consumer in the short-run). Given a limited quantity of footwear that can be entered by any country at under-quota rates of duty (existing tariff rates), exporting countries will tend to upgrade the value of merchandise shipped to the extent possible. The impact at the lowest end of the price scale could be particularly hard on lower income families. This effect can be dampened by dividing import shares by price category.

Last year's task force used three price breaks in its options. However, consideration could be given to adjusting the brackets upward.

In a five year TRQ, consideration should also be given to provision for revising the price breaks during the relief period to minimize distortion of the trade pattern. For example, price increases of the magnitude experienced in the past five years could shift a significant amount of footwear to a higher value bracket. If the TRQ in that value bracket was already tight, entries would either increase at the over quota rate or total imports would decline, in either event increasing the protective impact.

4. Allocation by products

The industry would prefer a TRQ based on a number of categories, but at a minimum having separate quotas for leather and vinyl (plastics). The purpose would be to prevent large shifts in the trade pattern which would be injurious to U.S. leather footwear production. Such a variation could be considered but it would add to the rigidity of the tariff rate quota and its cost to consumers.

5. Phase down (and growth)

Section 203(h)(2) provides that, to the extent feasible, any import relief provided for more than three years shall be phased down during the relief period, starting no later than the end of the third year. The requirements of this provision could be met by reducing the over-quota rate and/or allowing for growth by raising the level of the TRQ during the relief period. A phase down of the amount of relief given has the advantage of increasing the industry's incentive to take adjustment measures in the early part of the period and thus avoid a large, abrupt decrease in protection when relief terminates.

(a) Growth - Growth can be provided in a number of ways. A flat rate of growth can be granted -- for example, five percent a year for all countries. This would be nondiscriminatory in form, but would penalize newer suppliers. This would also result in (1) an accelerated growth of the import share of the market, if U.S. consumption does not increase as rapidly, or (2) increased protection if the domestic market grows more rapidly. Differential growth could also be provided to supplying countries on the basis of their historical growth patterns. Such an approach would be consistent with the requirements of GATT Article XIII. It would provide equity for current suppliers, as well as having consumer benefits, although it would be less protective in effect, and would not provide for new entrants.

Growth rates taking into account the different patterns of growth in exports from individual countries could be the subject of negotiation.

countries which would leave a negligible "all other" category. Illustrative options include the Commission allocation base (1974), shares based on the 1974-76 average, and the 1976 distribution of imports. The decision as to allocation depends upon the weight deemed desirable to give to established suppliers as compared with new comers, mainly LDCs, keeping in mind compensation (or retaliation) implications.

Another possibility would be to provide country allocations for suppliers who shipped above say, one percent of consumption in the base period. Countries not receiving an allocation would then be allowed to ship up to the one percent of consumption before the over quota rate was triggered. This variation, while helpful to some of the newer suppliers, does not conform to GATT rules and could therefore be challenged as discriminatory. In addition, adoption of this variation at this time could prejudice our position in the MTN Safeguards Group.

Five countries (Taiwan, EC, Korea, Spain, Brazil) supplied 86 percent of MFN imports in 1976 and 84 percent in 1974. Compensation would probably be minimized if shares were allocated on the 1976 pattern with a provision for growth (after an initial period) based on recent experience. Such a system should be acceptable to Italy (or the EC), whose trade is declining, and should placate somewhat both established and new LDC suppliers who could be better off than under the USITC formula.

The percentage distribution of MFN trade

	1976	1975-76	1974-76	1974
EC	14.4%	17.5	20.0	26.0
of which Italy	(12.8)	(15.5)	(17.8)	(23.6)
Spain	10.5	11.8	12.2	13.2
Taiwan	42.3	39.6	37.8	33.3
Brazil	7.2	8.1	8.1	8.0
Korea	12.0	9.2	7.5	3.5
Other*	13.6	13.8	14.4	16.0
Total	100.0	100.0	100.0	100.0

* Includes over 50 countries, of which Mexico, Poland, Greece, India, Hong Kong and Japan had between one and two percent of the total and Romania, Yugoslavia, Canada and Uruguay between 0.5 and one percent of the total in 1976.

3. Price breaks

The inclusion of price breaks has two effects, one benefitting the consumer and one increasing the protection given (and therefore harming the