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“When the shoe is on the other foot”

- A study of antidumping procedures and effects on EU imported footwear.

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Abstract

Antidumping is a burning topic that has been lively debated lately. The usage of antidumping has enhanced during the past decade and affects the trade flow between countries. In this thesis antidumping procedures are investigated and effects on antidumping measures are analysed and discussed. All antidumping targeted footwear has been included in the investigation. The products originate from China, Indonesia Thailand, Vietnam and India. The findings of the analysis comply with expected effects in regards to decreasing imports and increasing prices. However, there is no compliance concerning the expected effects of trade diversion. Earlier research supports the idea of domestic producers gaining a larger market share while our study suggests that third countries benefit more.

Keywords: Dumping, Antidumping, Footwear, EU, Asia

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Abbreviations

AD	Antidumping
ATC	Agreement on Textiles and Clothing
CN	Combined Nomenclature
CEC	European Confederation of the Footwear Industry
EC	European Commission
EU	European Union
Eurostat	EU's statistical database
FDI	Foreign Direct Investment
FMI	Footwear Manufacturing Industry
GATT	General Agreement of Tariffs and Trade
ITC	International Trade Commission
MFA	Multi Fiber Agreement
OECD	Organization for Economic Co-operation and Development
WTO	World Trade Organization

1 Introduction

Trade barriers have been lively discussed on the international scene lately and are one reason for the prevailing disagreement between industrialized and developing countries. Antidumping is an example of a trade barrier that has become more frequently used during the past decades and the effect it has on trade flows between countries worldwide is subject for analysis. This thesis is an extension of our bachelor's thesis where we analysed antidumping procedures concerning bicycles imported by the EU from various Asian countries. Our bachelor thesis included a more thorough account of the dumping and antidumping procedures while more emphasis has been put on analysing the effects of antidumping procedures in this thesis.

The purpose with this thesis is to give an account of the European Union's antidumping actions imposed on Asian footwear producers and to observe what effects they have on imported quantity, price and trade diversion during the different stages of an antidumping investigation. The countries included in our analysis are; China, Indonesia, Thailand, Vietnam and India, which constitute a large market share of European footwear imports. In regards to footwear, these are the only countries that have been subjected to antidumping investigations.

We delimit our study to merely analyse effects concerning quantity and price changes as well as trade diversion effects on antidumping targeted footwear. The data regarding the products targeted are accessible at the Eurostat database and analysed at an eight digit disaggregated level according to the Eurostat CN-number classification.

Chapter 2 introduces dumping and antidumping and a selection of theory concerning possible effects of its usage. An overview of the footwear manufacturing industry in the EU is presented in chapter 3. In chapter 4, the antidumping cases are described and in chapter 5 we analyse data in order to detect changes of imported quantity, price and trade diversion. This thesis is ultimately reflected on in chapter 7.

2 Dumping and Antidumping – definition and effects

2.1 Dumping

According to the World Trade Organisation (WTO), the definition of dumping is when “a company exports a product at a price lower than the price it normally charges on its own home market”.¹

In order to determine whether a product has been dumped, a set of rules regarding the investigation has to be followed. In the European Union (EU) this is carried out by the European Commission (EC). The first step is to determine a “normal value” which is the comparing price paid by the independent consumer in the exporting country. In the case when the normal value does not exist one will be established based on prices of production in an analogue country or calculated based on the cost of production and other variables such as general and administrative expenses and a reasonable profit. The normal value will then be compared to the “export price” which is the price actually paid, when the product is sold for export to an independent customer in the importing country. In the case where the export price is not reliable, it can be constructed. If the normal value exceeds the export price, dumping is confirmed and the difference is the dumping margin. The dumping margin can possibly result in an antidumping (AD) tariff charged on dumped products. In some cases there might be a minimum price imposed, which determines the lowest price level on the imported product. However, the practice of minimum pricing is not frequently used within the EU in comparison to for example the US where it is more commonly used. Confirming a dumping margin however, is not sufficient for imposing an AD-tariff. Additionally there has to be evidence of the dumped product causing or threatening to cause injury to domestic industry. Within the EU, community interest also has to be considered, when an investigation is carried out. This generally includes consumers, retailers and importers.² Investigations shall, except in special

¹ WTO, http://www.wto.org/english/tratop_e/adp_e/adp_e.htm 2006-05-03

² EU, <http://www.europa.eu.int/scadplus/leg/en/lvb/r11005.htm> 2006-05-03

circumstances, be concluded within one year and in no case more than 18 months after their initiation.³

2.2 Antidumping

AD is a counteractive measure against dumped imports and can consist of a tariff equivalent to the dumping margin or the injury margin. Another alternative is the price undertaking or minimum pricing explained in chapter 2.1. AD-measures are effective because they can be applied more or less immediately when dumping and injury have been determined by the EC. The provisional AD-tariff will be definite when the investigation is closed and facts have finally established that dumping and an injury on domestic industry have occurred. Definite duties will thereafter be in force for a limited time period in accordance with the “sunset clause”. The sunset clause implies that duties are imposed for a maximum of five years unless new evidence support prolonged AD-measures.⁴

WTO supervises the use of AD-measures and the AD-agreement is regulated in the General Agreement of Tariffs and Trade (GATT) article VI (1994). Antidumping was initially discussed during the late 1960s but the increasing use of antidumping policies has urged a more serious approach and better defined agreements.⁵

2.3 Effects of Antidumping measures

The effects of AD-measures can be divided into two main effects: quantity and price effects. The trade diversion effect is included in the quantity section. We also give an account of relocating effects related to AD-measures.

2.3.1 Quantity effects

There are two expected effects of AD-measures on imported quantity:

1. A decrease of dumped imports from the AD-targeted country.

³ WTO, http://www.wto.org/english/docs_e/legal_e/19-adp_01_e.htm 2006-05-03

⁴ EU, <http://www.europa.eu.int/scadplus/leg/en/lvb/r11005.htm> 2006-05-03

⁵ Hoekman and Kostecki (2001) s 315-316

- According to an empirical study of trade statistics from the EU (Messerlin, 1989) the imported quantity from a targeted country decreases when AD-measures are imposed. The same result emerged in a study implemented by the International Trade Commission (ITC) in 1995.⁶

2. Trade diversion with substitutable imports from a third country or increased domestic market share.

- Consumers still want to consume the AD-enforced product but at the lowest available price. If exports from other countries are cheaper than domestic products, trade patterns will change and trade diversion occurs. Actual prices are highly related to the size of imposed tariffs. Research that focuses on European trade data shows that three years after imposing AD-measures, the imports from targeted countries have decreased on average with approximately 60 % and at the same time the imports from third countries have increased by about 40 %.⁷

2.3.2 Price effects

The expected price effects as a result of AD-measures on foreign imports are rises in domestic prices irrespective of type of competition assumed (Helpman and Krugman, 1989). Raised prices occur at the import stage but will be transferred to the end consumer (Tharakan, 1988 and Messerlin, 1989). Studies by Veugelers and Vandebussche (1999) and Zanardi (2004) also point out that AD-protection can result in collusive outcomes with higher prices in the domestic market for both domestic and foreign firms involved in the AD-case.

There has been a number of studies concerning and analyzing price effects during different stages of an AD-process. One price effect is the increased mark-up of domestically produced goods when domestic industry is protected by AD-measures. Increased domestic mark-ups have been analysed in a study by Konings and Vandebussche (2005), where the authors conclude that domestic firms do not

⁶ Tharakan (1999) p 185-186

⁷ Lasagni (2000) p 148-149

increase their mark-ups until the definite AD-duty is imposed and in the cases where no duties are imposed mark-ups will not occur. These results are contradictory to the findings presented by Messerlin and Reed (1995) and Lasagni (2000) which state that increased mark-ups occur even though AD-duties are not imposed. There can on the other hand be dampening effects on mark-ups in the existence of import diversion from a dumping country to a non-dumping country, domestic entry and/or inward foreign direct investment (FDI).

The relation between changes in price and quantity is not as straight forward when price undertakings are negotiated. These deviations from the standard result of trade creation are due to more customized solutions between the EU and the targeted company. These solutions differ mainly because the conditions and time of agreements are individual. One more reason for unclear effects on price and quantity is the fact that companies sometimes tend to co-operate in cartels in order to further raise prices and profits.⁸

2.3.3 Relocating effects

Increased globalization has encouraged international enterprises to relocate production from the EU to low-cost countries. The main incentives behind this relocation are low wages and low prices of essential components in the production. This general approach is also applicable when it comes to Footwear Manufacturing Industry (FMI).

A foreign industry can have advantages in production compared to a domestic industry. These can be divided into two groups: firm specific and location specific advantages. Firm specific advantages are usually related to technology knowledge that makes the product or production superior to others and location specific advantages are benefits in production like low cost labour. If a foreign company is threatened by AD-measures it can relocate its production to the EU (FDI) in order to avoid the AD-tariffs, a cause of action commonly known as anti-dumping jumping. This is in theory only possible for firms with firm specific advantages because they have an advantage in technology that they can easily transfer when relocating production. This will not be possible for a firm with location specific advantages because they can not bring their

⁸ Lasagni (2000) p 150-151

advantages, i.e. low-cost labour, when relocating their production to the EU. If they would have to employ European workers the costs would be higher and they would lose their advantage in production. The conditions for this cause of action are that the fixed cost for setting up production in the EU is not too high.⁹

Many international firms in the FMI have invested in Asian countries, especially China, in order to exploit the cheap labour costs and the natural resources used for production. These firms will gain from emerging Chinese- and other Asian economies in progress. The abundant labour force and the large supply/production of basic materials used in footwear production have made China extremely competitive in the FMI.¹⁰ The impressive size of the Chinese market and the politics of Chinese leaders have contributed to the establishment of sales subsidiaries and joint ventures with domestic firms. Chinese leaders have made sure that foreign firms have invested in infrastructure and in education of Chinese workers as well as including Chinese firms in the production process.¹¹

As China has location specific advantages in textile and footwear production it is suggestive that Chinese firms will not benefit from relocating their production to the EU but it has recently been noticed in the media that Chinese textile firms have been using Chinese workers in their textile production in Europe. Prata, in Toscana, Italy, is a traditional area for Italian textile industry and about 300 Chinese textile manufacturers are located there. Approximately 13000 Chinese people live and work in the area, many in poor conditions. The firms have been accused of using illegal and under-aged workers and the wages are very low. The result is that these Chinese firms offer textiles labelled “Made in Italy” but priced as “Made in China”.¹²

⁹ Belderbos et al (2004) p 431-432

¹⁰ European Competitiveness Report (2004) p 261

¹¹ European Competitiveness Report (2004) p 270

¹² Lisinski (2006)

3 Footwear Manufacturing Industry in the EU

3.1 Definition

The footwear manufacturing industry is diverse in the way that a wide variety of different materials, such as leather, rubber, plastics and textiles, are used when manufacturing the final product. The final product can be very specialized and due to the fact that there are both seasonal and fashionable changes in the footwear design no significant supplies are kept. In statistics, footwear is categorized in many subgroups due to the complexity of the product. The main group for footwear, gaiters and parts of such articles is registered in chapter 64 according to the Harmonized System which is used by both OECD and Eurostat. Chapter 64 is the Combined Nomenclature (CN) for footwear which is divided into subgroups with added digits depending on its degree of specific details. These product codes will be of importance when viewing the different AD-cases. The subgroups up to four digits are listed here:

- *6401* waterproof footwear.
- *6402* footwear made out of rubber or plastic.
- *6403* footwear with outer soles of rubber, plastics, leather/comp leather and uppers of leather.
- *6404* footwear with outer soles of rubber, plastics, leather/comp leather and uppers of textile material.
- *6405* footwear with outer soles of rubber, plastics, leather/comp leather and with uppers other than rubber, plastics, leather/comp leather or textile materials.
Footwear with outer soles of leather/comp leather and with uppers other than leather or textile materials.
Footwear with outer soles of wood, cork, twine, paperboard, furskin, woven fabrics, felt, linoleum, raffia, straw, loofah etc. and uppers of any type of material.
- *6406* parts of footwear

3.2 Location and Employment

The footwear production is located throughout the world but is especially strong in Europe, Pacific-Asia, the USA, Canada, Brazil, Mexico and South Africa. In this paper we define EU as EU-25 during the ten year period that we analyse, with no consideration to when new members entered the EU. An example, Poland and the Czech Republic are considered as part of the EU during the whole period. The total number of workers employed in the FMI is presented in table 3.1.

Table 3.1 Data for total EU-25

	1999	2000	2001	2002	2003	% change 99 - 03
Number of firms	33350	32323	29957	29363	27371	-22 %
Direct Employment	449180	419693	397975	383726	361662	-24 %

Source: Eurostat

Europe has an old tradition in shoe manufacturing and the structure of the industry is characterized by a large number of small enterprises employing only few people. Most enterprises are located in areas with low industrial diversity and an average size firm employs about 13 workers. There are larger firms located in France and Germany employing about 100 workers each but most firms are located in Spain and Italy, each employing merely a dozen of workers.¹³ In 2003, the FMI accounted for 0.91 % of the total employment in the EU manufacturing industry.¹⁴ In table 3.2 figures represent the average number of firms and average number of workers employed in the industry during 1996-1999 and 2000-2003.

Table 3.2 Number of firms and employed in the FMI

	Firms			Employment		
	96-99	00-03	% change	96-99	00-03	% change
Czech Rep.	331	354	7%	19486	11453	-70%
France	681	558	-22%	30480	22657	-35%
Italy	15047	13123	-15%	153123	133047	-15%
Poland	7476	5055	-48%	54468	34077	-60%
Portugal	2787	2713	-3%	69608	59843	-16%
Spain	4985	4835	-3%	54961	49004	-12%
UK	490	358	-37%	22016	9795	-125%

Source: Eurostat

¹³ EU, www.europa.eu.int/comm/enterprise/footwear/development.htm 2006-05-08

¹⁴ EU, http://europa.eu.int/comm/enterprise/footwear/index_en.htm 2006-05-11

The largest footwear producing countries in the EU are listed in table 3.2. Italy has the largest number of firms followed by Spain and Portugal. All countries have experienced a decrease in the total number of firms during the period from 1996 to 2003. Spain has the lowest decrease of 3 % and Poland the largest decrease of 48 % (1996-2002). The Czech Republic is the only country with increasing number of firms (7 %) but the number of workers has decreased by as much as 70 %. According to Czech economists this decline in the workforce is mainly due to Asian competition. Former state run factories that employed many workers have been forced to close down because they lacked the means to invest and modernize and smaller firms employing a few have increased in numbers. Only 65 Czech footwear manufacturers employed more than 20 workers in 2004.¹⁵

Firms in southern Europe tend to have less people employed than those in northern Europe. Out of the southern European countries, Italy employs the most people in the FMI followed by Spain and Portugal. It is striking to see that the number of employees in the FMI has decreased in all of the listed countries. The smallest decrease is notable in Spain with 12 % and the largest in the UK with 125 %. This corresponds well with the decrease in number of firms.

3.3 Production

Most shoe types are produced within the EU although the majority of manufacturers produce sports and town shoes for men, women and children, according to statistics provided by Eurostat. The same statistics show that the production does not vary much between regions, in regard to different footwear categories.

As market pressure and competition enhance within the EU footwear manufacturing sector, an increased number of firms choose to move all or part of their production to Central and Eastern European Countries, like Hungary and Romania, and the Maghreb countries (North Africa) in order to reduce production costs. According to an analysis carried out by European Confederation of the Footwear industry (CEC) the number of jobs that has been relocated so far is close to 17 000.¹⁶

¹⁵ Bouch (2004)

¹⁶ Commission Staff Working Document, EU, (2001) p. 5

The footwear industry in Europe is relatively price sensitive due to the cost structure. The reason is the normally low stock holdings which are a result of the seasonal and fashionable changes incorporated in the industry. The existence of a large number of importers and retailers also add to this price sensitivity as they are able to select suppliers and rapidly change their source of supply on the sole basis of price.¹⁷

In table 3.3 the production values for the listed countries are presented. It is interesting to see that the value of production does not change much even though the number of firms and the number of employees have significantly decreased. It seems likely that the production either has become more effective or more specialized towards more sophisticated footwear. The total change for the listed countries (1996-2002) is a decrease of 4 % in value.

Table 3.3 Production value (1000 Euro) in the FMI

	96-99	00-03	% change
Czech Rep.	238	151	-37%
France	2267	1994	-12%
Italy	13478	14005	4%
Poland	572	631	10%
Portugal	2294	2088	-9%
Spain	4299	3768	-12%
UK	1480	1034	-30%

Source: Eurostat

According to Eurostat data incorporating the years of 2002-2005, the European production of footwear had decreased by nearly 29 %, from about 900 million pairs in 2002 to about 640 million pairs in 2005. To remain competitive in the footwear sector, the EC launched a set of programs in 1999-2000 in order to enhance research and development and to improve technology used in footwear production. This has led to more quality orientated products, which could be one of the factors explaining the relatively stable value of production even though the production expressed in quantity has decreased.¹⁸

When it comes to the EU consumption the figures show an upward trend. In 2002 the consumption was approximately 1.9 billion pairs and in 2005 the

¹⁷ EUR-Lex, www.eur-lex.europa.eu/en/index.htm 2006-05-15

¹⁸ Commission Staff Working Document, EU, (2001) p. 18-19

corresponding number was 2.4 billion pairs, an increase of 23 %. The EC ascribes this increased demand to higher disposable incomes for the EU consumers but another explanation could be lower footwear prices.

3.4 Trade

The value of trade has increased over the last ten years and it is clear that the EU is a net importer of footwear. The value of imported footwear categorized under CN-code 64 has increased by 211 % and the value of exports by 148 % during the period of 1995-2005. The increase is also measured in imported pairs and corresponding percentages are 205 % for imports and 143 % for exports. Explaining figures are listed in appendix 1 and 2.

When dividing the value of imports by the number of pairs, the result is the average price for a pair of shoes. The average price was € 5.88 in 1995 and € 5.99 in 2005. This increase in value during the ten years is 1.8 % but consumer index increased by 15 %. This shows that the average price of imported footwear has decreased during the past decade. The average price of shoes exported from the EU was € 28.97 in 2005, which is about five times higher than the average price of the imports. This implies that shoes produced within the EU are more expensive to produce or of higher quality or more likely, a combination of the two.

China is undoubtedly the largest supplier of footwear to the EU-market. The Chinese share of imports has increased over the years, which can be seen in table 3.4, where figures of imports expressed as quantity and value are presented. There has been a trend with increasing imports from Vietnam and India and simultaneously decreasing imports from Indonesia. The Indonesian decrease is substantial with approximately a 50 million pair decrease and it seems likely that this decrease is linked to the imposed AD-tariffs in 1995. However, this will be further analysed at a disaggregated level in chapter 5. Thai footwear was also targeted with AD-measures in 1995 but no increase in exports is detectable at this aggregated level.

Table 3.4 Imports per country in million pairs and million Euro

	Quantity							Value						
	1995	1997	1999	2001	2003	2005	Δ %	1995	1997	1999	2001	2003	2005	Δ %
Bulgaria	5	8	7	10	12	12	148%	61	110	104	183	205	202	233%
Brazil	16	15	13	13	20	33	111%	192	225	205	232	235	375	95%
China	295	266	368	417	684	1258	326%	848	1282	1502	2169	2634	4813	467%
Hong Kong	10	11	31	29	25	22	132%	38	92	227	109	92	92	143%
Indonesia	102	85	67	66	55	51	-50%	673	762	606	755	552	514	-24%
India	20	24	29	34	43	53	170%	327	391	444	612	582	703	115%
Morocco	10	12	12	15	17	15	59%	104	137	163	201	204	187	80%
Romania	20	37	45	64	78	74	279%	309	497	673	1182	1438	1378	347%
Thailand	38	37	36	37	36	28	-26%	285	305	307	349	263	241	-16%
Tunisia	7	8	11	16	19	20	175%	161	214	264	357	375	356	122%
Turkey	4	5	16	20	31	25	500%	19	17	25	40	80	80	327%
Vietnam	77	136	196	285	286	269	250%	374	874	1327	1956	2155	2094	460%

Source: Eurostat. Δ % is the percentage change between 1995 and 2005

It is noticeable that the export values for Bulgaria, Romania and Vietnam have increased substantially more than exported quantity. This indicates that the quality has increased, i.e. that each pair of shoe possesses a higher value. India and Turkey have experienced decreased export values as well as increased exported quantity. The value per pair is consequently decreasing and since the foreign demand increases this implies that the footwear is produced more efficiently.

In table 3.5 the main export countries are listed. The United States has traditionally been the largest importer of EU-produced footwear but the declining trend is noticeable. European producers have lost a substantial part of their market share abroad even though the sales have increased some in eastern parts of Europe.

Table 3.5 Exports per country in million pairs and million Euro

	Quantity							Value						
	1995	1997	1999	2001	2003	2005	Δ %	1995	1997	1999	2001	2003	2005	Δ %
Canada	12	12	11	11	8	7	-42%	176	189	205	250	183	166	-6%
Croatia	6	6	5	6	5	5	-5%	84	104	94	115	114	125	49%
Hong Kong	7	6	4	4	2	3	-63%	181	202	137	175	134	152	-16%
Japan	15	12	12	251*	8	7	-51%	407	372	349	438	365	350	-14%
Norway	9	9	9	7	8	9	0%	157	167	180	167	186	191	21%
Romania	1	1	2	2	2	4	187%	104	160	219	421	535	561	440%
Russia	20	20	7	12	10	12	-39%	413	543	214	451	414	530	29%
Switzerland	31	27	25	26	23	85	177%	487	531	517	684	596	597	23%
Ukraine	1	1	5	5	6	6	354%	25	44	74	116	121	132	421%
U.A														
Emirates	16	10	5	5	10	3	-81%	73	89	55	77	67	69	-5%
United States	80	93	87	82	58	42	-48%	1390	1790	1927	2251	1588	1357	-2%

Source: Eurostat. Δ % is a percentage change between 1995 and 2005. *improbable

Table 3.6 summarizes the present trend for footwear in Europe. People in the EU consume more footwear at the same time as the domestic production decreases. This implies that imports get a larger share of the European market.

Table 3.6 EU-25 Production, consumption and external trade in million pairs

	2002	2003	2004	2005	% growth 2002-2005
Production	901	781	728	642	-28.7
Exports	214	181	170	226	5.4
Imports	1233	1455	1710	1940	57.3
Consumption	1919	2055	2268	2356	22.7

Source: Eurostat + estimates by DG Enterprise & Industry

4 Antidumping measures on footwear imposed by the EU

In this chapter we will present a short background on the Multifiber Agreement (MFA) and the AD-cases and measures that the EU has implemented against footwear. The MFA is of importance when discussing the reasons behind the implementation of the AD-measures as they could function as a continued import limitation of affected products. There is also a possibility that the quantity and price effects can be somewhat distorted around the time of ceasing of the MFA which has to be taken into account when analysing the effects of AD-measures.

The in-depth account of AD-cases and measures is included in this chapter in order to provide an overview to better understand and observe the possible connections between, and the outcomes of, every investigation. We will list the proceedings of the investigations, starting with the two investigations in 1995 and then continuing with the two investigations initiated in 2005.

4.1 The Multifiber Agreement

The MFA is a trade agreement adopted in 1973 by industrialised countries. The purpose was to set quotas in order to limit the imports of textiles and apparel from third countries. The textile and clothing industry has traditionally been one of the most protected industries, but in 1994 during the Uruguay Round, it was decided that the MFA and other quotas on textiles and clothing would be eliminated in a ten year period.¹⁹

The winding up process started in 1995 and the MFA was replaced by the WTO Agreement on Textiles and Clothing (ATC). ATC was designed to gradually terminate the quotas on textiles. More or less all products under the CN-64 code were included in the MFA but during the ATC-agreement it was decided that all footwear quotas should end before January 2005. However, there are some exceptions; footwear with soles and uppers of wool felt and footwear uppers of which more than 50 % of the external surface area is textile material are still imposed by quotas.²⁰

¹⁹ European Competitiveness Report, p 261

²⁰ WTO, 2006-05-10

4.2 AD-cases and measures

Altogether there have been four investigations carried out by the European Commission regarding dumped footwear. The products under investigation originate from China, Indonesia, Thailand, Vietnam and India. All the investigations are published in the Official Journal at the Eur-Lex website.²¹ This is the database that publishes the European Union law and reports regarding AD-cases. The information in chapter 4.2 is exclusively gathered from this website.

4.2.1 Investigations initiated 1995 I+II

Due to the fact that the two first dumping investigations are rather similar in the way they were carried out and the timeline, in this chapter they will be accounted for as one group. There are some differences between the cases which will be presented accordingly. From here on the first case, including footwear with uppers made of textile produced in China and Indonesia will be referred to as the textile-footwear case (TF) and the following, including footwear with uppers made of leather produced in China, Indonesia and Thailand, will be referred to as the leather-footwear case (LF).

Table 4.1 Investigations initiated 1995 I+II

Product group	Country	Investigation initiation	Definite measure
Footwear with uppers made of textile CN-number: 64041990 64041910	China, Indonesia	1995-02-22	49,2 % 14,1 %
footwear with uppers made of leather or plastics CN-number: 64029998 64039993 64039996 64039998	China, Indonesia, Thailand	1995-02-22	Min. price: €5,7 Min. price: €5,7 Tariff: 2-20,3 % Min. price: €5,7

²¹ EUR-Lex: www.eur-lex.europa.eu/en/index.htm 2006-05-15

Initiation

The dumping investigation against China, Indonesia and Thailand, initiated 1995-02-22, included footwear with uppers made of textiles (TF) and footwear with uppers of leather (LF). No footwear considered as sport shoes was included in the investigation. The complaint was lodged by the European Confederation of the Footwear Industry (CEC) who represented a substantial proportion of the community production of the footwear in this investigation. A selection of the community producers was chosen to be included in a sample used in the investigation. These producers were situated in France, Italy, Portugal, Spain and the UK and were kept anonymous throughout the investigation as threats had been made from customers who simultaneously were importers and major retailers. A sample selection was also carried out of the producers/exporters in China and Indonesia due to the large number of replies to the questionnaire sent out by the Commission.

Dumping margin

The investigation period was the year of 1994 and the injury period was between 1991 and the investigation period. When establishing the normal value, the commission found that none of the producers in the three countries had sufficient domestic sales to use the domestic sales price as the normal value. Therefore a value was constructed on the basis of manufacturing and selling costs, general and administrative expenses and a reasonable profit. In China's case, as it is not considered a market economy, an analogue country had to be chosen in order to construct the normal value and as a result Indonesia was agreed upon as the country on which data should be used to construct the normal value. The export price did not have to be constructed because of the sales taking place directly to an independent importer within the EU. In the comparison phase several adjustments were made for transports, insurance and handling etc. and the dumping margins were found to be of substantial significance. The dumping margins for China were all at a much higher level than for the other countries investigated. There were five companies in the investigation, covering footwear with uppers of plastic or leather, that were found to have a dumping margin below the *de minimis* level of 2 % and they were subsequently not imposed with any

measures. Companies that were found not to be cooperating during the investigation were all imposed with a dumping margin of about 50 %.

Injury

In regards to the injury investigation, the commission found, through statistics from the Eurostat and TARIC database that the consumption within the EU had increased by 3 % in the TF case and increased by 6 % in the LF case during the injury investigation period. The market share of the community producers had decreased (41.5 – 29.3 % in the TF case and 64.5 – 53.3 % in the LF case) while it had increased for the countries under investigation (cumulatively 33.9 - 50 % and 11.8 – 18.4 % respectively). China, Indonesia and Thailand also represented about 50 % of the total import volume to the community in both product groups. However, the commission also found that Vietnam had increased its share of the import volume significantly during the same period (1.2 – 20.5 million pairs and 30 000 pairs – 15.9 million pairs respectively) but this increase was not considered having caused the injury to the community production, which had decreased by about 16 % in both product segments. This because the overall increase in market share of third countries, including Vietnam, only reached 12 % (in the LF case) in comparison to the three countries under investigation which reached 46 %. In the TF case the market share of the third country had actually decreased. Even though there was a production drop within the community and a drop in sales, the actual profitability rose from 6.8 % to 7.3 % in the LF case. This could be explained by the cost structure of the footwear industry, which does not allow for a company to be non-profitable for more than a few months. This is due to the fact that 80 % of the cost incurred when producing footwear consists of raw materials and labour and thus footwear is under normal circumstances only made-to-order. There are also a large number of retailers/importers who are able to select and change their source of supply on the sole basis of price, which make companies that are not competitive enough exit the market and the overall profit level of the industry will increase.

In regards to employment within the EU, a decrease was evident (25 % and 10 % respectively during the injury investigation period) and there were several factories

closed during the same period (28 and 67 respectively). The commission also found that the industry had become more specialised as an effect of the increased competition which they considered negative in the sense that the industry producers no longer had the ability and capacity to produce the high volume lines of footwear and thus not able to sustain an industrial and commercial structure of viable size.

The commission decided that injury had been caused to the community producers due to “unfair” competition from the three countries investigated. The decision was opposed with the remarks that the community industry had performed poorly, mainly due to internal competition. A competitive evaluation of some member states currencies had taken place during the time of injury investigation and the commission had decided not to allow the payment of state aid to the Italian footwear industry as it was considered to be in a state of good health. The commission justified the injury decision with the decreased market share for the EU community producers, which they said would not have been present if the cause would have been internal competition. They added that in the state aid case that this decision covered the whole of the footwear industry and not only the segment that were deemed as dumped. There were also comments made in regards to the fact that community producers had actually transferred some of their more labour-intensive production to countries that were more cost effective outside the EU which has contributed to the negative employment figures in the footwear sector.

Community interest

As a unique criterion within the EU-antidumping policy, the “community interest” has to be considered in a dumping investigation. In this case the commission concluded that if the community industry was subject to further deterioration the result would be reduced competition which would increase the consumer price more than the tariffs would. The commission also disregarded the comments made from the importers and retailers that suggested job losses in this area as a result from AD-measures. According to the commission these losses would be compensated through jobs saved in manufacturing and upstream industries.

Definite measure

Conclusively the commission decided to impose a definite measure against dumped footwear from China, Indonesia and Thailand. In the TF case there was first a provisional duty imposed that reached 49.2 % on Chinese footwear and 14.1 % on Indonesian. This was later converted into a definite duty. In the LF case there was never a provisional measure as China was subject to quantitative quotas imposed by Council Regulation. China argued that AD-measures were not needed as its exports had decreased significantly during the period of 1994-1995. The Commission launched a more in-depth investigation which also covered the period 1995-1996 and it found that imports from China had indeed decreased in the first period but then increased again in the second and subsequently there was no reason not to impose AD-measures. The Commission came to the conclusion that it was better to impose a minimum price, which was set at ECU 5.7, rather than an ad valorem duty. This would more effectively target the low and low-middle end sector which was most affected and injured by the dumped imports at the same time as the effect on the price of the more sophisticated footwear would be minimized. In the case of Indonesia, there were twelve companies that were subject to individual ad valorem duties ranging from 2-20.3 % or the minimum price, whichever was the lowest out of the measures for each individual firm. Out of the sample selection of companies in the three countries, five were determined to have a dumping margin below the *de minimis* level and subsequently were not imposed with any measures.

According to the “Sunset clause”, AD-measures should cease to exist after a five year period unless new evidence is brought forward to suggest that the community industry would continue to suffer injury as a result of dumped imports. As no such evidence was brought forward in any of presented cases, AD-measures were withdrawn. In the TF case this happen on the 2002-10-23 and in the LF case, 2003-02-26.

4.2.2 Investigations initiated 2005 I

On the 2005-07-07 an investigation was launched concerning dumped footwear with uppers made of leather originating in the countries of China and Vietnam.

Table 4.2 Investigations initiated 2005 I

Product group	Country	Investigation initiation	Definite measure
Footwear with uppers of leather CN-number: 64032000 64051000	China, Vietnam	2005-07-07	19,4 % 16,8 % Full duties will be phased in gradually to eventually reach the tariffs above

Initiation

The complaint was again launched by the CEC which represented 40 % of the community production concerned. The product group under investigation did not include sports footwear, slippers or indoor footwear and footwear with protective toecap. There was a discussion of whether to include children's footwear or not in the dumped import but it was eventually decided that they were to be excluded from the provisional duties and re-examined before the definite duties were to be imposed. The investigation period was between 2004-04-01 and 2005-03-31 and the injury investigation period was during the period of 2001-01-01 until the end of the investigation period. A sample selection was made of both the community producers and the producers in the investigated country respectively due to the high number of replies to commission requests. The end number of sampled companies was ten community producers, 13 Chinese and eight Vietnamese producers. As neither of the investigated countries is considered economy market the companies in respective country all applied for Market Economy Treatment (MET) status but none were granted.²² The companies then applied for individual treatment but were denied also in this instance.

²² Criteria in order to obtain MET status:

1. business decisions and costs are made in response to market conditions, and without significant State interference;
2. accounting records are independently audited, in line with international accounting standards (IAS) and applied for all purposes;
3. there are no significant distortions carried over from the former non-market economy system;
4. legal certainty and stability is provided by bankruptcy and property laws;
5. currency exchanges are carried out at the market rate.

Dumping margin

In order to obtain a normal value an analogue country was selected. Indonesia, India and Thailand was suggested but found to have insufficient domestic sales so eventually Brazil was chosen on the basis that the three main cooperative exporting producers in Brazil had domestic sales representing respectively more than 50 % of their own exports and their aggregate domestic sales were also found to account for 5 % or more in comparison with exports from the two countries concerned. The internal competition in Brazil was also good and the domestic consumption was high. As Brazil had sufficient domestic sales the normal value was based on the actual domestic price, calculated as a weighted average of the prices of all domestic sales of the product type under investigation. The export price used was the actual price paid by or payable for the footwear in question to the independent consumer within the community. The dumping margins were then calculated at 21.4 % for the Chinese companies and 64 % for the Vietnamese.

Injury

During the injury investigation the commission found that the consumption of the product concerned had declined by 10 % between the years of 2001 and 2002 but then it had actually increased. The overall consumption had increased by 1 % during the injury investigation period. The community industry sales volume however had decreased by 30 % while the market share had decreased by 9 percentage points (27.1 – 17.9 %). The overall production had also decreased by 34 % and the unemployment by 31 %, an absolute figure of 26 000 jobs. There had also been 1000 registrations of bankruptcies. All this while China and Vietnam doubled their export volume to EU during the injury investigation period and increased their cumulative market share from 9.2 – 22.8 %. According to Chinese producers the import volume increased significantly due to the quantitative quotas being lifted on the 2005-01-01. However, the commission meant that the quotas only concerned one of the two investigated countries and the effect would only be seen after the date of the quota lifting and not as it was, as a sustained increase over the whole injury investigation period. There was also a significant decrease of 30 % relating to the import price.

Several issues were raised in regards to effects of other factors resulting in the sad state of the footwear industry concerned:

1. Certain interested parties claimed that one of the factors could be the poor export performance. This is a problem that has been raised earlier by CEC itself, complaining about how the European footwear industry has difficulties getting export market access due to various trade barriers. The commission replied that the injury analysis focused on the situation of the community industry on the community market and not the export market.
2. Concerns were raised that the injury could have been caused by other third country imports but as the amount were not of any significance this was deemed as not having any effect on the injury level.
3. Because most footwear from China and Vietnam is traded in US Dollars and this currency depreciated against the Euro, imports from these countries were made cheaper. The commission however is not obliged to analyse the reason behind the dumped prices, only the fact that there might be dumped prices, and thus did not take this into consideration.
4. There were concerns about the European footwear industry not being modern enough and that labour costs were too high in order to compete with more cost effective countries. The commission did not see this as a valid concern as the degree of fragmentation and labour costs had not changed over time.
5. The relocation of labour-intensive European production to low-wage countries was thought to add to injury but the commission claimed that relocated companies were not included in the community industry during the investigation and thus did not affect the injury result.

Community interest and definite measures

When analyzing the community interest the consumers were found to be affected marginally by the possible price increase. The same result was concluded for the distributors and retailers. The importers on the other hand were most likely to be affected negatively by AD-measures as they regularly engage in long-term contracts with suppliers and sometimes even commit to resale prices. Due to these long lead

times the commission decided that the full duties should be gradually phased in, in four steps as follows;

7/4-2006 – 1/6-2006	China 4.8 %	Vietnam 4.2 %
2/6-2006 – 13/7-2006	China 9.7 %	Vietnam 8.4 %
14/7-2006 – 14/9-2006	China 14.5 %	Vietnam 12.6 %
15/9-2006 – 7/10-2006	China 19.4 %	Vietnam 16.8 %

The full amount of the duty was calculated according to the lesser duty rule. This rule states that whichever of the dumping margin or the injury margin, which turns out to be the lesser of the two, should be used. In this case it was the injury margin.

4.2.3 Investigations initiated 2005 II

On the 2005-05-17 a complaint was lodged by the CEC in regards to footwear with protective toecap originating in China and India.

Table 4.3 Investigations initiated 2005 II

Product group	Country	Investigation initiation	Definite measure
Footwear with protective toecap CN-number: 64023000 64034000	China, India	2005-05-17	The final date for definite measures: 2006-09-30

The complaint contained significant evidence of dumped prices and the commission initiated an investigation on the 2005-06-30. However, on the 2006-03-31 the commission decided not to impose provisional duties on footwear with protective toecap originating in China and India. The final date to impose definite duties is on the 2006-09-30.

Table 4.4 Summary

CN-number	Country	Measurement	Initiation	Provisional	Definite
64041990 64041910	China	Tariff: 49,2 %	1995-02-22	1997-01-31	1997-11-01
64041990 64041910	Indonesia	Tariff: 14,1 %	1995-02-22	1997-01-31	1997-11-01
64029998 64039993 64039996 64039998	China	Min. price: € 5,7	1995-02-22		1998-02-28
64029998 64039993 64039996 64039998	Indonesia	Min. price: € 5,7 Tariff: 2-20,3 %	1995-02-22		1998-02-28
64029998 64039993 64039996 64039998	Thailand	Min. price: € 5,7	1995-02-22		1998-02-28
64032000 64051000	China		2005-07-07	2006-04-06	
64032000 64051000	Vietnam		2005-07-07	2006-04-06	
64023000 64034000	China		2005-06-30		
64023000 64034000	India		2005-06-30		

Source: http://ec.europa.eu/comm/trade/issues/respectrules/anti_dumping/stats.htm

5 Empirical analysis of antidumping procedures

In this chapter we expect to find evidence of declining imports, increasing prices as well as trade diversion in favour of EU producers when analysing trade data for AD-targeted footwear products from affected Asian countries. In order to do that we will observe and analyse statistics provided by Eurostat during the period of 1995-2005. The Eurostat data is identical to the data provided by OECD but we use the Eurostat database because the latest data is not available at OECD. All data is in nominal terms and consumer index increased by about 15 % during the investigated period.

First, we will analyse the data for all AD-targeted footwear products at an eight digit CN-code level. We expect to identify changes in imported quantity and price at the different stages of the AD-procedure. Second, we will take the analysis further by examining whether there has been trade diversion in favour of the EU-producers.

In regards to quantity the expected effect is decreased EU imports of AD-targeted products. The decreasing imports are expected to be substituted with intra-EU trade. Consequently producers within the EU increase their production of and trade with the concerned products. We also expect the prices of AD-targeted footwear to increase as a result of the imposed measures. Nevertheless this is not expected to occur before the provisional duty is imposed. In this study we will only analyse the import prices on AD-targeted products and not the prices charged to the consumer by EU retailers on the domestic market.

Trade diversion in favour of European producers is the main purpose of using AD-measures and is consequently an expected effect. The core idea of antidumping is to prevent unfair competition and improve the market situation for domestic producers and in the prolonging they should gain a larger market share. Third countries do also benefit when the competitive industry is targeted with AD-measures and usually increase their exports. Therefore we also expect increasing imports from third countries but to a lower extent than from EU-producers.

In order to analyse the quantity, price and trade diversion effects as detailed as possible, the data provided by Eurostat has been divided in regards to product group at

an eight digit level and according to what country is being investigated. The data covers the years 1995-2006 for the reason that they were the only available data. This is unfortunate as earlier data would have been preferable to better see the possible quantity and price effects in the case of the investigation starting in 1995. The timeline is at a monthly level which enables a more detailed analysis of the expected effects at the precise time of the different stages in the investigation. Only the timeline relevant to each individual investigation has been analysed. The figures on which this analysis is based are illustrated in the appendix. During the analysis it has become clear that there are seasonal differences within the footwear segment which is evident when looking at the figures provided in the appendix. Attempts have been made to control for these differences as best possible.

5.1 Quantity effects of AD-procedures

The expected quantity effects are decreased EU imports affecting the products under investigation. The import quantity is then expected to rise again as the AD-measures cease to exist. The effects are analysed according to when;

- A. the investigation was initiated
- B. the provisional duties imposed
- C. the definite duties imposed
- D. the duties cease to exist

In the analysis the investigations have been grouped according to type of footwear and country of origin, similar to the summary in table 4.4.

Investigation I – 1995

Product group	Country	Investigation initiation
Footwear with uppers made of textile CN-number: 64041990, 64041910 <i>Appendix 3-4</i>	China, Indonesia	1995-02-22

In the investigation initiated 1995-02-22 concerning footwear with uppers made of textile produced in China and Indonesia, evidence can be found to support the expected effects of decreased EU imports.

A-C. The imported quantity decreased from both China and Indonesia at the initiation, provisional duty and definite duty stage of the investigation.

D. As the AD-measures ceased to exist 2002-10-23 it is notable that the imports from China started to increase again, in accordance with the expected effects. The imports from Indonesia stayed low and did not seem affected by the ceasing of the measures.

Investigation II – 1995

Product group	Country	Investigation initiation
footwear with uppers made of leather or plastics CN-number: 64029998, 64039993, 64039996, 64039998 <i>Appendix 5-8</i>	China, Indonesia, Thailand	1995-02-22

In the second investigation initiated 1995-02-22 concerning footwear made of rubber or plastic with uppers made of leather produced in China, Indonesia and Thailand there is evidence to support the expected effects of decreasing EU imports. However, the evidence is not as clear and consistent in regards to this product group as in comparison with the former product group analysed.

A. At the initiation stage the EU import decreases from all countries concerning all four subgroups with one exception, import from China concerning subgroup 64039993 where the EU import increased during all four stages of the investigation.

B-C. During this investigation no provisional measures were imposed and therefore this stage is not analysed. The same decrease in EU import could be found at the definite duty stage however, for all countries and subgroups. The exception found is the same as at the initiation stage.

D. It is at the stage where the measures cease to exist that the evidence fails to match the expected effects of increased EU imports. The results are not consistent and vary according to country of production and subgroup. There are some instances however where the expected effects can be found; the imports from China and Thailand in regards to subgroup 64029998 and 64039996.

Figure 5.1 EU-imported quantity (pairs) from AD-targeted countries
– Investigation I and II 1995

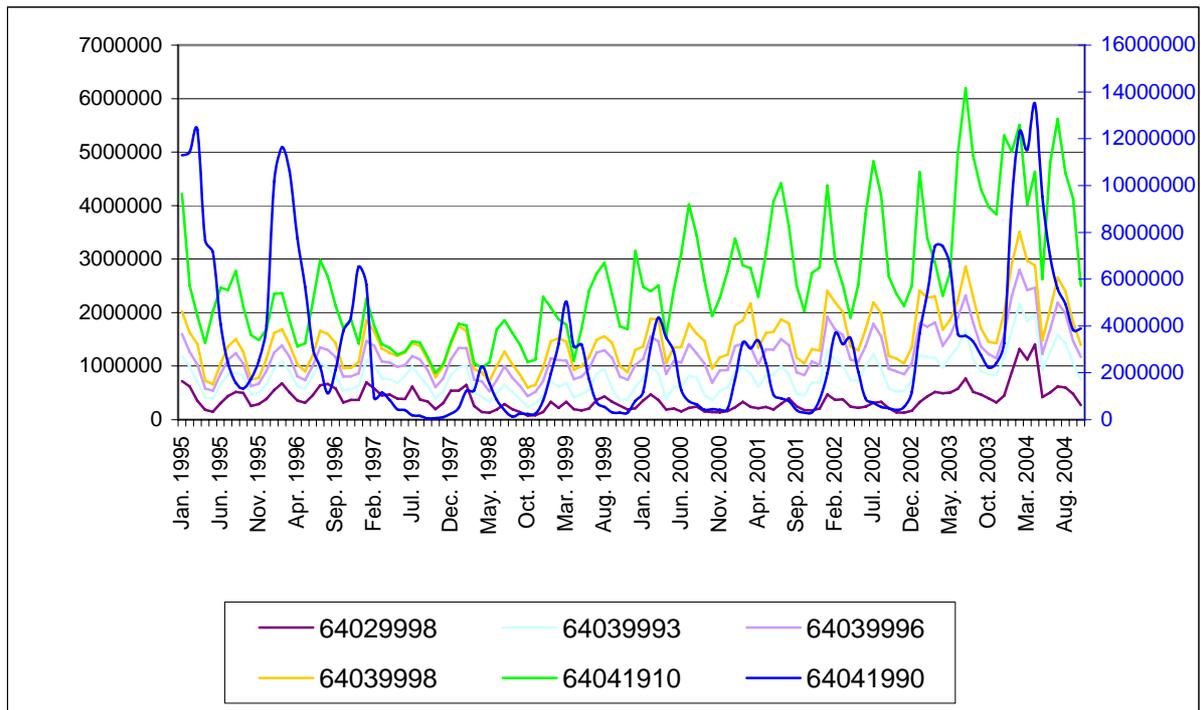


Figure 5.1 represents the quantity imported by the EU. Each graph corresponds to the average imported quantity of each product subgroup that has been subjected to an AD-investigation.

At the initiation stage (A – 1995-02-22) all subgroups except for 64041990 declines more than expected when controlling for seasonal effects. Subgroup 64041990 does not start to decline until 1-2 months after the initiation date.

As the provisional measures come into force (B – 1997-01-31) there is a decline in especially subgroup 64041990, as expected. The decline in subgroup 64041910 is smaller but existing. No provisional measures were imposed in the other subgroups published in this figure.

The definite measures (C – 1997-11-01/1998-02-28) are followed by declines that correspond to the expected effects. These declines could be explained by the seasonal effects.

As the measures cease to exist (D – 2002-10-23/2003-02-26) subgroup 64041990 increases more than can be explained by seasonal effects. Subgroup 64041910 also increases but this can be explained by seasonal effects. For the remaining subgroups there is an increase marginally larger than the seasonal increase.

Investigation I - 2005

Product group	Country	Investigation initiation
Footwear with uppers of leather CN-number: 64032000, 64051000 <i>Appendix 9-10</i>	China, Vietnam	2005-07-07

As the investigation initiated 2005-07-07, concerning footwear with uppers made of leather produced in China and Vietnam, only has reached the second stage, phasing in the provisional duties, this investigation case can only be analysed to a certain extent. For product group 64051000 there is only data available from the end of 2003 and therefore the seasonal differences can not be seen as clearly as in the other diagrams.

A. Evidence can be found that support the expected effects of decreased imported quantities at the initiation stage in both China and Vietnam and concerning both subgroups. The evidence is not very strong in the case of the decrease in the import from China, subgroup 64051000 where the decline is very small and short-term.

B. As the provisional duties came into force a decrease in the EU import can be found for both countries and subgroups except Vietnam and subgroup 64032000. This decrease coincides with the expected effects but as the duties have not been imposed for a very long time it is difficult to control for seasonal effects.

What is also noteworthy is the sharp increase in imports from both China and Vietnam that coincides with the ending of the quotas in January 2005. The exception is China and subgroup 64051000.

Investigation II – 2005

Product group	Country	Investigation initiation
Footwear with protective toecap CN-number: 64023000, 64034000 <i>Appendix 11-12</i>	China, India	2005-05-17

In the case of the investigation initiated 2005-06-30 concerning footwear with protective toecap produced in China and India, the commission decided not to impose any provisional duties and therefore the analysis can not be completed. There are also several data missing for the Indian export to the EU.

A. At the initiation stage evidence to support the expected effects can only be found in the case of China and subgroup 64023000. In the other cases the import either increases or stays at the same level which is not coinciding with the expected effects.

D. As the European Commission decided not to impose any measures on footwear with protective toecap 2006-03-31 the expected effect would be an increase in the EU import. There is only one instance where this is the case though and that is the EU import from India and subgroup 64034000.

Also in regards to the ending of the quotas, only in one instance can evidence be found of increased EU import and that is in the case of China and subgroup 64034000.

Figure 5.2 EU-imported quantity from AD-targeted countries
- Investigation I and II 2005

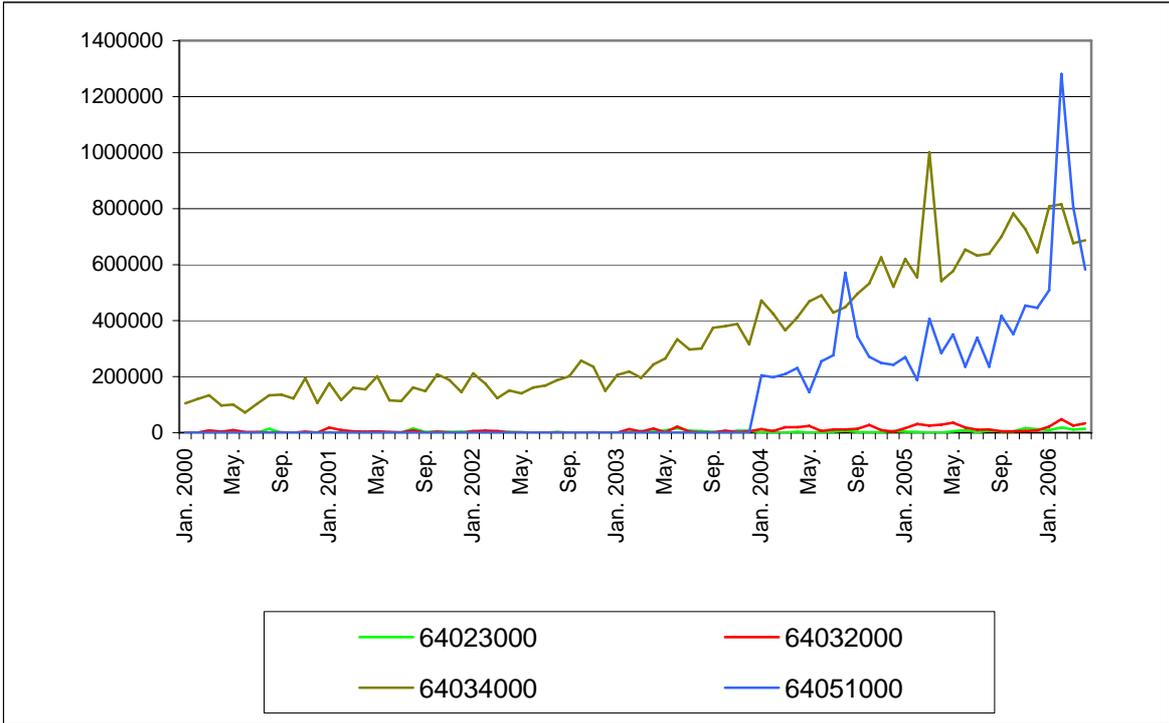


Figure 5.2 represents the quantity imported by the EU. Each graph corresponds to the average imported quantity of each product subgroup that has been subjected to an AD-investigation. The data for 64023000 and 6403200 is incomplete as well as marginal in quantity terms. Therefore only 64034000 and 64051000 will be analysed at this aggregated level.

At the initiation of the AD-investigation (A – 2005-07-07) no visible changes in decreasing imports are detectable for 64051000 and the result is consistent with the observations regarding 64034000 (A – 2005-06-30). The provisional measures (B – 2006-04-06) for 64051000 was imposed this spring and as no data past April 2006 is available, it is impossible to analyse any further for possible changes in imported quantity. The other investigation including 6402300 and 64034000 was terminated 2006-03-31 and since, no provisional measures were imposed.

Quantity effects - Sum up

Evidence can be found to support the expected effects of decreased EU imports at the **A-C** stage of the investigation and an increase in the import quantity at stage **D**. There are some exceptions which have been accounted for in the detailed analysis but the overall conclusion is that AD-measures have the expected effect on imports from the affected countries at the different stages of the investigation. The only exception in this analysis is the last investigation concerning footwear from China and India where the import quantities do not agree with the expected effects. However that analysis is not complete due to lack of data.

When analysing in a broader perspective, looking at the import quantity over the whole period that each country and product group was subjected to AD-measures the evidence is more scattered. In regards to the two first investigations where the analysis is complete, from the point of investigation initiation to when the measures cease to exist, it is notable that the AD-measures seem to have had the expected effects on decreased EU imports but only short-term. Due to the lack of data and the timeline, the two last investigations are not suitable for a broader analysis; however during investigation number three, an increase in the EU import quantity is notable as the quotas on textile end in January 2005. No such increase is found during investigation number four.

Conclusively it can be said that in this analysis the AD-investigations seem to have short-term effects that coincide with the expected effects but at a broader and more long-term perspective this does not seem to be the case, especially not for China.

5.2 Price effects of AD-procedures

The expected price effect is an increase in price as the product is imposed with AD-measures. In this instance no price increase is expected at the initiation of the investigation as there are no tariffs or minimum prices imposed until the provisional and definite measure have been decided upon. The price is also expected to fall as the measures cease to exist.

The analysis is carried out in the same approach as the quantity analysis with the countries and subgroups divided the same way. The prices used in the analysis are the price per pair and has been derived by dividing the value of EU import with the quantity of EU import from AD-targeted countries. All data has been gathered from the Eurostat database and as can be seen in the diagrams in the appendix, the seasonal differences are evident also in this analysis and have been taken into consideration and as best possible, controlled for.

Investigation I - 1995

Product group	Country	Investigation initiation
Footwear with uppers made of textile CN-number: 64041990, 64041910 <i>Appendix 13-14</i>	China, Indonesia	1995-02-22

In regards to the investigation initiated 1995-02-22 concerning footwear with uppers of textile produced in China and Indonesia clear evidence can be found of an increase in the price.

A. No increase in price was expected at the initiation stage. This is the case in subgroup 64041990 but not in 64041910 where there was a modest increase in the price.

B-C. The increase in price is evident at the provisional and definite duty stage, in accordance with applied theory. The only exceptions are imports from China where the price declines at the definite stage concerning subgroup 64041990 and at the provisional stage concerning subgroup 64041910.

D. There is no clear evidence to support the expected effect of lowered prices as the measures cease to exist. In the subgroup 64041990 produced in both China and

Indonesia there is a decrease in price but this coincides very well with the seasonal differences and can thus not be seen an expected price effect.

Investigation II - 1995

Product group	Country	Investigation initiation
footwear with uppers made of leather or plastics CN-number: 64029998, 64039993, 64039996, 64039998 <i>Appendix 15-18</i>	China, Indonesia, Thailand	1995-02-22

During the second investigation initiated 1995-02-22 concerning footwear made of rubber or plastic with uppers made of leather produced in China, Indonesia and Thailand no provisional measures were imposed and therefore this stage is not analysed.

A. At the initiation stage there is no clear structure in the price and it varies depending on country and subgroup. No conclusion can be drawn at this stage of the investigation that coincides with any theory concerning the price effects.

C. At the definite duty stage there is an increase in price concerning all subgroups and countries which can be seen as clear evidence supporting the expected effects of price increase as AD-measures are imposed. Only the price on import from Indonesia concerning subgroup 64039993 and 64039996 does not follow this pattern where the price decreases.

D. Once the AD-measures cease to exist a decrease in price is expected. At this stage of the investigation the price of footwear concerning imports from all countries and subgroups declines in accordance with theory.

**Figure 5.3 Euro per pair on EU-imported footwear from AD-targeted countries
- Investigation I and II 1995**

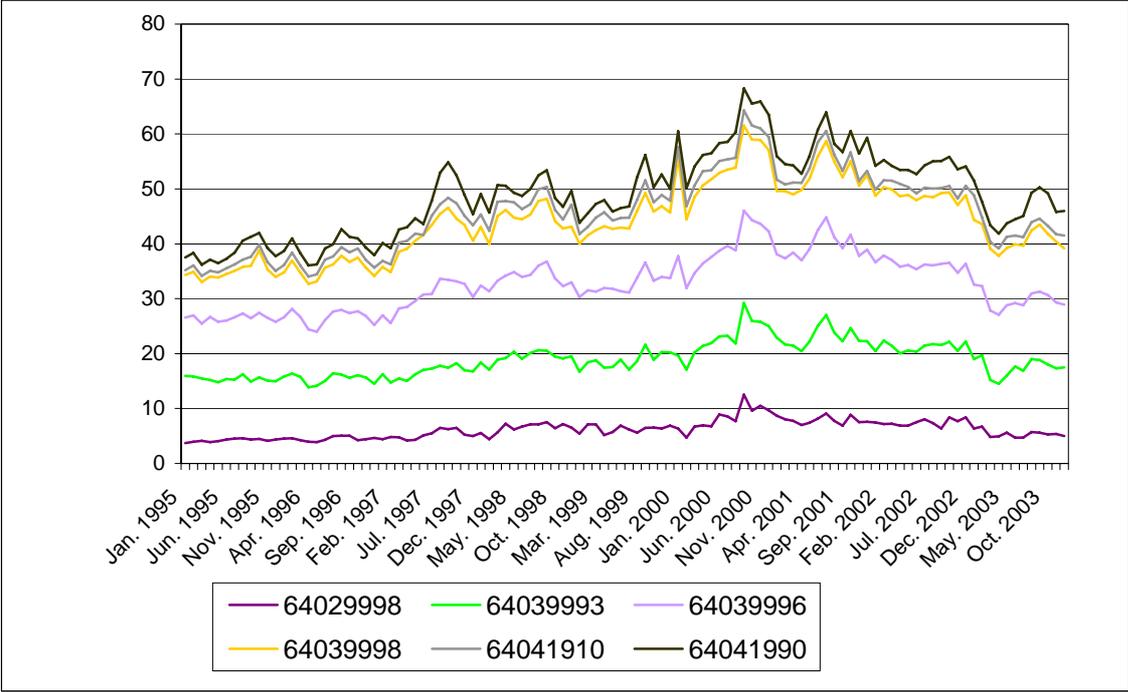


Figure 5.3 represents the price on footwear imported from AD-targeted countries by the EU. Each graph corresponds to the average price of each product subgroup that has been subjected to an AD-investigation. At the initiation (A – 1995-02-22) there are no visible price increases as assumed since the measure will not be introduced until the provisional stage.

A provisional measure (B – 1997-01-31) was imposed concerning subgroups 64041910 and 64041990 and an increase in price is noticeable. The definite measure (C – 1997-11-01/1998-02-28) did not result in further price increases for the earlier mentioned subgroups but for the subgroups without provisional measures there were noticeable price raises at the definite duty stage.

When the AD-activities ceased to exit (D – 2002-10-23/2003-02-26), all prices were declining. Some of them started to decrease before the actual expiration date so it seems likely that the prices may have been affected by other factors and not solely by the ending of AD-measures, even though the actual termination probably boosted the downward trend.

Investigation I - 2005

Product group	Country	Investigation initiation
Footwear with uppers of leather CN-number: 64032000, 64051000 <i>Appendix 19-20</i>	China, Vietnam	2005-07-07

As the investigation initiated 2005-07-07, concerning footwear with uppers made of leather produced in China and Vietnam, only has reached the second stage, phasing in the provisional duties, this investigation case can only be analysed to a certain extent. For product group 64051000 there is only data available from the end of 2003 and therefore the seasonal differences can not be seen as clearly as in the other figures in the appendix.

A. An increase in the price is detectable at the initiation stage for both countries and subgroups except for in the case of Vietnam and subgroup 64032000 where there is a slight decline in price.

B. As there is only data available until 2006-03-01 no complete analysis can be made but there is a decrease in the price at this point in time which could be thought of as an indication of the industry preparing for the AD-measures to come into force.

Investigation II - 2005

Product group	Country	Investigation initiation
Footwear with protective toecap CN-number: 64023000, 64034000 <i>Appendix 21-22</i>	China, India	2005-05-17

In the case of the investigation initiated 2005-06-30 concerning footwear with protective toecap produced in China and India, the commission decided not to impose any provisional duties and therefore the analysis can not be made complete. There are also several data missing to show for Indian export to the EU. In regards to the subgroup 64023000 there is not enough data available to draw any viable conclusions as to whether the expected effects are present.

A. At the initiation stage for subgroup 64034000 a slight price increase is notable.

D. No evidence can be found at the stage where the commission decides to withdraw the investigation. The price of imports is stable but again data is only available until 2006-03-01 which makes it difficult to draw any conclusions.

Due to the lack of data no figure for the price per pair for each subgroup is presented here for investigation I and II - 2005.

Price effects - Sum up

In the two first cases evidence can be found to support the expected effects of increased footwear price as the AD-measures come into force, either at stage **B** or **C** in the investigation. Evidence coincides with stage **D** can be found in the investigation concerning footwear from China, Indonesia and Thailand (II - 1995). In the case of investigation I – 2005 and II - 2005, the lack of data makes it difficult to draw any viable conclusions.

In a broader analysis, looking over the whole timeline that measures have been imposed, a price increase is expected. This increase should cease to exist at the same time as the AD-measures according to theory. Strong evidence is found to support this theory in both investigation I - 1995 and II - 1995. The only exception is Indonesia and subgroup 64041990 where the price declines slightly. Again this analysis has to be limited to these two first investigations as there is a lack of data that makes further analysing incomplete.

Conclusively it can be said that the AD-measures seem to have the expected effect of increased prices on the imports that has been deemed dumped by the EC. The price stays at this higher level throughout the existence of the AD-measures only to decline as the measures cease to exist.

5.3 Trade diversion effects of AD-procedures

Import figures of concerned product groups from various countries between 1995 and 2005 have been collected in order to support our assumptions about expected trade diversion as an effect of enforced AD-measures. It is possible to assume that domestic producers in the EU and third country producers have enlarged their shares of exports to the EU market on the expense of AD-targeted countries. The data contains seasonal

changes which has forced us to consider it as “no observable changes in import flows” if no obvious trend of increased imports has been detectable. This is also the most frequently used note. Observed and commented increases of imported quantity lasting only for a few months is considered as short term and lasting increases longer than a year are treated as long term ones. Conclusions about short and long term increases have only been drawn when imported quantity has exceeded standard levels by more than 50 percent. In some cases the imported quantity has been non-existing or too small to be taken into account.

Our observations have been summarized in table 5.1 and are based on trade data available at Eurostat. The accessible data starts in 1995 and consequently no comparison with preceding years could be made. The same problem occurred when comparing the initiations in 2005, where comparisons only could be carried out with preceding years, as the last available data was published 2006-03. The prevailing seasonal fluctuations additionally make it difficult to carry out exact analysis of the material.

In the first part of table 5.1 the largest EU-producers of footwear are listed. Most countries experienced short term export rises of product 64039993, when the initiations started in 1995. The only detected long term rise was the Polish and Hungarian export of 64039996. Surprisingly there were no more long term rises in intra-EU trade, which is the expected effect along with increased domestic sales, as a result of imposed AD-measures against non-EU imports.

Table 5.1 Import changes on AD-targeted products

	1995						2005			
	64041990	64041910	64029998	64039993	64039996	64039998	64032000	64051000	64023000	64034000
<i>Czech Rep</i>	no	no	no	no	no	no	s.p.	no	s.p.	no
<i>France</i>	no	no	s.p.	no	no	no	no	no	no	s.t-rise
<i>Hungary</i>	no	no	s.p.	s.t-rise	l.t-rise	no	no	no	s.p.	no
<i>Italy</i>	no	s.t-rise	no	s.t-rise	no	no	no	no	no	no
<i>Poland</i>	no	no	s.p.	s.t-rise	l.t-rise	s.t-rise	no	no	no	no
<i>Portugal</i>	no	s.t-rise								
<i>Spain</i>	no	no	no	s.t-rise	s.t-rise	s.t-rise	no	no	no	no
<i>UK</i>	no	no	no	s.t-rise	no	no	no	no	s.p.	no
non-EU	1995						2005			
	64041990	64041910	64029998	64039993	64039996	64039998	64032000	64051000	64023000	64034000
<i>Bulgaria</i>	no	no	s.p.	s.t-rise	no	no	s.p.	s.p.	s.p.	no
<i>Brazil</i>	no	s.p.	s.t-rise	s.t-rise	no	l.t-rise	no	no	s.p.	no
<i>China</i>	AD									
<i>Hong Kong</i>	no	no	s.t-rise	no	no	no	no	no	s.p.	no
<i>Indonesia</i>	AD	AD	AD	AD	AD	AD	no	s.p.	s.p.	no
<i>India</i>	l.t-rise	no	no	s.t-rise	no	no	no	s.p.	AD	AD
<i>Morocco</i>	no	no	s.p.	l.t-rise	no	no	s.p.	s.p.	s.p.	s.p.
<i>Romania</i>	no	no	no	s.t-rise	no	no	no	no	no	s.t-rise
<i>Thailand</i>	s.t-rise	s.t-rise	AD	AD	AD	AD	s.p.	s.t-rise	s.p.	no
<i>Tunisia</i>	no	s.t-rise	s.p.	s.p.	l.t-rise	l.t-rise	no	s.p.	s.p.	no
<i>Turkey</i>	no	no	no	no	s.t-rise	s.t-rise	no	no	s.p.	no
<i>Vietnam</i>	no	l.t-rise	l.t-rise	l.t-rise	l.t-rise	l.t-rise	AD	AD	s.p.	s.t-rise

no = no observable changes in import flow

s.t-rise = short term rise coinciding with the initiation, less than a year.

l.t-rise = long term rise coinciding with the initiation, more than a year.

s.p. = small production, the reported flow is missing or below 1000 pairs.

AD = Antidumping, specific product is under AD-measures.

Source: Eurostat

The largest non-EU footwear suppliers of the EU-market are listed in the second part of table 5.1. In 1995 China and Indonesia were loaded with AD-measures and it seems like third countries stepped in and took advantage of the opportunity and increased their market share. Vietnam seems to be the most successful, with exports rising continuously over the years but there has also been long term rising trends in Morocco, Tunisia, Brazil and India. Previous studies have suggested that a larger share of trade diversion benefited European producers and a smaller share benefited third countries.²³ In our analysis of footwear it seems like the reverse statement better fits the reality, where third countries seem to gain a larger proportion of the EU-market than domestic EU industry.

²³ Lasagni (2000) p 148-149

The initiations starting in 2005 did not seem to cause major trade flow changes but the detectable short term rises can develop into long term ones. France and Portugal had noticeable rises of their exports in comparison to the rest of the EU as well as Romania, Thailand and Vietnam.

6 Conclusion

The European footwear industry has experienced severe difficulties during the past decade. Foreign competition has challenged domestic producers with low priced products which resulted in fewer sales for EU producers and in the prolonging, closed factories and unemployed workers. The footwear consumption within the EU increased by more than 20 % 2002 – 2005 but domestic production decreased by nearly 30 %. At the same time imports increased by about 60 % which implies that a larger market share went to foreign producers. European footwear producers (CEC) responded to this by claiming that foreign producers dumped their footwear prices in order to drive European producers out of business.

Antidumping is a frequently used tool when protecting domestic industry from foreign competition. In order to protect the European footwear industry the CEC advocated this type of safeguard measure.

In this thesis we analyse the expected effects of antidumping procedures which are decreasing imports, increasing prices and trade diversion in favour of domestic producers. In our analysis which is based on AD-targeted footwear, we come to the conclusion that AD-measures have the expected effect on imported quantity. Decreased imports were evident at the initiation, provisional and definite stage of the AD-investigation as well as increasing imports at the expiration stage where the AD-measures ceased to exist. This is primarily applicable to short term changes. In the long run, AD-measures seem to have less of an effect. The conclusion made concerning price effects is that the price increases when the AD-measure is imposed and returns to the original level as the AD-measures cease to exist. In the case of trade diversion, the expected effect could not be complied with in our analysis. Our conclusion is that European footwear producers did not enlarge their market share and it appears that the freed market shares have been absorbed by third countries instead of domestic industry.

As we have analysed each investigation separately and in detail we have found that much of the antidumping process seems rather arbitrary and not as transparent as could be wished for. During an investigation very little is left for

discussion. Much of the data used by the EU in order to make rather crucial decisions is confidential and the time limits are so constricted it is difficult primarily for consumers but also retailers to prepare any kind of organized defence. The community interest, which is a unique criterion within the EU, can also be questioned. The EC tends to favour arguments supporting domestic industry and the fact that consumers have to pay higher prices over a longer period of time does not seem to be considered to the same extent. The consumers as a group lack the ability of forming effective lobby groups that are as strong as the lobby groups representing domestic industry which tends to distort the investigation in favour of domestic producers.

The recent decision to impose AD-measures on footwear from China and Vietnam was a controversial and discussed topic. One of the reasons was the fact that there was no majority voting the decision through. Sweden and other Nordic countries opposed the decision while footwear producing countries like Italy, Spain and Portugal voted in favour of AD-measures. Some countries did not take part in the voting process and consequently were considered to be supportive of the measures as they did not explicitly turn down the proposal. Dissent resulted in a meeting 2006-08-03, incorporating national trade officials in Brussels where lowered measures were discussed. The new proposed tariffs were substantially lower but they were dismissed as the majority of member states, more than 14, rallied for a free trade and pro-consumer community. Only nine countries, mainly located in South and Eastern Europe, were still in favour of protectionist measures of domestic industry. Unless a compromise can be established between the member states in September 2006 the provisional duties will cease to exist in October 2006.²⁴

An interesting development within the footwear manufacturing industry is the “new” type of FDI into Europe. Evidence of Chinese clothing and footwear producers that are relocating production and labour to Italy has been broadcasted lately. This development is a rather new phenomenon and can be interpreted as intended antidumping jumping. It will be interesting to see how this new approach to avoid trade barriers will develop in the future and if it will spread to other areas of business.

²⁴ Waterfield (2006)

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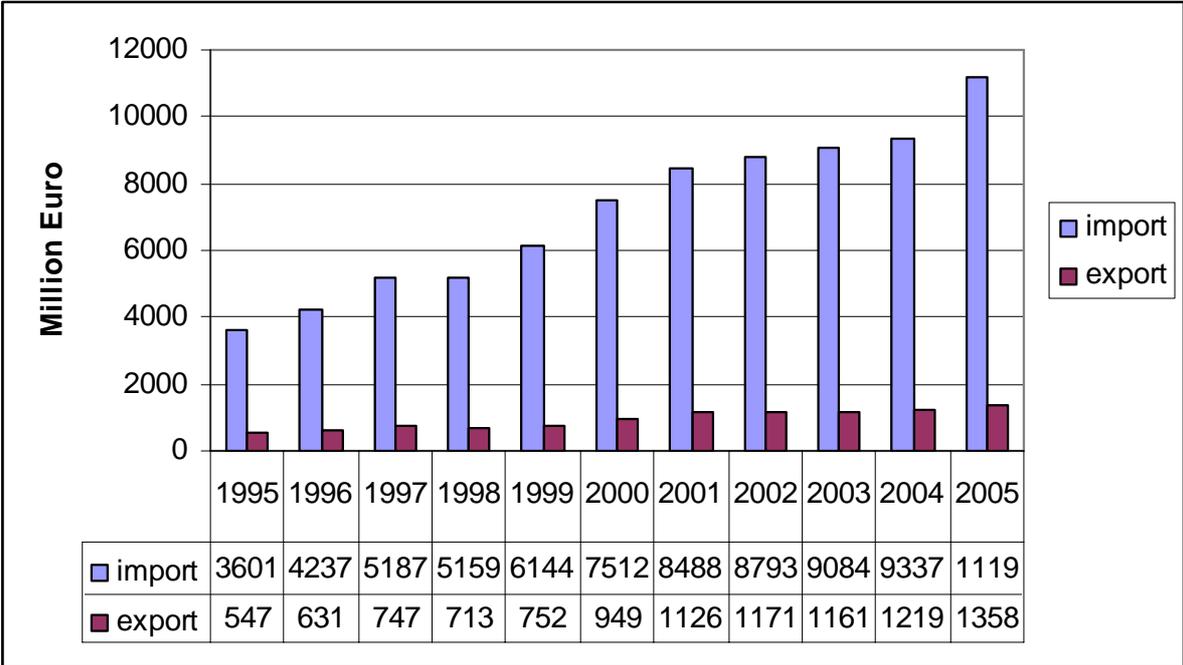
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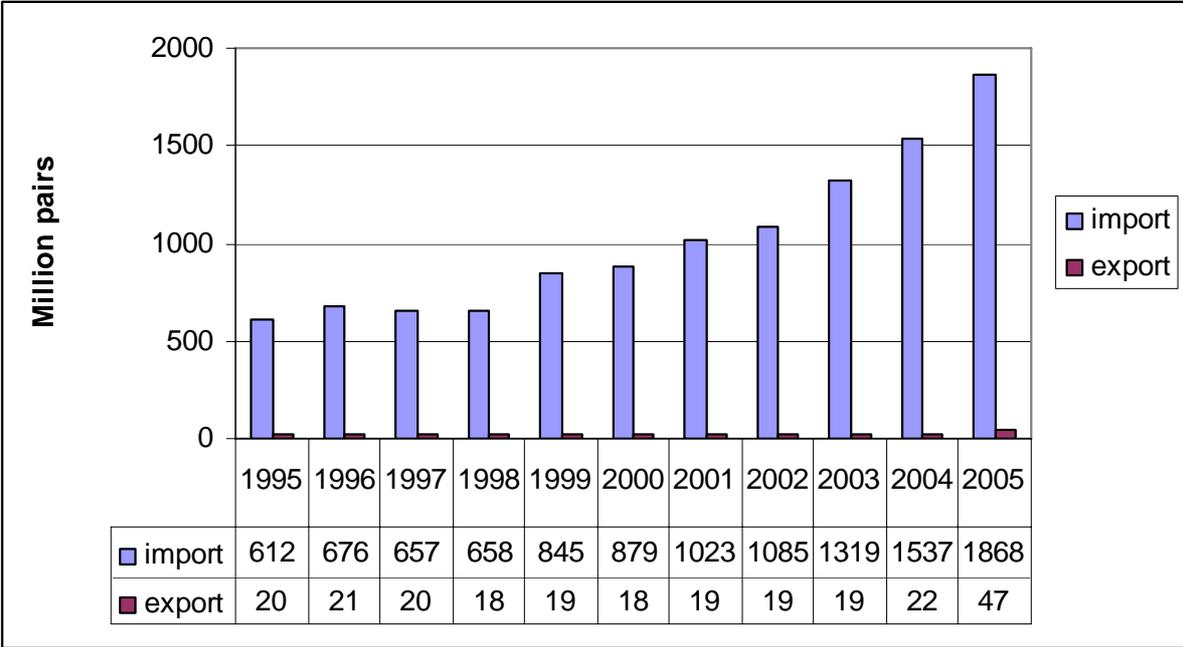
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Appendix

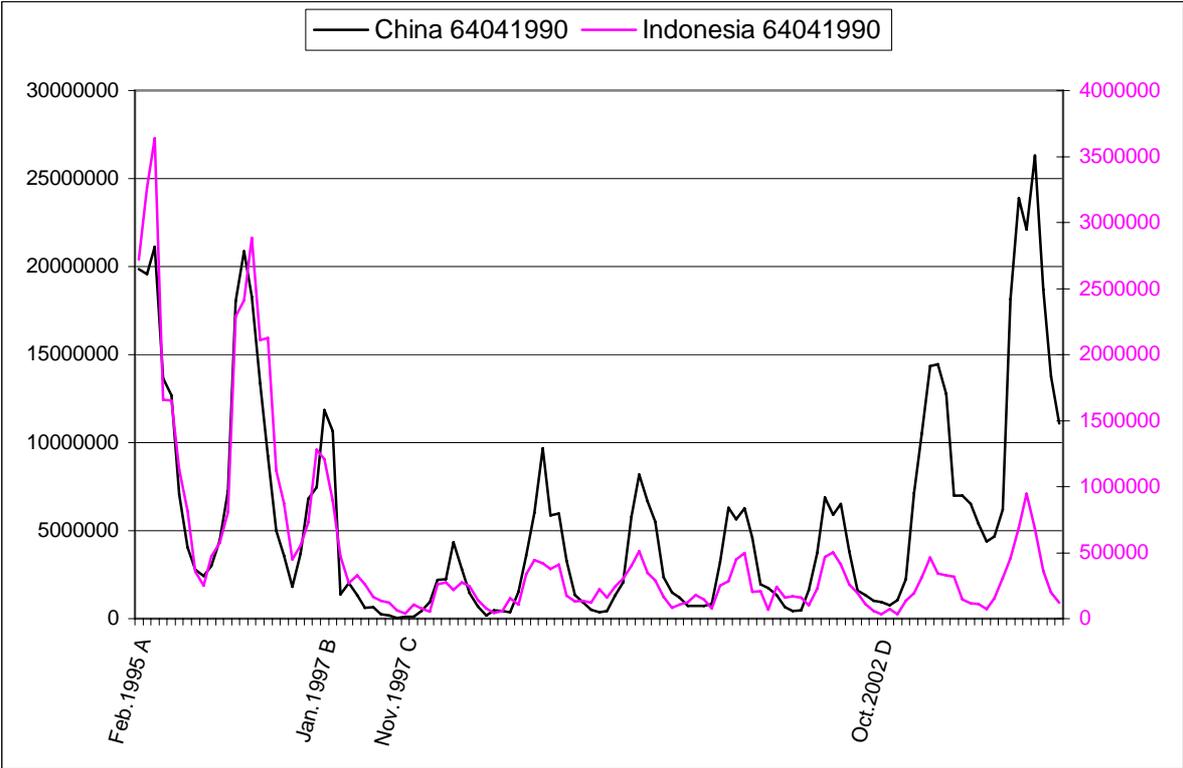
Appendix 1: EU-25 trade with the 13 largest footwear suppliers (Euro)



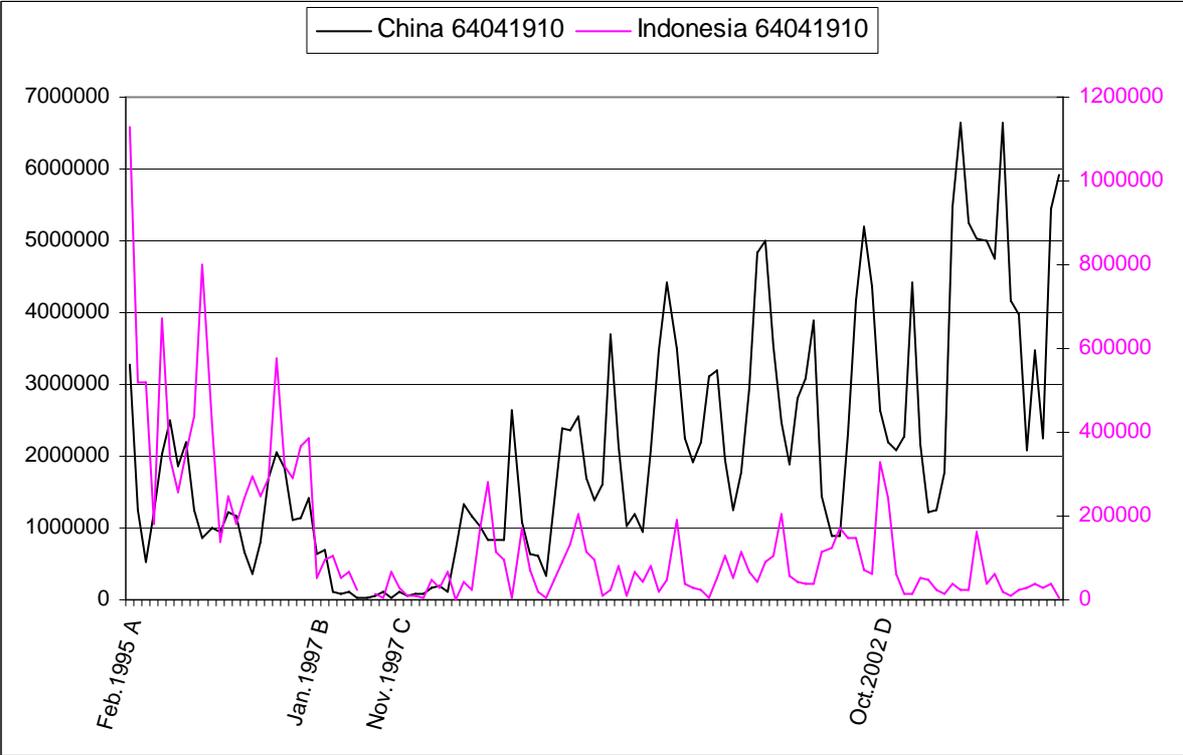
Appendix 2: EU-25 trade with the 13 largest footwear suppliers (pairs)



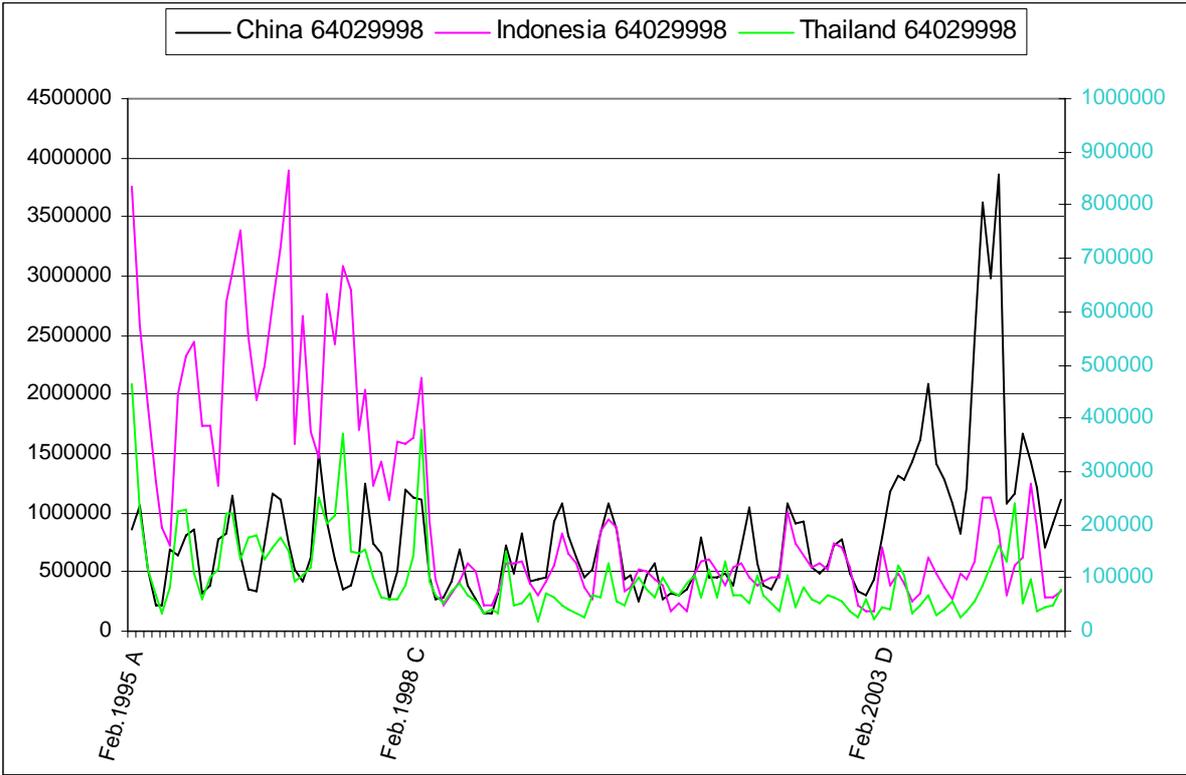
Appendix 3: Quantity - Product group 64041990



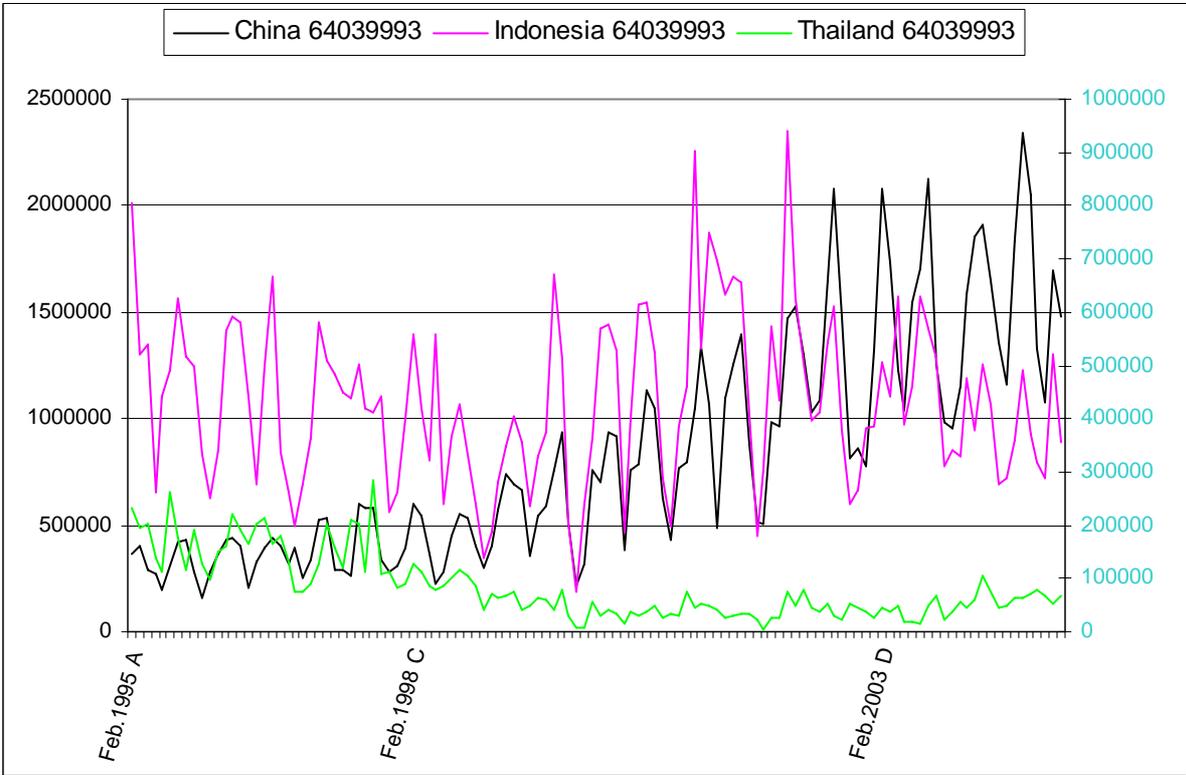
Appendix 4: Quantity - Product group 64041910



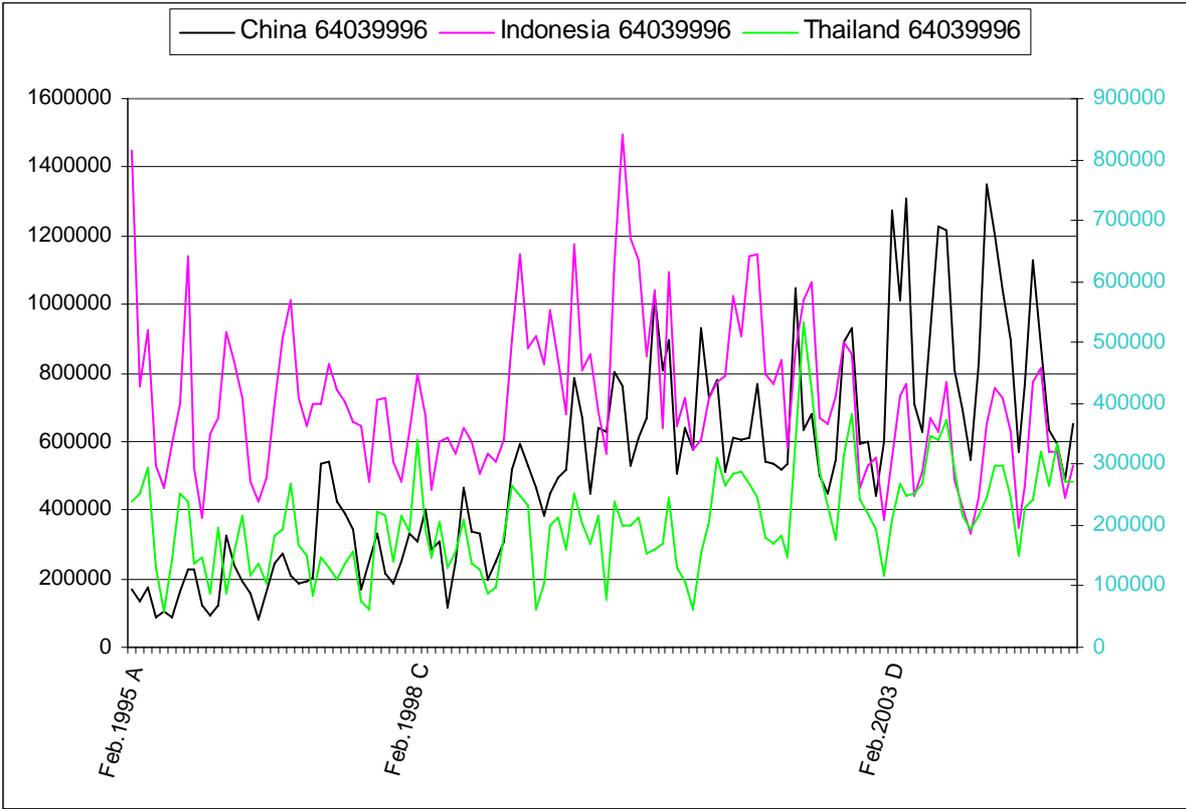
Appendix 5: Quantity - Product group 64029998



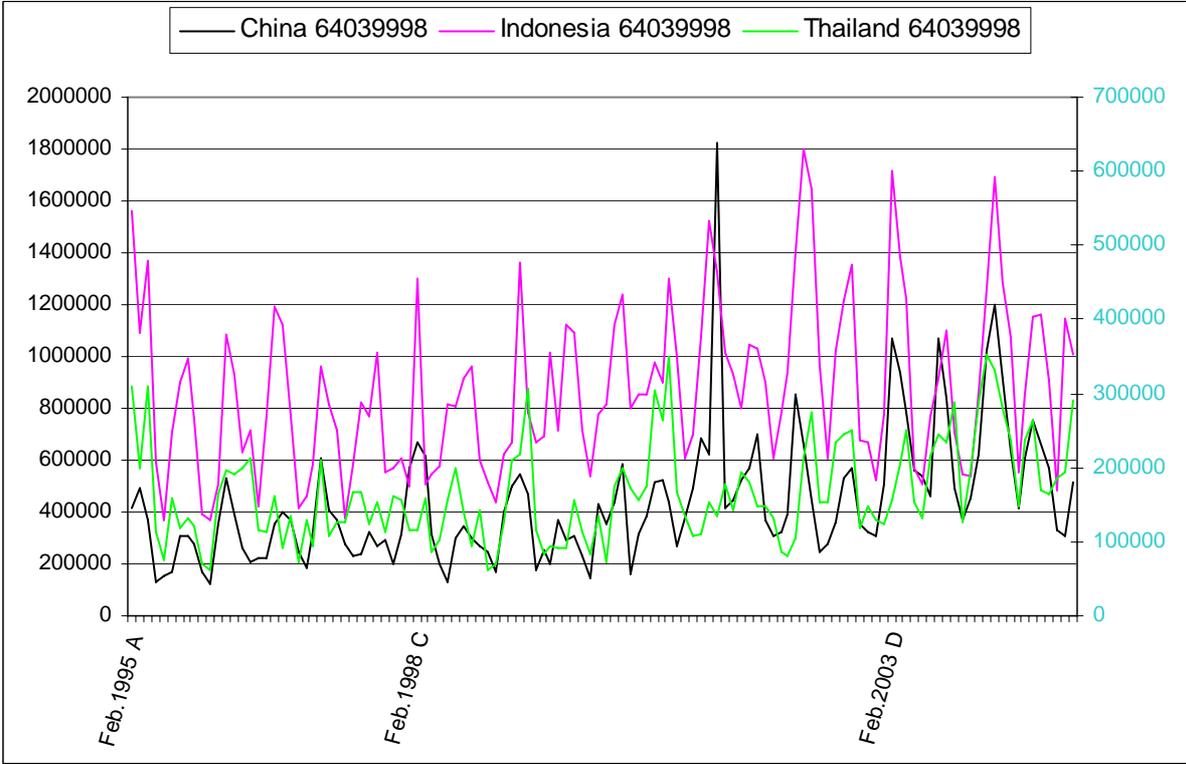
Appendix 6: Quantity - Product group 64039993



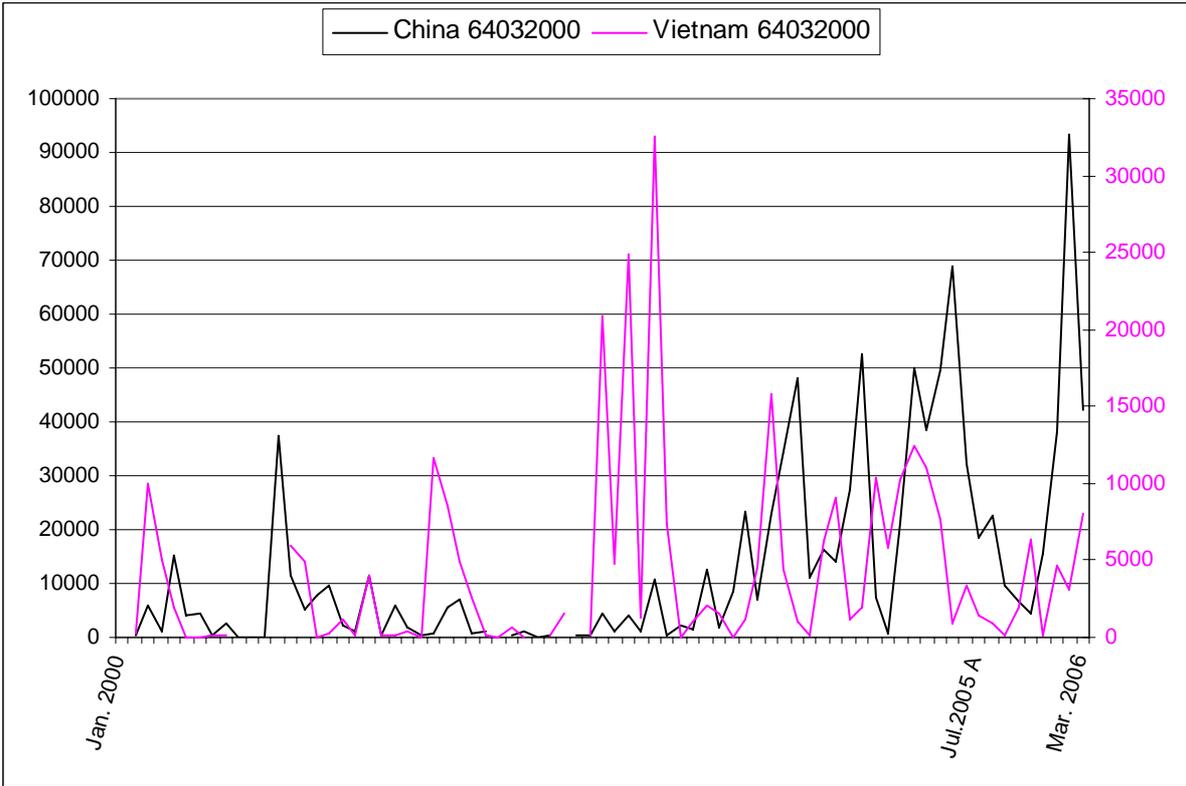
Appendix 7: Quantity - Product group 64039996



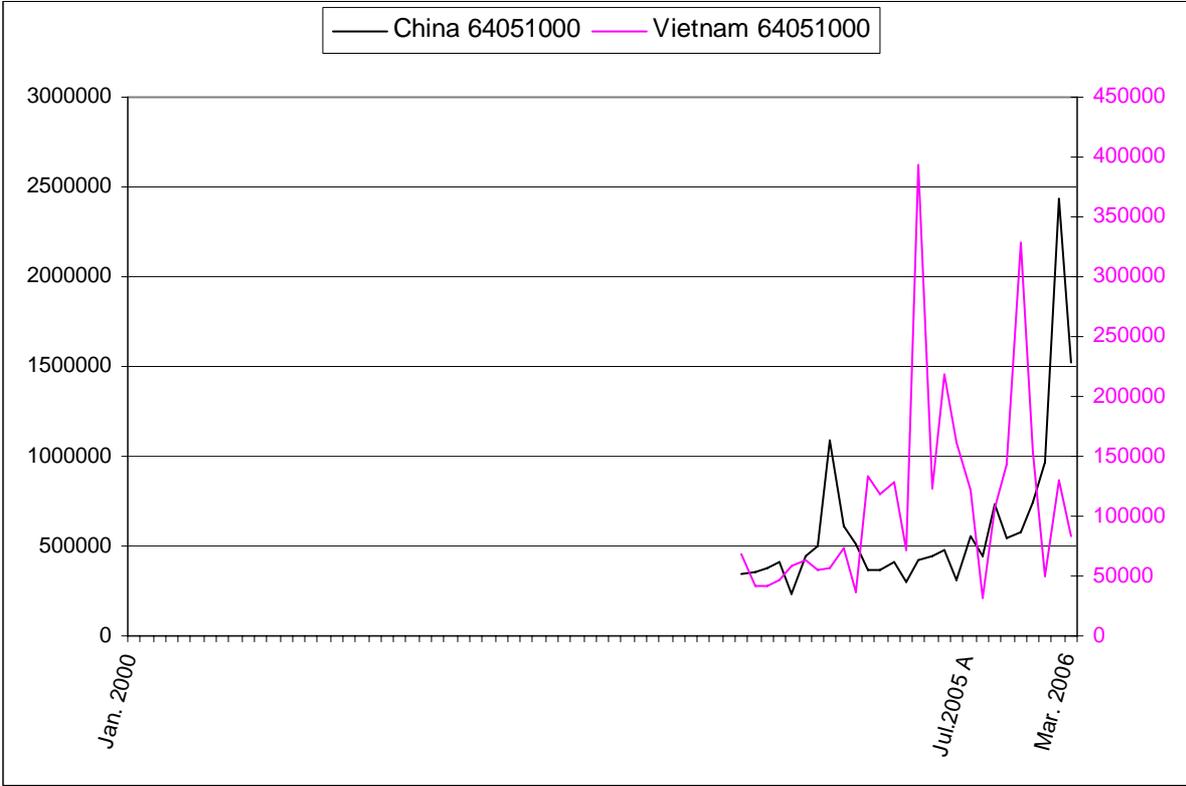
Appendix 8: Quantity - Product group 64039998



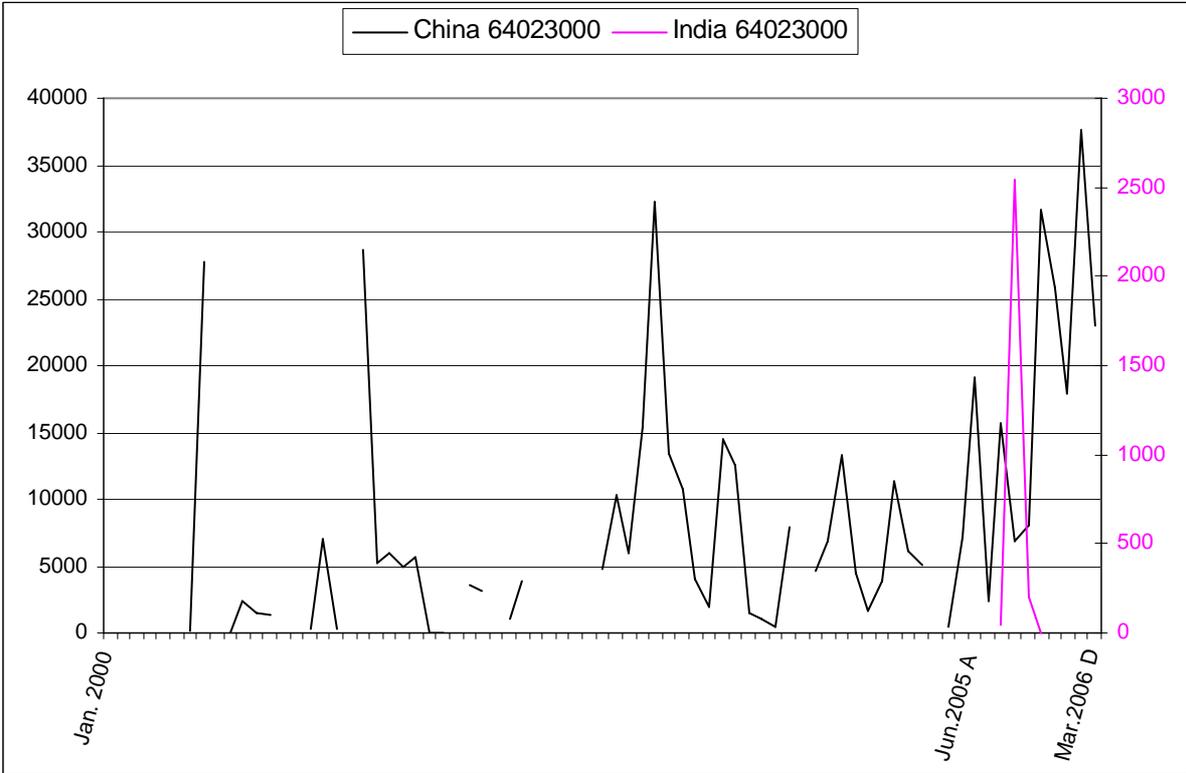
Appendix 9: Quantity - Product group 64032000



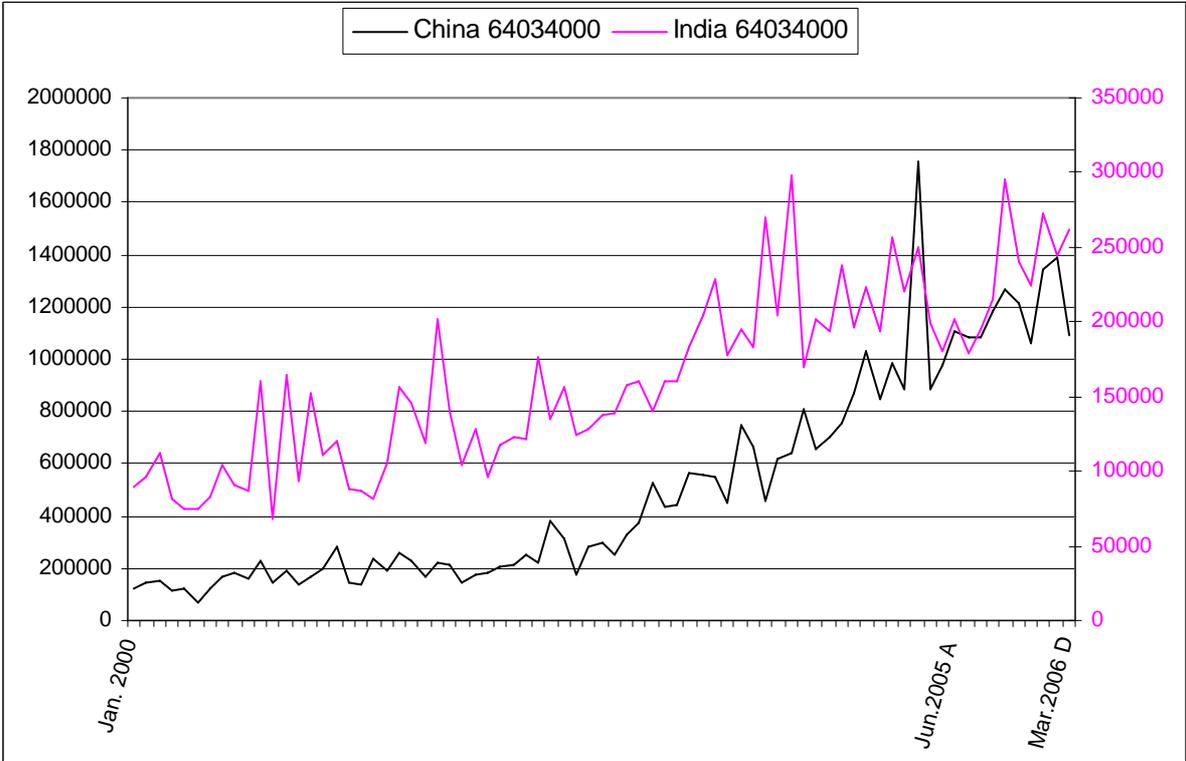
Appendix 10: Quantity - Product group 64051000



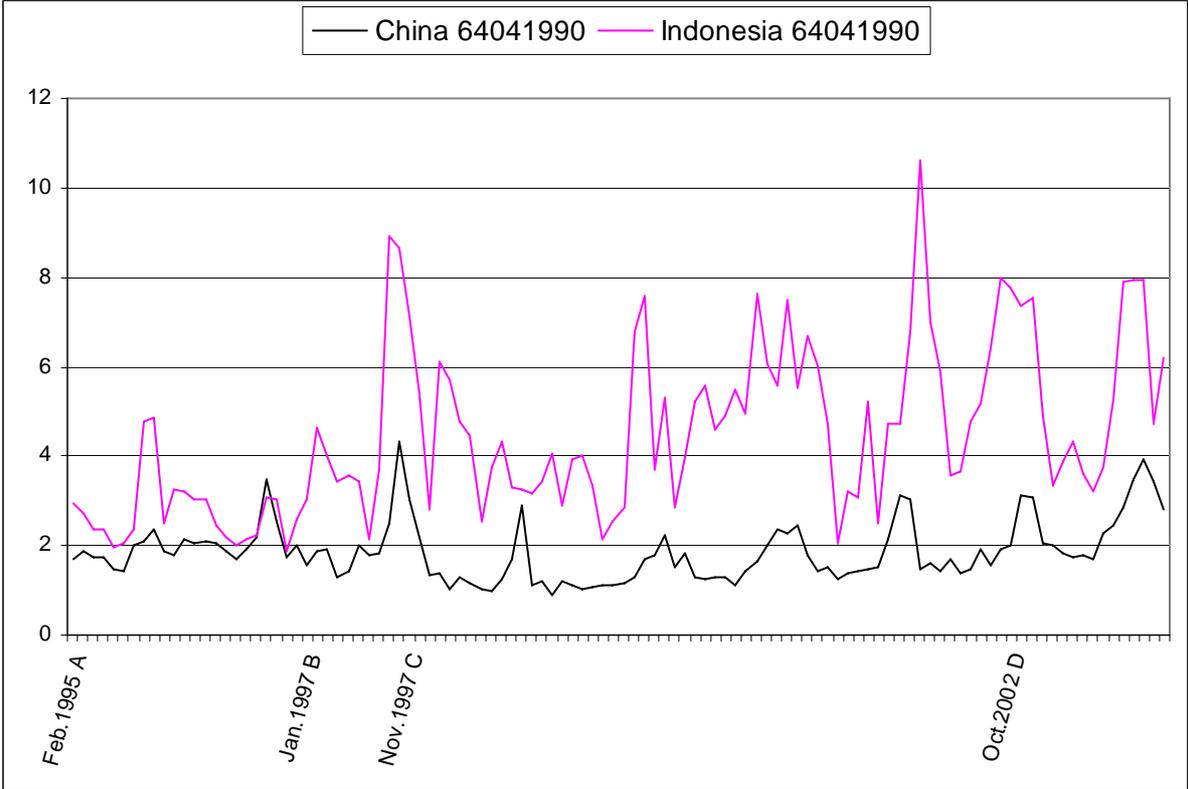
Appendix 11: Quantity - Product group 64023000



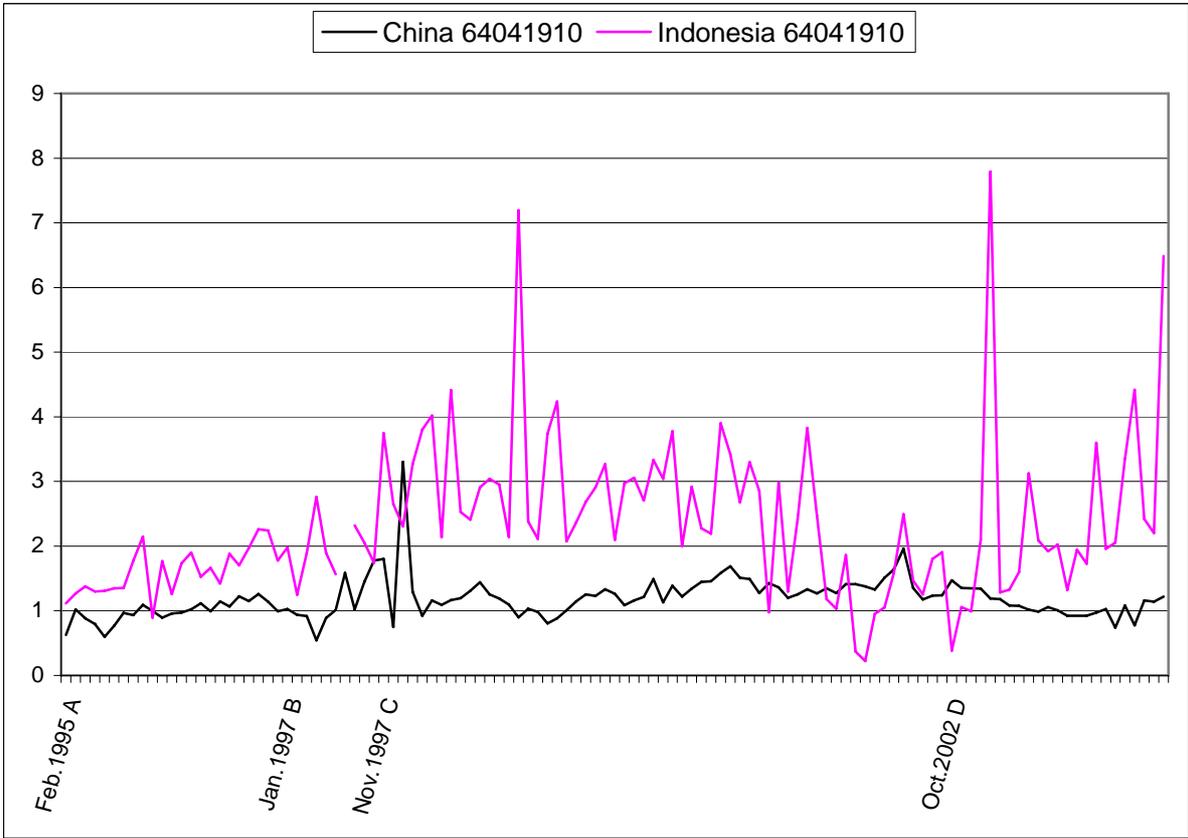
Appendix 12: Quantity - Product group 64034000



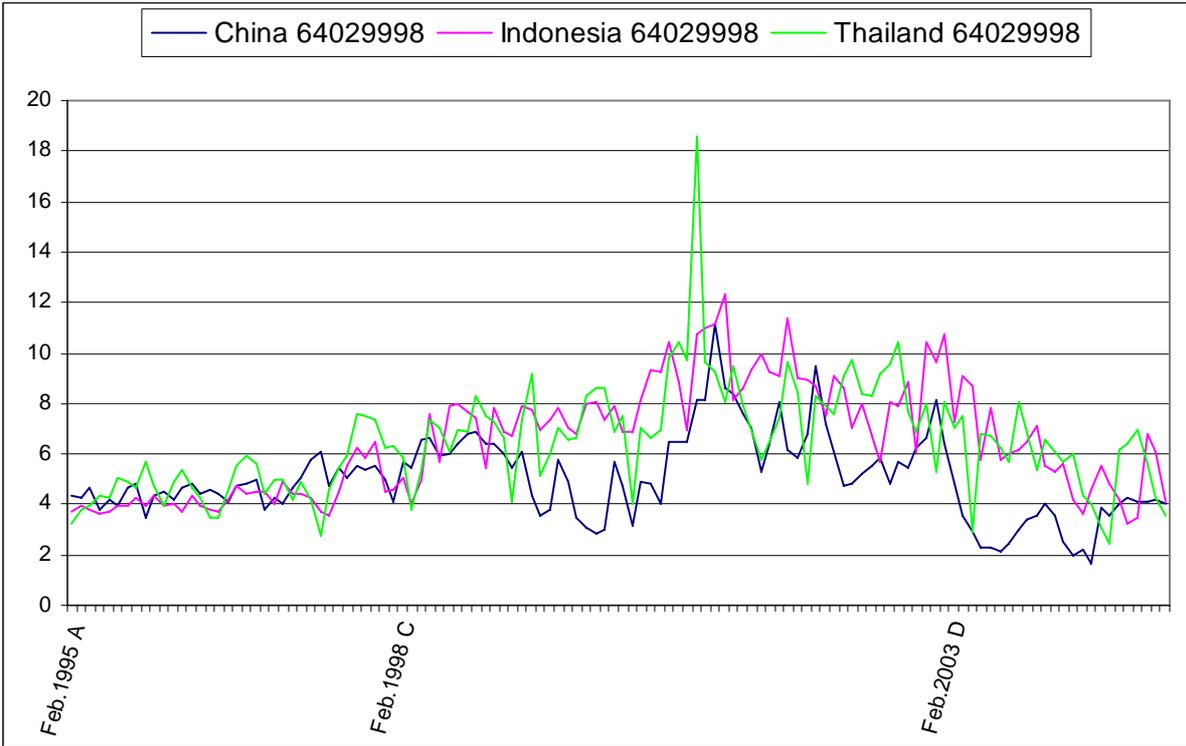
Appendix 13: Price – Product group 64041990



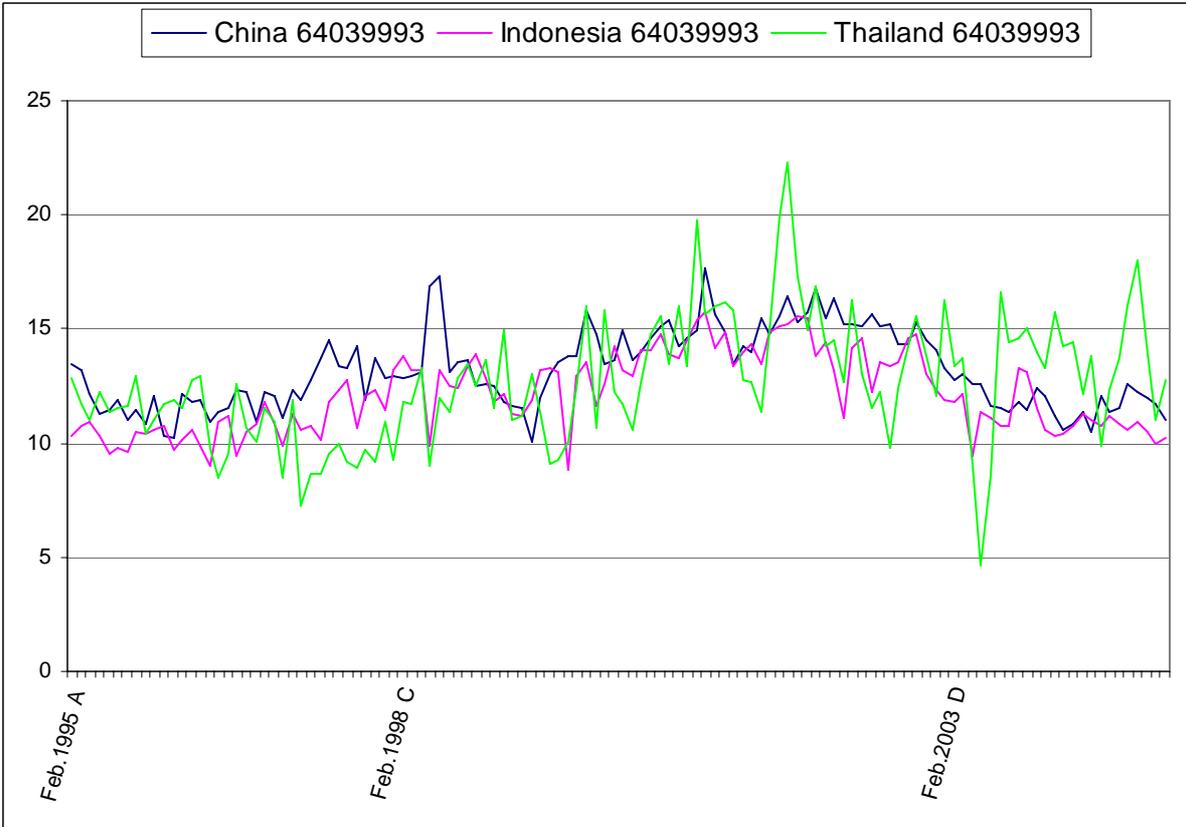
Appendix 14: Price - Product group 64041910



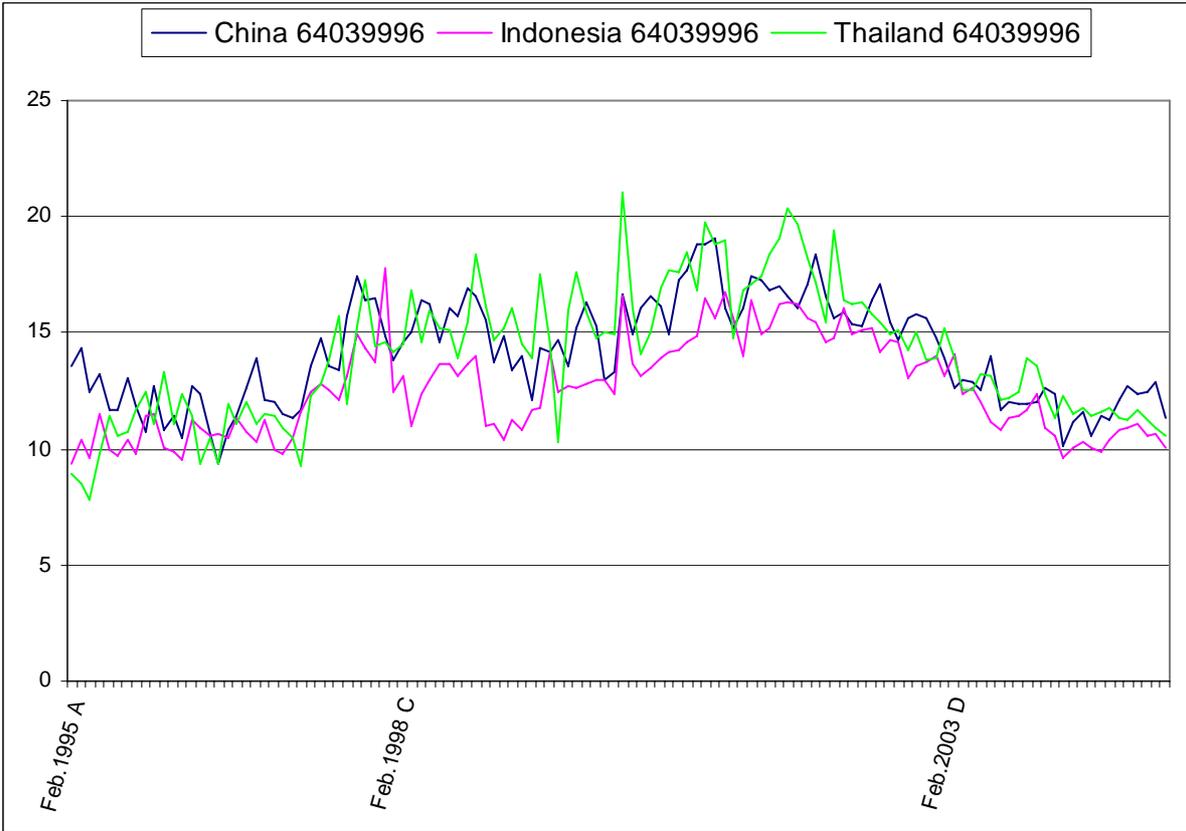
Appendix 15: Price - Product group 64029998



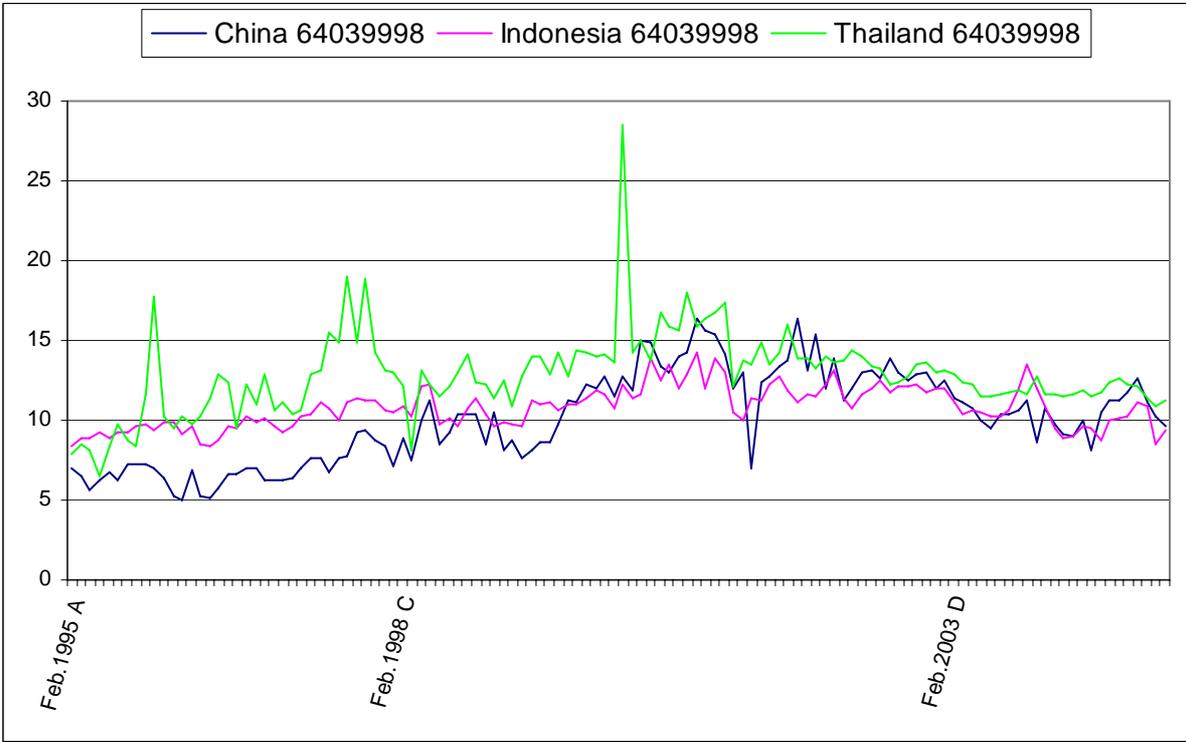
Appendix 16: Price – Product group 64039993



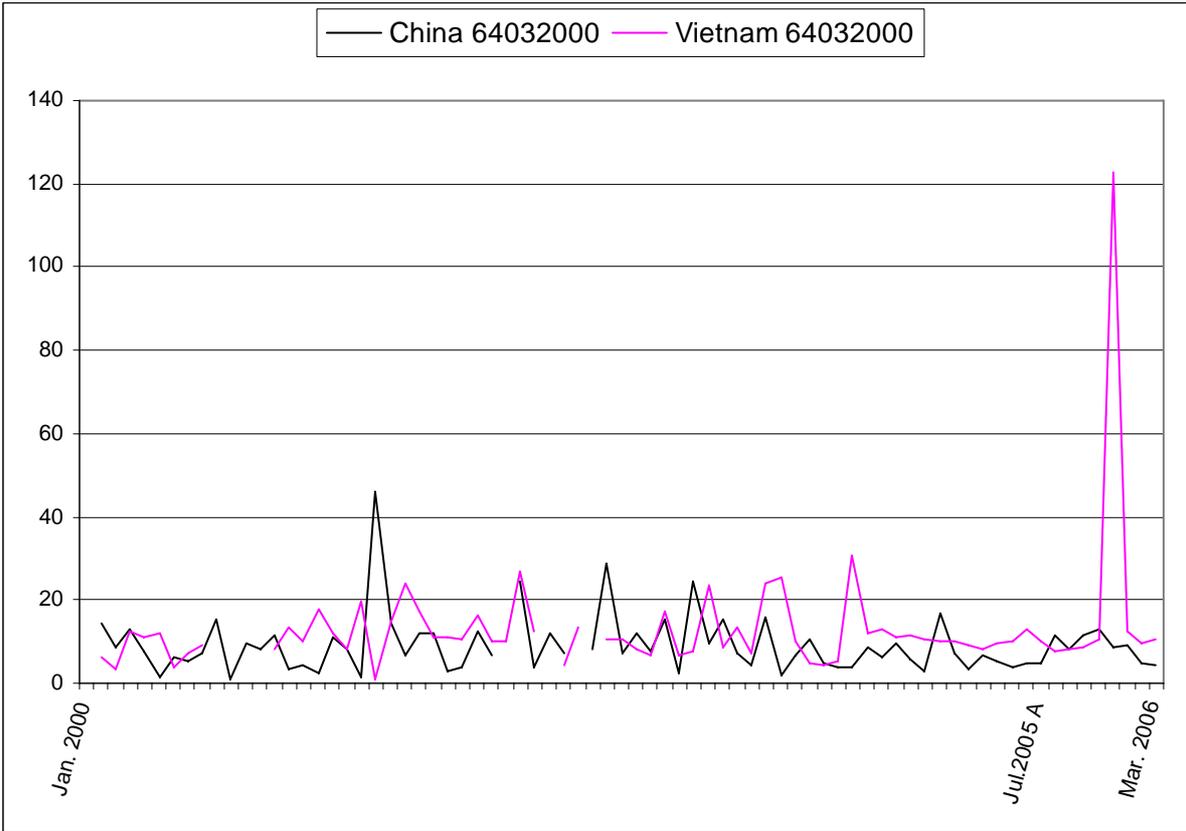
Appendix 17: Price - Product group 64039996



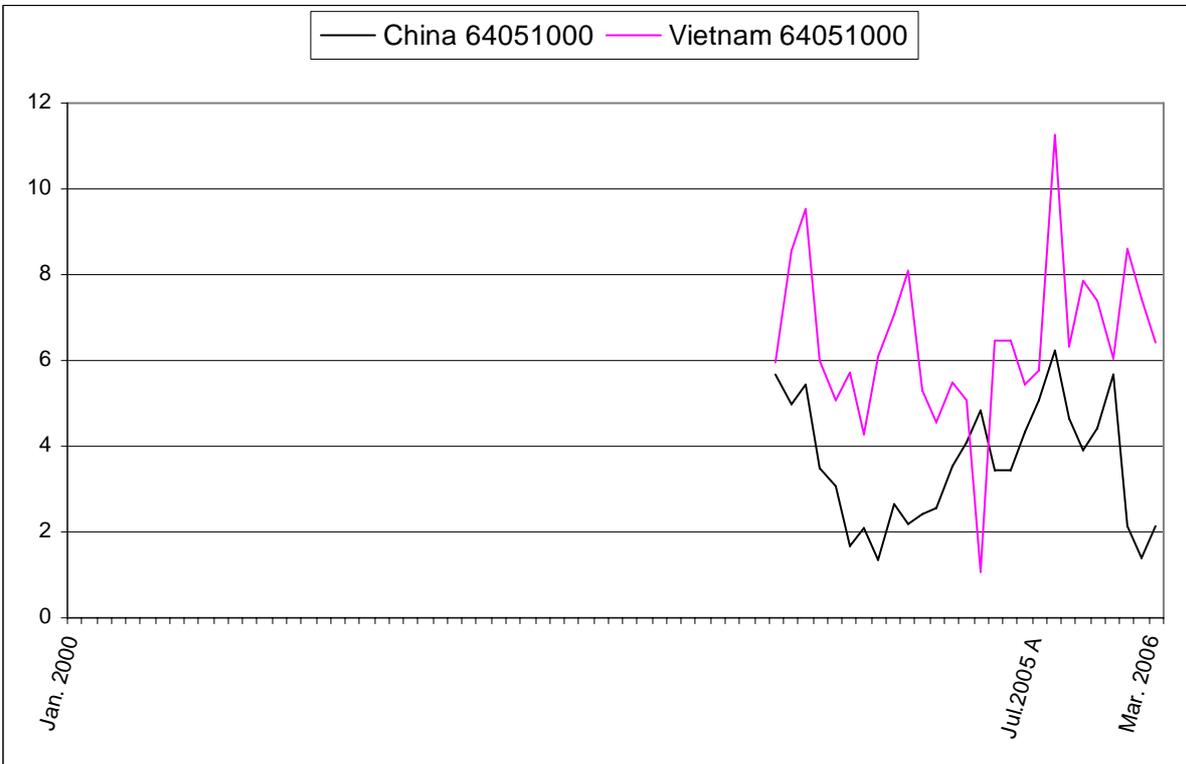
Appendix 18: Price - Product group 64039998



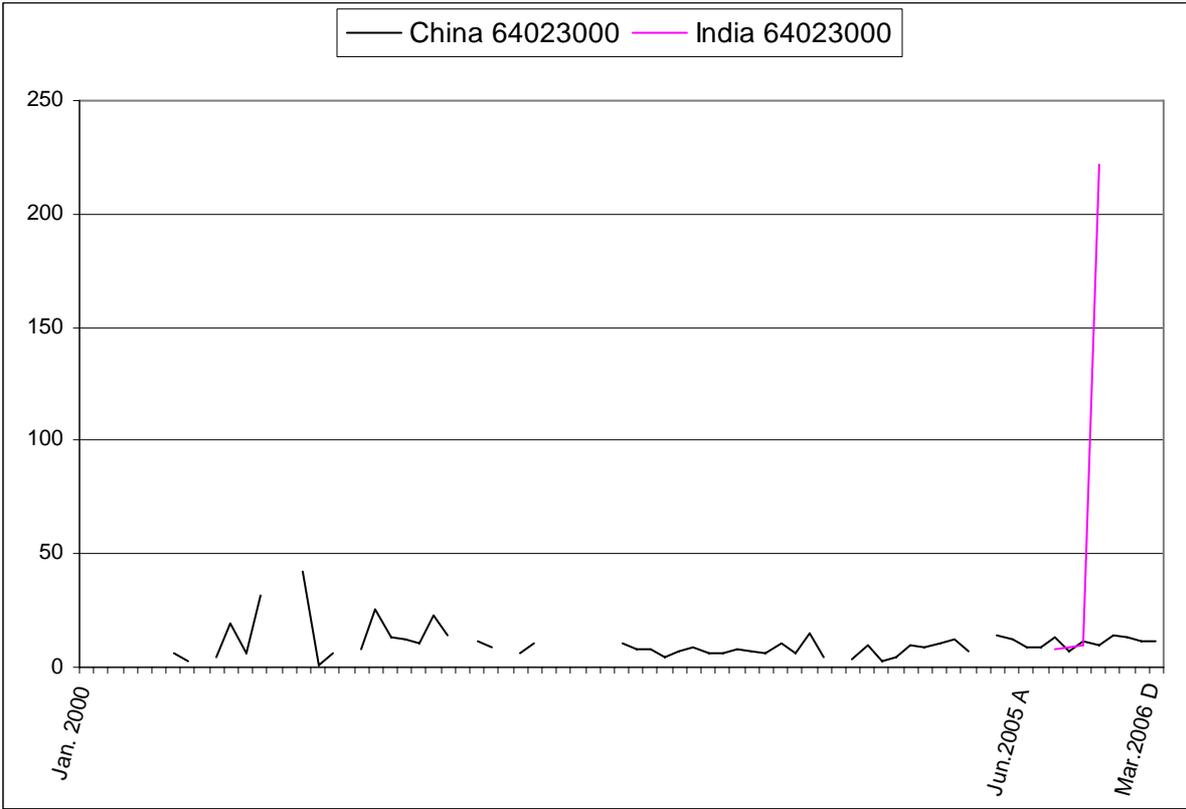
Appendix 19: Price - Product group 64032000



Appendix 20: Price - Product group 64051000



Appendix 21: Price - Product group 64023000



Appendix 22: Price - Product group 64034000

