healthy in the period 1976-78. Events such as the revolution in Iran and the sudden changes in our Nation's energy policy after decades of price regulation are what disturbed the pattern. The auto producers now see the inevitability of the future and are adjusting to meet it, but I cannot find their own management misjudgments or lack of planning to be superseding causes of injury. The long-standing obsession in the United States with large automobiles has many explanations. It resulted in large part from Federal price controls that held the price of gasoline at a fraction of the world price, a federally funded highway system that encouraged use of large, comfortable vehicles, and a national affluence that led us to lose sight of our true resource limitations. After the initial scare of gasoline lines and shortages in 1974, the American consumer flirted with a shift to small cars. The Government considered higher gasoline taxes, tough fuel economy standards and an overall national energy policy. Most logical steps were deferred, and the average American consumer went back to demanding large, fuel-inefficient vehicles. The auto companies had shifted some production to smaller cars, but were forced to use large rebates to sell many of those models in the face of a quick shift in consumer tastes back to larger cars. Thus, the auto industry has had considerable difficulty in judging fickle consumers wishes. While it is possible to criticize the auto industry for a lack of total commitment in advertising and merchandising of smaller cars or a failure to recognize the inevitable long term consequences of energy scarcity, the fact remains that the American consumer was not ready for the change until 1979. When gas prices abruptly doubled to beyond the magic \$1.00 per gallon barrier and long lines returned, the average consumer reacted. Sales of big cars plummeted. Sales of small cars increased, but not in sufficient quantities to approach the decline in large car sales. This time everyone seems to agree that fuel efficiency has become one of the most important criteria for potential car buyers, and will probably remain so.

Summary

I find the overall decline in consumption brought about by the current recession to be a greater cause of serious injury than increased imports. I also find that the shift in consumer demand is an important cause of the present injury, but it is not in and of itself a greater cause than the relative import increase. Increased imports made it difficult for U.S. firms to conduct the transition to smaller vehicles, thus impairing their competitiveness and inhibiting a faster shift to meet changing demand. But by far the greatest explanation of the damage suffered in the past 18 months has been the recession itself. Without it, there would be no serious injury today.
