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# TRADE POLICIES AND THE KENNEDY ROUND

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
NINETIETH CONGRESS  
FIRST SESSION

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MARCH 10, 1967  
—————

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# TRADE POLICIES AND THE KENNEDY ROUND

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FRIDAY, MARCH 10, 1967

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:10 a.m. in room 2221, New Senate Office Building, Senator Clinton P. Anderson, presiding.

Present: Senators Long (chairman), Smathers, Anderson, McCarthy, Williams, Carlson, Bennett, and Curtis.

Senator ANDERSON. The hearing will come to order.

Mr. Ambassador, we are pleased to have you here today.

We congratulate you on your appointment as special U.S. representative.

We would like a statement on the progress of the trade talks and then, perhaps, members of the committee will ask questions.

Go right ahead.

## STATEMENT OF AMBASSADOR WILLIAM M. ROTH, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. ROTH. Thank you very much, Mr. Chairman.

Everything having to do with the Kennedy Round at this time is short. The time remaining is short. Tempers soon will become short, and, therefore, my opening statement will be very short. It will be confined principally to setting forth the issues with which we are grappling in the Kennedy Round of trade negotiations now rapidly moving toward conclusion in Geneva.

Yesterday, at a rather important event, the participants in the Kennedy Round, meeting as the Trade Negotiations Committee, finally established a schedule for completing the substantive bargaining. It calls for resolution of all outstanding major issues by the end of April. To meet this deadline, however, tentative agreements will have to be reached by early April.

We ourselves would have preferred an even earlier conclusion to permit adequate time to translate the results of the bargaining into the formal agreement which the President must approve before June 30, when our authority to negotiate tariff reductions expires. The schedule, as presently set, will require intense, round-the-clock work here and in Geneva if we are to meet this deadline.

Although there is, among the major participants, a common will and determination to conclude the Kennedy Round, success is by no means assured. Pronounced imbalances exist among the offers of major participants. In several important industrial sectors there is as yet no basis for multilateral bargaining because key countries have not com-

pleted bilateral discussions. Agricultural negotiations, particularly those involving grains, have been very active, but results remain in doubt.

Whether or not an agreement can be achieved in Geneva depends on the scope and magnitude of the final offers. Improvement in the positions of key participants is vital to success. Deteriorations through withdrawals of offers and similar modifications of positions will seriously threaten the negotiations.

There is no one key to success. The final package will have to contain a complex combination of ingredients. For the United States, concessions of substantial trade value in agriculture as well as industrial products are a necessity. A number of countries which are important farm markets for us have made quite promising offers. Improvement in European Economic Community agricultural offers, however, will be necessary. A satisfactory international grains agreement assuring access to the European Common Market and to other markets is vital.

On the industrial side, several of our larger trading partners' offers fall short of matching ours. Also very serious differences among negotiating countries have impeded progress in such important areas as machinery, pulp and paper, aluminum, steel, and chemicals.

In textiles, the extension of the long-term cotton textile arrangement for at least 3 years appears to be a good prospect. Agreement on an international code governing antidumping practices also seems a good possibility.

The decision of the United States to accept or reject the Kennedy Round package that is finally negotiated will depend, first, on our assuring ourselves that overall reciprocity is achieved.

Second, we must be convinced that such an agreement will, to quote the Trade Expansion Act, "stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of the United States agriculture, industry, mining, and commerce."

Mr. Chairman, I would be delighted to answer any questions.

I would like to say, first, that we are in a negotiation. Because of this it might be difficult to answer some questions in an open session. I will do the best that I can.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Roth.

Let me ask you, has it been your experience that the Congress and the executive have cooperated very well in this reciprocal trade program?

Mr. ROTH. I think, Senator, more than ever before there has been close cooperation between the two branches. One of the reasons for this is that the Congress, in passing the Trade Expansion Act of 1962, provided for congressional delegates to the negotiations. We have kept in very close contact with them. On the House side we have two. From this committee we have four, and actually on one occasion a fifth.

These gentlemen, almost all of them, have been to Geneva at least once, and some more than that. We try to keep them abreast and, as the negotiations reach their climactical period, it will be necessary for us to consult even more closely.

The CHAIRMAN. Let me say that I voted for that previously, for this Trade Expansion Act on which you are proceeding, as did a

majority of the committee, practically all of the committee, and voted against practically every amendment that the President thought would keep it from being a really good and effective act, and that was the prevailing view of the committee.

It has been my impression that, generally speaking, Congress had been willing to cooperate with the executive very fully since 1934 in this program and, of course, the Congress does have the power to levy tariffs and to cut them. When the President has proceeded in this area, he has been able to rely upon the Congress to give him advance authority that he needed or that he felt that he needed.

Against that background, I would ask why your group did not come earlier to the Congress for authority to talk about American selling price, to talk about negotiations on antidumping proposals, and about agricultural matters. In other words, why not come to Congress before the fact rather than coming in after the fact, to seek an authorization for something that you did not have the authority to do?

Mr. ROTH. I would be delighted to attempt to answer, Senator.

First, on antidumping, we do not think, as of now, that an antidumping agreement, if negotiated, would require a change in the law. In other words, at this point, we are talking only about changes in administrative practices.

On the question of grains, here is another situation in which we are, as I said, working very closely with the congressional delegation. It probably will not need implementing legislation. It will, however, be a treaty and will, therefore, go to the Foreign Relations Committee.

American selling price, as you know, is a difficult problem. The reason we did not come to the Congress before negotiating is that we have taken the position that unless any change in the system is paid for by the other countries, and unless the Congress can take a look at this separate package—separate from the Kennedy Round settlement—and see that there are benefits in it for American industry, for the chemical industry, concerning both tariffs and nontariff barriers, and see that, in effect, it is a favorable package, they will not pass it.

We did not think it right to come to the Congress and ask for authority until we could tell the Congress what we would buy for what we were giving up.

The CHAIRMAN. Yes.

Now, as you know, Mr. Roth, my feeling about this matter is that I favor trade, but only the kind of trade where it is a good deal from our point of view. I am not opposed to out-trading somebody, getting the better end of their bargain. Americans have historically been able to do that; Yankee traders have been pretty good. But I am perfectly content to settle for a deal where it is equally advantageous to both sides, and my thought and the thought of the majority on this committee is that we just do not want to be in a position of having a deal brought to us that is a good deal for the other fellow but not much of a deal for us.

Are you fairly confident that what you are going to bring back here, if you bring anything, would be something that will improve our balance of payments; that is, help to reverse our unfavorable balance of payments and make it more favorable?

Mr. ROTH. Mr. Chairman, on the first question, if our office was set up for anything, it was set up, in part, to act as traders, and as traders

we are not going to bring back a package that is not a good package and a reciprocal package. This is one of the problems that will arise in the later days of the negotiations, when the final deals are made: are we getting as much as we are giving; and is it to our overall advantage? If it is not, we will not conclude the Kennedy Round.

In terms, sir, of the balance of payments, I think it is very hard to forecast what a trade negotiation will do to the balance of payments. Ideally it should do nothing, because all countries should increase their world trade through lower tariffs. As we have still a net export position it should certainly be to our advantage.

The CHAIRMAN. Now, Mr. Ambassador, foreign countries like to take the position that our tariffs are too high and that we ought to just reduce our tariffs without getting anything in return when we do it. than those with whom we are negotiating, the base against which we charge that tariff is usually lower because we compute it on a foreign value basis, and they are usually including the cost of insurance and freight in the base against which they are levying their tariffs, so their base is about 10 percent higher, as an average, than the base against which we are charging our tariff.

Do you think our people are successfully making the foreign negotiators realize that fact, and are we recognizing it in these negotiations?

Mr. ROTH. Yes, sir. The figure of 10 percent which you used is one that the Tariff Commission arrived at after a study some time ago. I think, as an average, it is a valid figure. Therefore, when we look finally at the balance of offers, we put in a 10-percent factor.

The CHAIRMAN. And they recognize that that is correct?

Mr. ROTH. Yes.

The CHAIRMAN. Now, why must it be that these ocean freight rates on East-West trade should be higher than they are on the West-East trade? In other words, when we are trading with European countries, we have to pay higher freight rates on ocean freight than they have to pay. Why must it be that way—is there any reason for it?

Mr. ROTH. Mr. Chairman, in spite of the fact that I used to be in the shipping business, this is really out of my area of competence. I know it is a question under constant study by the maritime authorities and by the Government. It is a matter of concern, but I am not competent to comment on it.

The CHAIRMAN. If you are going to get us a good deal, in some way you must overcome the fact that freight rates on what we are shipping them are higher than on what they are shipping us. You have to offset that somehow. I know it is a problem because, Southern States have just screamed to high heaven about that in trading with Northern States, and I assume that the same problem would exist when a fellow who is shipping to you has a lower freight rate than a man who is receiving your goods.

Mr. ROTH. This is particularly true, of course, in certain commodities.

The CHAIRMAN. Of course, I would hope that in your calculations that you are adjusting for the fact that our foreign friends are measuring their imports on a c.i.f. basis—cost, insurance, and freight—while we are still measuring ours on an f.o.b. basis, and I think we are about the only major country that is measuring it on that basis; is not that correct?

Mr. ROTH. I think that is correct. Canada, I understand, is the other major country. We still feel, Mr. Chairman, it is the proper and the best way and gives us the best control of the data. But it does mean that we, in the balance, have to take it into consideration.

The CHAIRMAN. Here is another thing that seems to affect us. Under the General Agreement on Tariffs and Trade, sales taxes, turnover taxes, and transaction taxes, which are a very significant part of the revenue of the foreign countries, are in many instances rebated with respect to exports while, on the other hand, the American concerns pay most of their taxes through an income tax. My understanding is that the General Agreement on Tariffs and Trade does not permit us to give our traders something back—to rebate any part of that income tax—in order to help them reduce their cost in getting into a foreign market.

Mr. ROTH. This is true. This is the question, Mr. Chairman, of border taxes, which is one of the most difficult issues that we are going to face, not in the Kennedy Round but looking to the future.

When this provision was put into the GATT a number of years ago, it was felt by most economists that added value taxes, for instance, sales taxes, were, in effect, pushed forward into the price and, therefore, it was logical to compensate for them at the border when imports came in; in other words, imports and the domestic product would pay the same tax.

We do this only on a few products, liquor, as I remember it, cigarettes and automobiles. But we do not use the excise tax as much as we use, for instance, the corporate tax, and the theory was that the corporate tax is not pushed forward in the same way and does not have a price effect in the same manner.

I may say that in recent years, however, I think the economists are beginning to wonder whether treating these taxes in different ways is legitimate, and I think this is a difficult question that will have to be studied. We have been discussing it both in GATT and in the OECD. It is a matter of concern to us.

Theoretically, if the border tax exactly matches the added value tax paid by the domestic product, the import should not be penalized. But you can never be sure that this happens exactly. This is one of the problems.

The CHAIRMAN. We have had this foreign aid program, and we have also had trade policies for the years immediately following World War II based on the theory that we had to actually help the other fellow to increase his exports and to improve his balance of payments.

I voted for that coffee agreement. Senator Smathers there persuaded me to vote for it. I am not sure he is right.

Senator SMATHERS. I do not even drink coffee. Why me?  
[Laughter.]

The CHAIRMAN. I was persuaded to vote for it.

Senator CARLSON. I know you were not right.

The CHAIRMAN. That was strictly to help the other fellow, no doubt about it, and now we have to pay more for coffee because of that.

It is one thing to do that back at a time when the other fellow needed some help and we were in good shape. But I hope you realize that in the situation we have now, we cannot afford to continue to trade very



much that way. We are going to have to think in terms now of turning that policy around, especially with our European friends, to get something back for our trade concessions before they take all our gold from Fort Knox.

Mr. ROTH. Mr. Chairman, our approach to this negotiation is that other developed countries are strong enough to take care of themselves, our job is to negotiate as hard as we can. I remember the statement with fondness that Sir Alan Westerman, the Australian negotiator, always used to make when he talked about the grains agreement. All he wanted was a little higher price and to sell a little more.

The CHAIRMAN. But, Mr. Ambassador, let me also ask you about this matter now. How about this antidumping situation?

These foreign countries call our hand on dumping the minute we have a price that is less in their market than it is in ours, and on the other hand, we are still operating under a 46-year-old rule that require a finding that a domestic industry was being injured before we can do anything about merchandise being dumped into the United States.

What are your thoughts about that?

Mr. ROTH. Mr. Chairman, most countries dump, many industries dump, including our own, and this in itself is not wrong.

Our industry, among others, should be able to sell at a lower price abroad if this is necessary. So the concept of injury is important.

But we are concerned about achieving an international agreement on dumping because a country such as Canada does not have an injury requirement. Therefore, if one of our companies dumps in Canada at a lower price, immediately they can take action and penalize that product.

What we are saying is, in effect, that all countries should follow a general pattern very close to the one we do.

Now, in the case of the United Kingdom, for instance, there they have an injury provision, but they do not have open hearings. We do. We say the accused party should have the advantage of having an open hearing.

These are the kinds of reasons why we feel that, from the point of view of the American exports and not to the detriment of domestic industry, an international agreement that would pin some of these things down would be very important. For there is the danger that as tariffs go down in the Kennedy Round, other countries could use their dumping laws to restrict American exports.

The CHAIRMAN. Now, Mr. Ambassador, ordinarily, just on balance, I would not be in favor of doing anything to toughen up our anti-dumping laws, but if the other fellow is going to have a law that does not require a showing of industrial injury in order to do something about the dumping of commodities over here, it seems to me that we ought to follow his lead unless he is going to change to follow ours.

But this, "Heads I win, tails you lose" proposition is the kind of thing that I would hope you would be getting us away from as fast as you can.

Mr. ROTH. That is what we are telling them—that they had all better get in this all together.

The CHAIRMAN. Yes. I certainly hope that we can work together on that.

Now, another problem that we have is the fact that our insistence on our antitrust and antimonopoly practices from time to time has made it possible for our competitors overseas to make various industry-wide cartel arrangements in the price-fixing and market-sharing agreements which have many times made American industries the victims.

Do you know of anything we can do about that?

Mr. ROTH. This does not relate to the Kennedy Round, but in certain specific cases where this has been proven in this country in terms of imports, where there have been arrangements that under our law were illegal, action has been taken. It is something that has to be carefully watched.

The CHAIRMAN. Thank you very much, Mr. Ambassador.

Senator Smathers.

Senator SMATHERS. Thank you, Mr. Chairman. I was thinking we probably ought to be asked in the order of our arrival this morning rather than on their arrival on this committee.

I yield.

Senator BENNETT. I make the point that under those circumstances, Senator Carlson was sitting here before any of us.

Senator McCARTHY. That is right.

Senator CARLSON. I want to yield to the distinguished Senator from New Mexico.

Senator ANDERSON. Just so the Scandinavians are protected. [Laughter.]

Mr. Ambassador, in this text you say in the very first paragraph, "We would have preferred an earlier conclusion to permit adequate time to translate the results of the bargaining into the formal agreement."

How much time?

Mr. ROTH. Three weeks ago, when I went to Geneva, Senator, I suggested Easter as a deadline for the first ad referendum agreement. In other words, the new schedule has advanced it a couple of weeks. This is something we can handle. It just makes the schedule more tight.

Senator ANDERSON. Have you felt that this late decision is such that it might be better to drop the whole thing?

Mr. ROTH. Pardon?

Senator ANDERSON. I was just saying that it might be better to drop the whole thing because of bringing this in late. Nearly everybody I talk to says it is too late. Would there be any great damage if we just dropped the whole thing?

Mr. ROTH. We feel that there is every possibility of completing the negotiation in the time remaining, if everybody really puts their shoulders to the wheel. But if this is not true then we won't have an agreement.

Senator ANDERSON. Well, not everybody is going to put his shoulder to the wheel, either.

Mr. ROTH. They had better. We are. And actually, it is my impression from going to London, Paris, Rome, Bonn, and Brussels, as well as Geneva, that there is every desire to see the Kennedy Round succeed, and not to have it fail. The problem is, can it be done in the time remaining, and also, can we get what we require in terms of balance and, particularly, in terms of agriculture?

Senator ANDERSON. Do we have any sort of agreement now as to

certain results we will obtain, or promises we will make in calling the final session now? Are there any people who can testify on what has been agreed upon thus far?

Mr. ROTH. No.

Senator, in negotiation like this, where you have to finally look at the total package, you do not agree on parts, but you bring the whole negotiation along together, so at the end you have your final bargaining, and you have a total package. This is what the President must look at and decide if it is a favorable deal for the United States.

Senator ANDERSON. Has there been a uniform practice; have they all tried to bring all of these things forward at one time?

Mr. ROTH. Yes. For instance, at any one time in Geneva, you may have meetings concurrently going on in dumping and chemicals and bilateral discussions with the Europeans and the Japanese. All these bring the negotiations along, gradually refining the total package, because what we are talking about here are not a series of bilateral negotiations but a multilateral negotiation in which what one country does, because it is on a most-favored-nation basis, affects a number of countries. It is a very complex affair.

Senator ANDERSON. Can we tell now what has been offered to us?

Mr. ROTH. No, sir. We are not privileged to say what the offers have been or what our offers are until the President finally agrees to the package.

One of the reasons for this, of course, is that what you offer in the first instance you may have to take back if what the other negotiating partner offers is not adequate. In other words, there is a lot of give and take, as there is in a poker game.

Senator ANDERSON. Well, if we do not have any firm offer by now—

Mr. ROTH. We have firm offers, sir.

Senator ANDERSON. You do have?

Mr. ROTH. Oh, yes. As of a year and a half ago, firm offers by all the major countries have been on the table. However, until the very last moment they can be withdrawn.

For instance, we put firm offers on the table, but we have indicated to our negotiating partners in very specific terms that some of those will be withdrawn if we do not get reciprocity.

Senator ANDERSON. As they now stand, are all the proposed duty reductions now from this country?

Mr. ROTH. Pardon?

Senator ANDERSON. Isn't everything proposed to be reduced on this country—by this country?

Mr. ROTH. No, sir. We and all the countries agreed that the general rule would be a 50-percent cut across the board with certain exceptions. We ourselves have translated the word "exceptions" to cover those areas where we feel the tariff cut would have a substantial detrimental effect to an industry.

Now, this gives a country a great deal of flexibility. They can make a 50-percent offer, they can make no offer at all, or they can make a partial offer somewhere in between.

Senator ANDERSON. You used the phrase one time in the sentence, "Are we getting as much as we are paying out."

Can you answer that now?

Mr. ROTH. I can only do it this way, Senator, as I tried before: We are not going to finally agree to a package unless we get as much as we pay out. We are in this basically to benefit the trade of the United States.

Senator McCARTHY. On the question of whether you get something in return, how do you explain the change in position with reference to minimum wheat prices in 1964, 1965, and last year, when you switched away, as I understand it, from your position against a higher minimum price to support Australians and others in raising the minimum wheat price by roughly 40 cents a bushel?

What is the quid pro quo for that?

Did you get a tariff reduction someplace else or was this decision in terms of the world market for wheat? I do not see how we can benefit from that either in the European market, where a higher minimum price would undoubtedly stimulate uneconomic wheat production, or how it would benefit us in the food shortage countries which would have to pay more for their basic wheat before they could even begin to look at our Public Law 480 wheat?

Mr. ROTH. Senator, if I could describe what we are trying to do in reaching a grains agreement, part of the problem is exactly the one that you outlined as far as the Community is concerned.

With the high wheat price in Europe, and the ability, particularly, of the French farmer to put a great deal more fertilizer on his acres than he has been, there is every possibility of increased production in Europe, which would mean that the traditional exporters to the EEC, ourselves, Canada, Australia, and the Argentine, would become more and more marginal suppliers.

Therefore, what we are seeking in this grains agreement is, first, a somewhat higher minimum price for the farmer. Second, we are seeking some method of assuring ourselves access to the various markets, not only the Community but Japan and Britain. The mechanism that we have agreed to use is the community idea of a self-sufficiency ratio. This is the ratio of production to consumption.

When this ratio is breached, as it were, by excess production, let us say, within the Community, at that point we say something has to come into effect that will take excess production off the market, and we are suggesting that excess production go either into stocks or into food aid.

Senator ANDERSON. Or into what?

Mr. ROTH. Into stocks or food aid.

You see, this in effect would take it off the commercial market, thereby leaving the traditional place that we have had for our grains.

Now, in addition to this, however, we are also suggesting that exporters and importers alike join with the United States in a food aid program.

Senator McCARTHY. I do not know what this ratio would be. Does it mean the European countries would become completely self-sufficient with reference to their feed grain and wheat needs, and that this would eventually exclude us altogether from the European market in wheat and feed grains?

Mr. ROTH. Let me answer that in two parts. If we worked out a grains agreement along these lines, and we negotiated a sufficiently low self-sufficiency ratio—the Europeans have suggested 90 percent, but

that is much too high because their present ratio is only around, I do not know, 86 percent—which parallels the real situation today, then this would mean that their excess production would go off the commercial market and our market would be preserved.

Now, with respect to feed grains, which I am sure Senator Carlson knows much better than I, I am sure that looking to the future, our markets will be very good. The Europeans are beginning more and more to use meat. Even in losing, which we have, part of our poultry market, this has been made up by feed grains sales. They need our feed grains. The problem is more difficult with wheat, however.

Senator McCARTHY. Do you think French chefs will learn how to cook steak? [Laughter.]

Mr. ROTH. I understand we are sending over teams to display American techniques.

Senator McCARTHY. Thank you.

Senator ANDERSON. Well, you said a moment ago self-sufficiency ratio.

Mr. ROTH. Yes, sir.

Senator ANDERSON. What would that be?

Mr. ROTH. This is the ratio of production to consumption. It is really just a technical way of indicating the area that should be kept for the traditional amount of imports in grains.

Senator ANDERSON. Are the agricultural areas of this country happy with these suggestions?

Mr. ROTH. Senator, it depends upon whom you talk to and basically what sort of a package we negotiate. We are still in an early stage. But as our position is developed, we are in very close consultation with the producers and with the traders.

I think the farmers have more interest, for instance, in a higher minimum price than the traders, who are more concerned with volume.

In terms of farm organizations, I think several of them are very anxious that we achieve something. One would be opposed. But we are working very closely with the farm groups on this because—and I think this is a very important point—this agreement would be a treaty that we would bring back to the Senate. We would want to be very sure by consultation, particularly, with our congressional and senatorial advisers, that what we brought back was something that everybody agreed was a valuable contribution to the American farm economy.

Senator ANDERSON. You would have to bring it back very quickly, would you not?

Mr. ROTH. Yes, sir.

Senator ANDERSON. Well, take the farm organizations such as the American Farm Bureau Federation, with its large membership; is it for you or against?

Mr. ROTH. The American Farm Bureau is against this.

Senator ANDERSON. That is 5 million out of the 6 or 6½ million farmers.

Mr. ROTH. I am not sure about their membership, but I think the Farm Bureau, if I may say so, would be opposed to any grains agreement.

Senator ANDERSON. How about the Farmers Union, which is second in membership?

Mr. ROTH. I think the Farmers Union and the Grange would both be very interested if the agreement that we arrived at is what they consider an advantageous and a balanced agreement. As a matter of fact, we have a public advisory committee, appointed by the President, of 40 industrialists and farm and labor people. Charlie Shuman is on it as well as D. W. Brooks, and Herschel Newsom of the Grange. Mr. Newsom has agreed to go over to Geneva during the intensive period of negotiations on the grains agreement so that we can get his good assistance and advice.

Senator ANDERSON. Now, these men you named, Charlie Shuman is against you, is he not?

Mr. ROTH. Yes.

Senator ANDERSON. And Mr. Brooks is against you, is he not?

Mr. ROTH. No, sir. I think Mr. Brooks is, perhaps, among other things, terribly concerned with what has happened to the poultry market in Europe.

Senator ANDERSON. I am sure he is.

Mr. ROTH. You remember several years ago we had the great poultry war. We finally decided we could not negotiate their variable levies down. We had certain legal rights. So after fruitless negotiations we finally took action. But this did not help the poultry, except turkeys, where we have a growing market.

Senator ANDERSON. Well, I had better yield.

Senator SMATHERS (presiding). Senator Carlson, do you want to go to the White House? Why don't you go ahead?

Senator CARLSON. I am not going.

Senator SMATHERS. Well, you go ahead anyway.

Senator CARLSON. Mr. Chairman, I was invited to the White House this morning, and I hope I convinced them that I thought this hearing was of more importance to my State and the Nation in agriculture, so they did not press it too hard. I would have liked very much to have gone down.

Mr. Ambassador, I just wish to state this. I regret sincerely that I was unable to be in attendance when you were before the Senate Foreign Relations Committee for confirmation. I was out of the city at that time, but I understand you were asked many questions regarding this trade treaty—proposed treaty.

I do want to say that I was pleased that your name was up. I not only voted for reporting it out of the committee, I am very happy the President appointed you to the position. I think you are going to render outstanding service in this position. It is a very difficult job.

Mr. ROTH. Thank you.

Senator CARLSON. I hope that you will bear with me a little this morning. I do want to get into our agricultural problems. I think it is one of the really pressing problems when you come to the final conclusions in this agreement, and if you will let me just lay the basis in a very brief statement here about the importance of agriculture, I would appreciate it.

You people realize that the largest exporting industry in the United States is American agriculture. As a matter of fact, U.S. agricultural exports reached a recordbreaking \$6.7 billion level in fiscal 1965-66, and that exceeded the previous year by \$600 million. Pres-

ent indications are that the 1966-67 year should exceed \$7 billion, and that is the reason why I think it is so important that we devote some time to the greatest exporting industry that we have.

The degree of dependence on U.S. agriculture on the export market this last fiscal year was 17 cents out of every U.S. farmer's dollar market.

Now, wheat exports last year represented 70 percent of the U.S. production, and exports for the first half of this fiscal year exceeded comparable months by 22 percent.

The cash exports last year provided \$443 million toward alleviating the balance-of-payments deficit. In addition, the money received from concessional sales helped the drain of gold by paying many U.S. Government expenses overseas, and foreign markets, I can assure you, Mr. Ambassador, are vital not only to the wheat producers of this Nation but agriculture as a whole.

From that basis, Mr. Ambassador, I want to devote a little time to this problem, if you will bear with me. I helped write the International Trade Act of 1962, as other members of this committee did, and if I remember correctly, we wrote in it a very distinct provision that required that the agricultural concessions in this treaty agreement were to be given consideration by the Senate, and with a hope that nothing would be done to damage our international trade.

What is the situation? What is the view of your Department on this?

Mr. ROTH. Senator, when I first came as a deputy to Governor Herter, one of the first things I did was to read the legislative history behind the passage of the 1962 act, and certainly it was quite clear that the intent of Congress was that we must have a negotiation that covered both industry and agriculture in a meaningful way. This has always been the position of our Government, of both President Kennedy and President Johnson, Governor Herter, of myself.

The very figures you cite, which indicate that we have had growing exports in agriculture, and an appreciation of what this means in the difficult balance-of-payments situation, would indicate why it is clearly impossible for us to agree to a final package that would contain only industry. It has to cover both.

Senator CARLSON. I have been concerned about some unofficial reports which indicate that the agricultural offers made by the European Economic Community are, in fact, trade restrictive, and they do not necessarily provide a basis for what I would call meaningful negotiations. Have you any comment on that?

Mr. ROTH. If I may comment unofficially, also, it is certainly true that we are not at all satisfied with the agricultural offers of the European Community.

As you know, over the last several years they have worked to put together a common agricultural policy, one that would satisfy each one of the member countries, and to do this they settled at the highest common denominator, and what they have achieved is an agricultural protective system that is just that, very protective.

The offers we have from them are not satisfactory. We have told them so. We do hope to achieve, not all that we feel that we should achieve, but something of value to U.S. agriculture, because again, as your figures indicated, we have a growing market there, and we want to keep that growing market.

Senator BENNETT. Senator, will you yield? I think I have a question that fits in at this point.

As I understand it, the grains agreement that you are working on, the offers you have had from them, would work like a quota; is that essentially true?

Mr. ROTH. Not—it wouldn't be a quota if we were able to work it out. What they have offered as of now in the way of a grains agreement is not acceptable.

They say that when this self-sufficiency ratio is breached—when, let us say, within the community, French production goes above 85 percent, or whatever the figure is—all the wheat countries should immediately consult as to what to do.

We have had agreements like that before which only give us rights of consultation. But what we are asking for at that point is not quotas, but that the excess production be taken off the commercial market, so that the normal flow of imports, the traditional portion of the market that imports have had, will be maintained.

Senator BENNETT. That is what you are asking them. But the effect of their offer is something like a 15 percent quota, is it not?

Mr. ROTH. No. If they were giving us a 15 percent quota, and said, "All right, we will guarantee to take so much grain." we would take a good look at that. But they are offering merely consultation, which is not worth anything to us.

Senator BENNETT. Thank you.

Senator CARLSON. Following your statement, a little earlier about these countries which have no doubt put into effect some protective measures, I wonder if I would be correct in assuming that they placed these protective measures into effect with what we would call variable levies anticipating the tabling of agreements?

In other words, they are in a fine trading position to begin to trade with us. What about that?

Mr. ROTH. Senator, I do not think—this is purely a personal guess—that this system was put in looking forward to the negotiations of the Kennedy Round. I think it was put in because it was a highly effective way of protecting their farm economy. I cannot think of a more effective way.

Senator CARLSON. Well, I noticed, and I have before me your statement before the hearings in the Senate Foreign Relations Committee, and as I read this statement, and I am going to put it in the record, I notice that the agreed common tariffs on tobacco, wheat, corn and rice are higher than the individual tariffs of virtually all the member countries.

I ask you, for instance, as we go through some of these, and I shall not go through the entire list—but take wheat, the average levy in wheat—there are variable types of levies—wheat, dollars per metric ton is \$50.40 in the six European Economic Community countries, ours is \$48.

Then you get to France, ours is a little higher; but Italy is \$51.92, and ours is \$48.

I will ask, Mr. Chairman, to put this in the record.

Senator SMATHERS. Without objection, we will make it part of the record.

(The material referred to, follows:)



## EEC duties and levies

	Average levy, October 1966	Approximate common levy, July 1, 1967 <sup>1</sup>
	<i>Dollars per metric ton</i>	<i>Dollars per metric ton</i>
<b>Wheat (variable levy):</b>		
Germany.....	59.40	43
France.....	40.10	48
Italy.....	51.92	48
Netherlands.....	45.94	48
Belgium.....	39.54	48
Luxembourg.....	39.54	48
<b>Corn (variable levy):</b>		
Germany.....	41.50	26
France.....	24.02	26
Italy.....	5.08	15
Netherlands.....	25.88	26
Belgium.....	16.18	26
Luxembourg.....	16.18	26
	Average levy, October 1966	Approximate common levy, Sept. 1, 1967
	<i>Dollars per metric ton</i>	<i>Dollars per metric ton</i>
<b>Rice (variable levy):</b>		
Germany.....	5.58	40
France.....	50.46	40
Italy.....	40.54	40
Netherlands.....	5.58	40
Belgium.....	5.58	40
Luxembourg.....	5.58	40
	Present duty	Agreed common tariff
<b>Cotton (duty): All EEC countries.</b>	Free.....	Free.
<b>Tobacco (duty):</b>		
Germany.....	16.8 percent plus \$0.062 per pound—Maximum, \$0.187 per pound; minimum, \$0.161 per pound.	28 percent—Maximum, \$0.172 per pound; minimum, \$0.132 per pound.
France and Italy.....	16.8 percent—Maximum, \$0.10 per pound; minimum, \$0.079 per pound.	
Netherlands, Belgium, and Luxembourg.	20.1 percent—Maximum, \$0.119 per pound; minimum, \$0.097 per pound.	

<sup>1</sup> Italy will be temporarily exempted from application of full levy.<sup>2</sup> Levies may be higher if current high world prices are not maintained

Senator CARLSON. They are generally higher when it comes to the levy dealing on the variable levy basis. What comment do you have for that?

Mr. ROSE. I think, Senator, this is true, and this is the reason that unless they are able to lower and bind the trade effect of the levy, we do not have an offer that is worth anything.

Let me take an example where the system is a little bit different, as in the case of lemons, where we have a good trade. They are suggesting putting in a reference price which, in effect, is a minimum import price. If our lemons then come in below this price we have to pay an additional levy in the amount between our price and the minimum import price. This, in addition to the tariff, puts us at a disadvantage.

So even though they have offered us—I should not in open session say how much—a decrease in tariff, as long as they have a higher minimum import price, it does not do us much good, and this is the point we have made clear. It does not do us much good.

Senator CARLSON. Mr. Ambassador, we are discussing up here as to where we get lemons. Are you going to trade lemons off for wheat or feed grains? I will admit I do not know where we get them from.

Mr. ROTH. I would like the record to show, Senator, that I am from California. [Laughter.]

Senator SMATHERS. Will the record show that you can go back there safely? [Laughter.]

Mr. ROTH. I would not dare put that in the record.

Senator CARLSON. While we are discussing the variable levies, has any effort been made or is it being made now, as you are in the concluding days of the negotiations to get these six Economic Community countries to reduce their variable levies? Is that part of the trading program?

Mr. ROTH. Yes, it most certainly is.

Senator CARLSON. Are you having any success with it?

Mr. ROTH. Our major problem, I would say, in the negotiation is with the European Economic Community in the agricultural sector. There has always, let me say from the beginning of these negotiations, been a problem which is perfectly understandable—the Community negotiators have found it difficult to negotiate because they operate under a restricted mandate. They do not have just one overall governmental master, as we do; they have six.

So it has been extremely difficult for them to be forthcoming in the negotiations, and this is particularly true in agriculture, and we are not happy. I would like to be quite frank on that, we are not happy with what we have in agriculture or with the momentum of the agricultural negotiations. In the weeks ahead it is critically important that this momentum, particularly in agriculture, be substantially increased, if we are going to have a successful Kennedy Round.

Senator CARLSON. I think it was Senator McCarthy who mentioned the importance of the access agreement to these countries which would, of course, be the agreement on the part of this entire trade negotiations that will give us permission to enter these countries with our commodities.

Is that going to be done on a quota basis, a percentage basis, or how are you handling this access?

Mr. ROTH. Well, this is especially relevant, of course, in the grains area, and as I said, we are not thinking in terms of quota but in terms of a percentage, namely, using a self-sufficiency ratio. When that is breached, the excess production is taken off the market.

I would like to say, if I could, Senator, that we have had agreements, one in particular, which apparently guaranteed us access. But unless there is some mechanism to assure access, words in a treaty really do not mean much. You may be guaranteed access. But if within the importing country there is a continuing growth in domestic production, sooner or later, no matter what the treaty says, you won't get that access.

So what we are insisting on is a system to take excess production off the market and put it into stock or food aid, so that we will have

something to back the words up. In other words, we will have a treaty that really gives us what we have to have.

Senator CARLSON. My only point in raising this is in negotiating for this access to the European Economic Community it seems to me we must be assured we are not sacrificing other, and perhaps larger, commercial markets for just a slight advantage in the market that shows little potential for expanded wheat imports, for instance.

As you mentioned earlier, there is a great many doubts in my mind that if we get the world price for wheat high enough, as you said, France is going to be in this market, they can expand greatly. As a matter of fact, taking wheat as one problem or topic, I think you can grow it on every continent on this globe. And if the world price is too high, that will happen.

So it just seems to me we must be assured we are not sacrificing a world market just to get a little temporary advantage in the six EEC countries.

Mr. ROTH. I think that is a very good point, Senator. I think sometimes we begin talking of the Kennedy Round and thinking of it as a negotiation between the United States and the European Common Market.

These are only two of the parties. It is a multilateral negotiation. We are just as concerned with the Japanese market, which has been an excellent market, with the British market and, I think, you are quite right, we have to look at our total world sales.

Senator CARLSON. I would like to ask if it is your purpose to make concessions in the U.S. industrial tariffs in order to obtain food aid programs for the European Economic Community or any other country?

That, I understand, is being given some consideration, and the question then revolves around this: are we going to make trade agreements in order to get multilateral aid for food for other countries?

Mr. ROTH. I would like to, Senator, divide that question into two parts. Currently, the Government, and particularly the Departments of State and Agriculture, have been attempting to arrange a consortium of food aid for India. We have not been concerned with this within the negotiations. We look at food aid within a grains agreement as merely one component of an overall agreement.

Secondly, as to whether we are paying for a specific agricultural offer by an industrial offer on our part, I think the answer is that we use both. We use our agricultural leverage and we use our industrial leverage, in order to get overall the best package we can.

Senator CARLSON. We have had some experience, have we not, with grain access agreements? Didn't we sign one with Great Britain in 1964?

Mr. ROTH. I was speaking earlier about a grains agreement that was not satisfactory. This one has not been. It was, may I say, an interim agreement in which we were offering nothing in return except to allow it to happen under GATT for a few years. But I think this is one reason I made the statement earlier that we have to be sure that the mechanisms to take excess production off the commercial market is adequate. I think our experience with the British agreement would

indicate that unless we have that we do not have very much, no matter how good the intentions might be of all parties.

Senator CARLSON. Well, in checking the background of this British agreement which was signed in 1964, it was in effect from 1965 to 1966, I was interested to note that Mr. Hedges, who was the principal aide and the chief negotiator in the deal with the British Government, his own quote was this, "I regret to say from the United States point of view the agreement has not been a success to date."

So in that case we evidently did not fare too well.

Mr. ROTH. I would agree with that.

Senator CARLSON. I am sincerely hopeful that that will not be said of some of the agreements that we enter into in this particular case.

Mr. ROTH. Senator, before we conclude this agreement, I hope you will look at it and give us your thoughts because certainly we do not want to bring back an agreement that will not benefit the American farmer.

Senator CARLSON. I think it is important not just from the farmers' standpoint, but it is important from the economic condition of the Nation because if the farmer isn't prosperous the country as a whole is sooner or later going to suffer.

Mr. ROTH. It is important from the export point of view, too.

Senator CARLSON. I am certain of that. I have every confidence that you are going to work on this, but I can't stress too strongly the importance of your working on negotiations that will be of great value to this Nation.

Can you give me what percent of our total trade with Europe in the EEC is agricultural products?

Mr. ROTH. I think it is about a third.

Senator CARLSON. I would agree with you. I think it is. My information is that it is about one-third of the \$7 billion, probably \$2½ billion in the case of Western Europe and 1½ billion in our trade with the EEC countries.

Mr. ROTH. In spite of all our difficulties, and we have had difficulties, it is growing.

Senator CARLSON. Yes, and we are very happy about it and we want to continue.

You mentioned Japan. Is that not about our best dollar market at the present time for our agricultural products?

Mr. ROTH. Yes, that is an excellent market, and we hope, as a result of the Kennedy Round, to improve our access in that market, and we think we will.

Senator CARLSON. Can you tell me is it in our category of trade with Western Europe, with which we do have our greatest surpluses, trade surpluses, is it agricultural or industrial?

Mr. ROTH. I think our greatest trade surplus would be agricultural.

Senator CARLSON. I didn't have it for the record. If you have it for the record I would like to have it placed in there.

Mr. ROTH. I will get those figures for you. Let me get that for the record.

Senator CARLSON. I would like to have it for the record. I think it is rather important as we deal with this in the future.

(The information referred to follows:)

*U.S. trade with Western Europe as a whole and with EEC, calendar year 1965*

[Value in millions of dollars]

	Western Europe	EEC
Total exports to.....	\$8,584	\$4,904
Total imports from.....	6,171	3,316
Balance.....	2,413	1,588
Nonagricultural exports to.....	6,077	3,427
Nonagricultural imports from.....	5,585	3,046
Balance.....	492	381
Agricultural exports to.....	2,507	1,477
Agricultural imports from.....	586	270
Balance.....	1,921	1,207
Percent of U.S. export surplus accounted for by agriculture.....	79.6	76

Source: Based on data in "Foreign Agricultural Trade," U.S. Department of Agriculture, November 1966.

Senator CARLSON. Is it not true that one of the compelling motivations behind the Trade Expansion Act of 1962 was a grand design to create an interdependent Atlantic community with common defense and the sharing of our responsibilities and a freer flow of commerce in this area?

Mr. ROTH. I think, Senator, that my interpretation of the law was that it should, by creating freer trade among the nations of the world, improve commerce, and bring with it the political and economic benefits that would ensue.

It is true that at the time the Trade Expansion Act was passed in 1962 it was thought that Britain would become a part of the Common Market. Therefore, there is a provision in the law that where the United States and the European community control 80 percent or more of world export trade in a particular category, the President would have the authority to go beyond 50 percent cuts on a reciprocal basis.

When Britain's application for entrance was vetoed, however, this provision became without use because there were no categories of commodities that would fit these requirements. So it is true that more was expected in 1962 than will come out, because of the British situation.

Senator CARLSON. You mentioned the British situation. What about President de Gaulle? He has also pulled out of NATO and that makes some problems with which, as we look at it, looking forward to cooperating in sort of an Atlantic union, Great Britain has refused to get into the multinational nuclear navy, and other countries, and De Gaulle is out of NATO and, as I read it, these six countries have gone protectionist, they certainly have not shown much interest based on variable levies, and really what reason is there for going ahead compulsorily in trying to complete these current negotiations?

Mr. ROTH. Senator, I don't feel it is proper for me to comment on these international political problems. I would like to say, though, that because some of these things have happened, it would be a great disaster if the Kennedy Round failed. Many things could ensue that would be very difficult to foresee at this time, but I would foresee a

hampering in the growth of world trade, more of an inclination, perhaps, for trade to move in blocks, which means that world trade would be at a lower level than otherwise.

It would create a great problem between the two major trading areas, the community and the outer seven, or EFTA, and particularly the Nordic countries. In other words, world trade would not continue to grow as it has, and I think this would have implications that would be unfortunate.

My impression is that the developed countries of the world do understand that quite apart from the advantages to be reached from a successful Kennedy Round, the disadvantages of having a failure are something that must be considered seriously, and this is why, Senator, the next 60 days are really so critical. Can we do it in this period?

Senator CARLSON. Mr. Ambassador, I am delighted you made that statement, because, as I stated, I helped write this act together with other members of this committee and we had hopes for it then and we have hopes for it now because in the world we are living in I think we must have not only trade, we must have communications, and I think through trade you could get communications.

I fully appreciate the importance of it.

My only concern is that we shall get ourselves at the very last in a position here, and I am going to ask you at this place, when we arrive at the place, and you feel that we cannot afford to come to the end of this negotiating period, come to the end of it and then at the same time we get to that point, you are going to say, "Well, we must do something," can we be assured that you are not going to just enter into an agreement, to reach an agreement, if the agreement should not be in the Nation's interest?

Mr. ROTH. I would like to answer that question against the background of my previous statement of the importance of achieving an agreement, because this brings out the sharpness of the problem that we face.

We certainly want to achieve an agreement, and yet we are not going to sign an agreement for the sake of an agreement.

There is always the danger, I think everybody is aware of this, that because of the time element and the realization that an agreement is necessary, we might settle for something that is not fully reciprocal, that is not in trade terms of advantage to the United States, and this we cannot do.

Senator CARLSON. Observing the negotiations from a distance and as one who has visited Geneva twice attending these negotiations, I get concerned that the representatives of the EEC may be delaying final action on their offers with the thought that maybe as we get to the concluding days of the negotiations, that they can say, "Well, we have a few days left, you had better accept this proposal or we will not conclude the negotiations." Is there any possibility that they might be delaying action in order to get better advantages?

Mr. ROTH. Senator, I think basically they have delayed because they have not made the necessary internal decisions within the Community. For instance, as you know, in the agricultural field, the common agricultural policy is still not fully achieved. They are still working on it.

The second reason, I think, is the cumbersomeness of their negotiating system because, again, they are dealing with six countries.

Let me say, however, that obviously in any negotiation there is always the possibility of some feeling on the part of some people that if they wait then the other parties to the negotiation might settle for less. So all we can do is to say it will be a rude shock, because we are not going to settle for less.

Senator CARLSON. Mr. Ambassador, you have been most generous in your responses to the questions regarding the agricultural situation and I have just one more matter and that is it is my understanding that oil is not involved in the Geneva negotiations.

Mr. ROTH. That is right.

Senator CARLSON. But for the record, Mr. Chairman, I would like to call the attention of the committee for its future consideration to some particularly disturbing facts and developments regarding oil which warrants the concern of this committee and the Congress.

(The statement referred to follows:)

#### STATEMENT OF SENATOR CARLSON

It is my understanding that oil has not been involved in the Geneva negotiations. However, I would like to call to the attention of the Committee, for its future consideration, some particularly disturbing facts and developments regarding oil which warrant the concern of the Congress.

Petroleum is the largest item in world trade. Oil imports into the United States constitute the largest deficit item in our balance of payments.

Oil imports have been limited by proclamation by three presidents since 1959. This authority was authorized by Congress in the National Security amendment of the trade act. That amendment was put into the law primarily because of Congress' concern over the oil import problem.

Unfortunately, the purpose of the present Mandatory Oil Import Program—to restore a healthy, vigorous domestic oil producing industry capable of meeting emergency and defense fuel requirements—has not been fulfilled. The domestic oil producing industry remains severely depressed. Oil exploration and drilling are in their 10th year of decline. Active rotary rigs at work in the United States are at the lowest level since such drilling statistics were begun in 1938.

As a result, we are finding less oil than is being consumed and therefore the outlook for maintaining a position of strength as to energy supplies is worsening day by day.

By any yardstick, all experience under the import program since 1959 indicate that total import levels, now approaching three million barrels daily, have placed an unbearable economic drag on domestic drilling and development. By any judgment, imports under the program—while stabilized to a degree—simply have been stabilized at too high a level.

The import program is fraught with a number of loopholes and weaknesses which should long since have been administratively corrected. I won't detail these weaknesses, but they are such as to undermine the program's effectiveness. In addition, a number of new "loopholes" are threatening, due to pressures to circumvent the program and to use various gimmicks such as "foreign trade zone" plants for petrochemical manufacture, which would have the result of raising oil import levels even further and demoralizing the domestic producers even more.

Even more distressing, Mr. Chairman, have been recent assertions by Administration leaders that they stand ready to manipulate the import program as a means of controlling petroleum product prices. The Administration has no such authority. Certainly, the Congress never intended that the National Security amendment be used for this purpose.

These threats are not conducive to confidence that oil imports will be effectively limited. They add to the already large accumulation of evidence, Mr. Chairman, that if our security as to oil is to be maintained, then perhaps the Congress ought to give thought to a legislative means of accomplishing effective and long-range stability of oil imports.

Senator CARLSON. I shall not dwell at length on it. As we all know, petroleum is the largest item in world trade, oil imports to the United

States constitute the largest deficit item in our balance of payments and are one of the things that this committee should consider.

I wish to place in the record as part of my statement at this point an Associated Press wire story dated February 21, 1967, which defines the Government's threats recently on pricing, and I would like to put in the record a letter dated February 27, 1967, from Mr. Knightley, president of the Kansas, Inc., Oil & Gas Association to Mr. Luce, and two press statements dated February 18 and 26; and a statement by Mr. F. Allen Calvert, who is president of the IPA of America with some of these comments on these threats.

Senator SMATHERS. All right, sir, without objection.

Senator CARLSON. Thank you.

(The documents referred to follow:)

#### GASOLINE PRICES

WASHINGTON (AP).—The Government will move to force gasoline prices down by increasing imports unless oil companies roll back 1-cent-per-gallon increases this week, Under Secretary of the Interior Charles F. Luce said today.

Luce, heading Government attempts to get 10 oil companies to rescind price hikes, outlined in an interview three steps the Government might take to increase gasoline supplies:

Reallocate to importers the quota of 30,000 barrels a day of petroleum products which the Defense Department currently is not using. The quota now is not filled as part of the administration effort to reduce the balance-of-payments deficit.

Shift from domestic to foreign oil producers some Defense Department purchases now made for overseas use. The shift would put more oil on the non-governmental domestic market.

Allow Commonwealth Oil Refining Co. to ship in more gasoline from its Puerto Rico refinery; increase the quota that Hess Oil Co. is allowed to bring in from its new Virgin Island refinery.

Should these steps prove ineffective, said Luce, the Government could work to increase crude oil production by holders of leases on Federal lands.

All the increases to date have involved gasoline prices east of the Rocky Mountains.

One major distributor—Humble Oil & Refining Co., principal marketing unit of Standard Oil Co. of New Jersey—has not upped its prices.

Luce has urged Humble to hold firm and said this could eventually force the other companies to back down. Humble has an estimated 10 percent of the market.

Luce indicated the Government might not have opposed an increase of less than 1 cent specifically designed to benefit dealers and jobbers.

He said high profits reported by the companies don't necessarily apply to the middlemen, "some of whom have been having difficulties."

KANSAS INDEPENDENT OIL & GAS ASSOCIATION,

Wichita, Kans., February 27, 1967.

HON. CHARLES F. LUCE,  
Under Secretary, Department of the Interior,  
Washington, D.C.

DEAR MR. LUCE: This will advise you that we take strong exception to your recent efforts to have a one-cent gasoline price increase rescinded. We object even more strongly to the methods by which you suggest such a rescission might be accomplished. The employment of the import program as a club bespeaks a frightening lack of understanding on your part of the history and importance of the program.

While admitting that some of the international oil companies have enjoyed enormous profits in recent years, we solicit your review of the fact that the important independent producer segment of the petroleum industry has struggled during the life of the mandatory program through a period of declining crude prices and burgeoning operating costs. Only in the last quarter of 1966 did a modest price restoration of eight (8) cents per barrel add light to an otherwise gloomy picture. Since the first of the year, that crude increase has largely been erased by an advance in the price of oil field tubular goods.



National security considerations, upon which the import program is based, demand a healthy and vigorous domestic producing industry. That state of vigor can only be secured by adequate producer incentives. Of these, an adequate price for a barrel of crude oil is the best single answer.

Crude oil prices, which now account for only slightly more than seven (7) cents in the price of each gallon of gasoline, could be restored significantly without creating a burden on the consumer. Nor would such an increase impinge on the important jobber-dealer segment of the industry. But your glib attempts to control refiners in this instance send aglimmering any chance that we might have had for a restoration even to 1958-1959 crude price levels.

We submit that intense competitive factors in the marketing segment of the petroleum industry will establish realistic retail price levels, not government fiat. Nor are we aware that the Department of the Interior has ever been granted any price-fixing authority.

Contrary to your stated view, we assert that the best way to assure low consumer prices is to insure an abundant supply of domestic crude oil. A condition precedent to that is a revitalized exploratory effort in the United States. Your statements of policy for the Department of the Interior only discourage or thwart that effort and are not in the public interest.

Perhaps a review of the whole import program and its administration by Interior by a standing committee of the Congress is long overdue. This might be an appropriate time to conduct such a hearing.

In conclusion, we suggest that your recent conduct in the premises has amounted to an illegal and ill-advised mis-use of administrative power. We urge you to reconsider.

Respectfully,

JOHN H. KNIGHTLEY, *President.*

#### INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA INFORMATION SERVICE

TULSA, Okla., Feb. 18—A spokesman for the nation's crude oil producers today criticized actions by the federal government which he said "are directed at preventing petroleum prices from recovering from severely depressed levels."

F. Allen Calvert, Jr., president of the Independent Petroleum Association of America, said nominal increases in some crude oil prices in the past year as well as recent gasoline price adjustments "were long overdue and followed almost a decade of price erosion and cost-absorption by the petroleum industry."

He declared unauthorized government opposition to "any oil price restoration" ignores severely depressed economic conditions that have brought on a 10-year drop in domestic oil and gas exploration, drilling and development.

Calvert said the Department of Interior has been expressing concern as to declining oil exploration and drilling activity "for several years," and added:

"In the past two weeks that Department has received a comprehensive report, prepared at its request, which pointed to price conditions as a major factor discouraging petroleum exploration and drilling in the past decade."

He said Interior currently is conducting a broad study aimed at identifying problems involved in meeting greatly expanded petroleum needs in the next 15 years. "To find and develop new petroleum supplies on a scale anticipated by the Department," he said, "is going to require expenditures of funds that couldn't possibly be generated under the industry's present depressed price structure."

He said the idea of saving the consumer a few cents temporarily, "under the guise of avoiding inflation, is hardly worth the risk of not having the oil he will need in the future, and not having the oil the nation will need if it is to maintain a position of strength as to essential energy supplies."

Calvert said the nation's independent oil producers have been shrinking in numbers since 1957 "due to extreme economic hardship resulting in large part from depressed and eroding crude oil prices," and added, "an adequate crude oil price depends upon realistic petroleum product prices."

He said the petroleum industry generally, and independent producers in particular, "far from contributing to inflation, have been victims of inflation for 10 long years."

Calvert cited the following "10 tests" which he said indicates that petroleum prices "are relatively low" by any yardstick:

1. An hour's wage (based on the average for all manufacturing industries) now buys 8.5 gallons of gasoline which is one-third more than ten years ago and 10 percent more than five years ago.

2. The biggest factor in the change in gasoline prices is Federal and State taxes which have increased by 1.7 cents per gallon or 20 percent during the past ten years.

3. In terms of prices to the industry, excluding Federal and State taxes, an hour's wage now buys 12.5 gallons of gasoline, 40 percent more than ten years ago.

4. The industry's price of gasoline at service stations has been consistently low in relation to the average retail price of all consumer goods. Today's gasoline prices are only two percent above the 1957-59 levels, in contrast to an increase of 15 percent in the cost of living as measured by retail prices generally.

5. The average wholesale price at refineries of the industry's four principal products (gasoline, kerosine, distillate fuel oil and residual fuel oil) also has been consistently low in relation to the general level of all wholesale prices. Wholesale prices for petroleum products are now 3 percent below the 1957-59 level, in contrast to an increase of 6 percent for all commodities.

6. The average price of crude oil declined by 22 cents per barrel, or 7 percent, from 1957 to 1965. Upward adjustments since 1965 average only 3 cents or 1 percent.

7. The price of crude oil, like the price of petroleum products, has been consistently low in relation to wholesale prices generally. Crude oil prices are now 3.5 percent below the 1957-59 level, in contrast to an increase of more than 6 percent in the average wholesale prices for all commodities.

8. Crude oil prices are also low in relation to the average price of other crude minerals. The price of these other minerals is 10 percent above the 1957-59 level, in contrast to a decrease of 3.5 percent in crude oil prices.

9. Crude oil prices are low in relation to costs. Average oil-field wages are 25 percent above the 1957-59 level; the cost of oil-field machinery is up 10 percent; and the cost of oil-field casing is 8 percent higher—vs. the 3.5 percent decrease in crude oil prices.

10. The "real" price of crude oil, expressed in constant dollars has dropped by 60 cents per barrel, or 20 percent, during the past ten years.

**STATEMENT BY F. ALLEN CALVERT, JR., PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA**

The United States Congress should act immediately to investigate the threat of Interior Undersecretary Charles F. Luce, obviously acting at the direction of higher authority, to undermine the security-oriented oil import program as a political power play to prevent a partial and fully justified restoration in oil prices.

Actions threatened are questionable as to achieving the ends sought as well as to their legality. Congress has delegated no price-fixing authority to the Administration. Lacking such authority, the Administration proposes to misuse a law designed for one purpose and one purpose only—to preserve the nation's security.

The actions proposed are illogical. They would penalize domestic independent producers who by any yardstick have suffered direly the past ten years, and whose participation in domestic exploration and drilling is vital to our future oil supplies. The need to find additional oil supplies in the U.S. is well known to the Government.

In addition to the questionable legality of these threats, and lack of assurance that they would work, actions to increase foreign military purchases of petroleum products and import additional gasoline supplies would aggravate our chronic balance of payments problem, in which oil imports already are the largest adverse factor.

Such action is inconceivable when government has at its fingertips facts which show that oil prices for a decade have been going down while prices generally have been going up. In addition, industry has annually absorbed higher wages, increased costs for materials and additional taxes. Oil is one major industry that has not contributed to inflation. Now that its prices are moving toward nominal recovery, the industry is to be politically horsewhipped.

Lastly, such actions would destroy confidence in a program which has been admirably administered by those responsible for import regulations in the Interior Department. The nation's security as to petroleum supplies makes it essential to maintain the integrity and effectiveness of the import program.

[From the Wichita Eagle and Beacon, Feb. 26, 1967]

"GAS" CRISIS MAY OFFER ATTRACTIVE ALTERNATIVES

This so-called gasoline price crisis is a real gasser.

Whether by design or the most astute bit of bumbling in politico-economic history it has put the oil industry's giants in a terrible jam—they can either have their cake, eat it, or both.

"If you don't cut back the gasoline price, we'll raise imports of foreign oil," says the acting Secretary of the Interior. That would be terrible, the importers agree as they beat each other on the back with delight. Or, says the government man "we'll increase production on your federal leases in the Gulf!"

The delighted captains of industry fall all over themselves in glee and push construction on the million barrel line from New Orleans to Chicago.

The country's biggest company is playing it quiet—waiting for the secretary to throw in the Statue of Liberty and the steam concession in Yellowstone Park.

People in the gallery are cheering the acting secretary. They don't know what he is talking about either. "That man is showing the big oil companies where to get off," they say. An ignorant little boy says "Mamma, is that man president of Jersey Standard?" Hush child.

The independent producers don't know what to do. They know by experience that if the majors get nothing they'll get less. And if the majors get something, they'll get nothing. Unable to choose between these alternatives, they've asked for an investigation. This is calculated to divert their minds from their gradual extinction.

Out in the boondocks, an oil country magazine is playing it straight—this looks like "government by threat, intimidation and reprisal," it says. To arms, men. It also looks like a lot of frosting on the cake.

The crisis will arrive this week. Then the oil companies will decide whether they want to retain the one-cent increase on gasoline and get more imports, retain the one-cent and get more production from the Gulf, or roll back the increase and get nothing. It's a tough decision. A penny for your thoughts.

The only smart man in Washington is the Secretary of the Interior. He left town.—Ted Brooks

Senator SMATHERS (presiding). If the Senator from Utah will excuse me, I may have to leave, so I would like to take 5 minutes.

Mr. Ambassador, first I want to congratulate you on your new job and I want to congratulate you and Ambassador Blumenthal and particularly Eric Wyndham White, on the fine job you are doing thus far. I don't know of a more complex and more difficult job than that which you gentlemen have been involved in, where you are trying to get all these nations of the Western World to agree to give up something that each of them wants very much to retain.

One other statement: Like the Senator from Kansas, I have been to Geneva and watched, and in some small way participated in, the negotiations and I must confess that I at this moment am not very optimistic about there being an agreement. Some of the European countries apparently believe that now that we are getting right down to the end of this thing, that at the final minute the United States is going to give up considerable of its position. You have stated, and I think properly so, that you are not going to see an agreement entered into that is unfavorable and unfair to the United States and our farmers and our exporters.

I want to ask you if you would repeat for us the statement which you made to the Foreign Relations Committee, in which you considered yourself in a big poker game—it is, of course, for gigantic stakes. You did not consider that you could be a good negotiator unless you were willing to get up and walk away from the table if you thought the stakes were not correct or fair, is that right?

Mr. ROTH. That is absolutely correct, sir, and as we get into these final weeks, I think we all have to appreciate—all the negotiating partners have to appreciate—that we are not playing with fake cards. We are playing with real chips, real cards, and in a negotiation you do have to be willing and ready to walk away from the table if you don't feel that what you are getting is a balanced deal.

Senator SMATHERS. And you do state to this committee and for the record that unless in your judgment we have arrived at what is a reasonably satisfactory agricultural agreement with the European Common Market principally, and all others, that there will be no agreement.

Mr. ROTH. There must be a balanced package which includes industry and agriculture. This doesn't mean that in each case, in each country, in each commodity there will be a satisfactory deal, but overall, and this includes the Common Market, there must be a package which includes both elements or I don't see any possibility of agreeing to it.

Senator SMATHERS. You further state for the record that insofar as you and your cohorts in this endeavor are concerned you do not consider that this GATT operation is in any way connected with the AID program of the United States?

Mr. ROTH. I am not quite sure of the question.

Senator SMATHERS. Let me restate it.

Mr. ROTH. Let me say, again, in terms of the grain agreement, we see food aid obviously of advantage to the less developed countries, but what we are concerned about is, first, taking excess production off the market, and then, secondly, making a separate food aid contribution. But we look at this, my office looks at it, in terms of getting a grains agreement that will really work. This is the only place within the Kennedy Round that the question of food aid comes up.

Senator SMATHERS. All right. Let me rephrase my question a little bit.

There is great concern, as you can see from the questions which have been asked you this morning, that our negotiators somehow might misunderstand the willingness of Congress to give this authority to enter into what we call the Kennedy Round agreements, that it might be construed by them as a way to expand our aid program rather than to have this Kennedy Round stand on an actual quid pro quo basis. Improved world trade is good for all of us, but no country should be required to give up more than it receives.

Mr. ROTH. That is a question I would be delighted to answer, Senator.

It is true that with less developed countries we are not requiring them to give full reciprocity. But in a way, I think you asked a very basic question: Are we looking at trade negotiations as if it were an expanded aid program?

We are not and, as I said earlier, it is our feeling that the developed countries of the world, and this includes the Community, are big enough and strong enough economically to look after themselves.

Our job as traders and negotiators is to look after the interests of the United States and get as good a deal as we can.

Senator SMATHERS. And when you say as good a deal as you can, if you are not satisfied that it is a good deal you are still willing to get up and walk away from the table?

Mr. ROTH. No deal.

Senator SMATHERS. All right.

Let me ask you a couple of more questions and then we will go to Senator Bennett.

You are, of course, aware that we have a balance-of-payments deficit.

Mr. ROTH. Yes, sir.

Senator SMATHERS. And that it is of great concern to the fiscal and monetary experts of the Nation.

In your judgment, would the Kennedy Round agreement improve our balance-of-payments deficit or not?

Mr. ROTH. I mentioned a little earlier, Senator, that it is very difficult in a statistical way to put together an analysis which would show how the balance of payments would be affected. But our basic feeling is that, if we negotiate a reciprocal deal and if it is a good package, world trade generally should increase and that it shouldn't affect our balance of payments one way or another, except that insofar as we are already in a surplus position this position would be improved.

Now, Senator Carlson was mentioning the importance of agriculture in this, and the growth in agricultural exports. All of these kinds of things should be of assistance to this country.

Senator SMATHERS. Have you calculated or can you calculate the amount of trade that we have lost to the Common Market in its efforts to build a common protective barrier? In other words, how much did our waiver for the Common Market cost us?

Mr. ROTH. Actually, of course, in the field of agriculture, which is where this particular protective system comes into effect, our trade with the Common Market has increased.

It is true that in certain areas the new system hasn't come into full effect, so we don't know what effect it might have in the future, and this is what we would like to do something about in the negotiations.

In at least one famous case it has already come into effect and hurt us, poultry. We were hurt, according to the amount adjudicated in Geneva, by \$26 million. So we took action against the Community by raising duties on Volkswagen-type trucks, brandy, and starches to the amount of \$26 million.

The following year their U.S. sales of Volkswagen trucks went down by about 20 percent.

This is the kind of thing we don't like to get into because it doesn't help poultry, but you have to maintain a balance of advantages.

Senator SMATHERS. All right.

A question has been submitted to me by the staff: As I understand the escape clause action on safety pins—and I think they use safety pins as a general illustration—was terminated in January 1966 but we have not yet withdrawn the compensatory concessions we gave the United Kingdom in 1962 when the escape clause action was invoked. Is that correct?

Mr. ROTH. I think, sir, that is correct, and we have been telling them they had better get on the ball. Let me say that a number of escape clause actions have been rescinded because it was felt after study by the Tariff Commission and by the Government and finally by the President, that the protection temporarily required was no longer necessary.

The most recent were glass and watches. We are in negotiation with the Swiss and with the Belgians now, and a new balance of concessions will be negotiated.

Senator SMATHERS. All right.

The next question to that would be, why should we terminate an escape clause action before a foreign country is willing to either give up the compensatory concessions we gave it or reduce the retaliatory tariff increases it might have assessed against U.S. exports?

Mr. ROTH. Excuse me, Could I go back to your previous question?

Senator SMATHERS. Yes.

Mr. ROTH. Mr. Norwood just said to me, on safety pins, that is being worked out and we should get something in return.

Senator SMATHERS. Well, that is good. All right.

Then this other question, then, is why should we terminate an escape action before a foreign country is willing to either give up the compensatory concessions we give it or reduce the retaliatory tariff increases it might have assessed against U.S. exports?

Mr. ROTH. Senator, actually under the law, as I understand it, we are required to terminate the escape clause rate or quota when it is determined that this extra protection is no longer necessary.

Then traditionally we immediately go into negotiation to again reach a balance by readjusting the compensatory settlement.

In trade this is sometimes a slow matter. When you realize that the Kennedy Round has gone on for 4 years, even discussing safety pins can take a long time between nations.

Senator SMATHERS. Well, does this not amount to a unilateral tariff reduction by the United States?

Mr. ROTH. When you put an escape clause action into effect it is a unilateral increase for which you have to pay compensation or action is taken against you.

When you take it off, you unilaterally take it off, and then you negotiate out the benefits you should achieve from it.

Actually, when under the escape clause we increase duty there is often quite a long lag before we give compensation. In other words, just technically to work this out, just as there is a lag after we take off an escape clause action before we get compensation, there is often a lag before we give compensation. It is just part of the slowness of these things.

Senator SMATHERS. But eliminating the slowness, your contention is that it eventually works out where—

Mr. ROTH. Absolutely.

Senator SMATHERS. Where we are not disadvantaged.

Mr. ROTH. Absolutely no; we have to come out even in this.

Senator SMATHERS (presiding). All right.

Let me ask you a question with respect to oranges. You stated you were from the lemon State, I am from the orange State, as you undoubtedly are aware. We have the largest production of oranges we have ever had. We have an overproduction, as a matter of fact, and naturally our orange growers are greatly concerned about the fact that the community, and apparently nobody seems to be of a mind to accept canned concentrated juice from Florida. I would like to get some assurance from you that your people who handle more of the details of this matter are aware of our problem, and are en-

deavoring—steadfastly and vigorously endeavoring—to bring the orange growers some relief.

Mr. ROTH. I cannot assure you we will be successful, but I can assure you that our negotiators are using everything they have to press the interest of the orange growers within the Community and within other markets.

Senator SMATHERS. You thoroughly understand that we, who have long been friends and admirers of you people as negotiators and support you in what you are doing, could be quite unhappy if you were not successful in that which directly affects us.

Mr. ROTH. Senator, I am quite aware that within really a very few months Ambassador Blumenthal and I will either be bums or heroes, and certainly bums in certain areas under any circumstances.

Senator SMATHERS. Now, on February 27, Senator Hickenlooper asked you this question, which is a lengthy question, but he said:

Will what the community is offering and apparently what the offer we take—we ought to be offering something else once in awhile and see if they take it—will those offers actually increase rather than reduce the restrictions on many of our products, especially agricultural products?

That was the question to you.

And you answered:

If we accept an offer of a product it will either increase our trade in that particular item or we won't accept it.

I read this to you so that in the light of the statements you and I have just made with respect to frozen concentrate "it will either decrease the protection in that particular item or we won't accept it," were your words, so you still stand by that statement?

Mr. ROTH. Yes, sir, because there has been some indication in certain areas that what we will be offered are nonoffers from our point of view, from the trade point of view, and we reject those. It won't do us any good. We don't want to accept an offer merely because it is called an offer.

Senator SMATHERS (presiding). All right.

If there is no objection, then at this point I would like to insert a letter I received from the Florida Citrus Commission specifically written by Edward Taylor, the general manager, in which they enclose the U.S. National Fruit Export Council's statement of position. One line in that I will read:

It is still the Fruit Council's conclusion that the United States should not reduce its duty on any article of interest to the EEC unless the EEC is willing to implement in actual practice meaningful offers of trade liberalization for United States agricultural exports.

(The material referred to follows:)

FLORIDA CITRUS COMMISSION,  
Lakeland, Fla., February 13, 1967.

Senator GEORGE A. SMATHERS,  
Senate Office Building,  
Washington, D.C.

DEAR SENATOR SMATHERS: I would like to call your attention to the attached copies of *Statement of Position* adopted by the U.S. National Fruit Export Council on September 20, 1966 and January 27, 1967.

The Florida Citrus Commission would like to express to you its solidarity with the positions stated by the Council. We at the Commission are strongly opposed to the European Economic Community reference price and variable levy system which produces uncertainties as to landed duty-paid cost of agri-

cultural imports and will lead to a reduction of agricultural imports into the Community from non-Community sources.

These matters are now being discussed in the Kennedy Round which has reached a critical stage and which must be concluded within the coming weeks before the expiration of the President's authority to negotiate.

Because of the unyielding position of the Common Market it is feared that no trade liberalization will be realized in the current negotiations. Any agreements that are likely to be made risk being tantamount to international approval of the reference price and variable levy system.

We respectfully request that you make known to the Administration, and to those directly responsible for negotiations, our concern about these matters. They should be made aware of our desire to see that our agricultural interests are protected.

Very sincerely yours,

EDWARD A. TAYLOR, *General Manager.*

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#### U.S. NATIONAL FRUIT EXPORT COUNCIL—STATEMENT OF POSITION

The U.S. National Fruit Export Council reaffirms the Statement of Position it adopted on September 20, 1966, and presented to the Special Representative for Trade Negotiations on that date. The agricultural offers tabled by the EEC do not represent meaningful trade liberalization, which is an essential element of U.S. trade policy. The EEC reference price and variable levy system, if not illegal under the GATT, is at least inconsistent with GATT principles. That system produces uncertainties as to what the landed duty-paid costs of agricultural imports will be, and as a practical matter will lead, in the long run, to a diminution of agricultural imports into the Community from non-EEC sources. We therefore conclude that the EEC system is unacceptable either as a basis for the Kennedy Round negotiations or for the long-term regulation of import trade. The United States should not conclude any trade agreement that does not fulfill the longstanding U.S. Government policy of achieving improved conditions of access for U.S. agricultural exports.

Responsibility for failure of the Kennedy Round, for lack of agreement on agricultural trade, must fall on the EEC because of its delays and its failure to present meaningful offers as a basis for negotiation.

We reiterate that it would be unthinkable for the United States to lower its tariffs on industrial products from the EEC without achieving its objectives with respect to agricultural trade liberalization. To do so would preclude hopes for future improvement in conditions of access for U.S. agricultural exports or even for the maintenance of our present level of agricultural exports, which are making a substantial contribution to the U.S. balance of payments. It is still the Fruit Council's conclusion that the United States should not reduce its tariffs on any article of interest to the EEC unless the EEC is willing to implement, in actual practice, meaningful offers of trade liberalization for U.S. agricultural exports.

JANUARY 27, 1967.

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#### U.S. NATIONAL FRUIT EXPORT COUNCIL—STATEMENT OF POSITION

The U.S. National Fruit Export Council, representing non-price-supported perennial fruit crops and their products, has from its inception supported the principle of reciprocal trade agreement negotiations and specifically the Trade Expansion Act of 1962. Since the passage of that Act we have supported the U.S. hopes and efforts for achieving meaningful trade negotiations with balanced and reciprocal concessions.

The U.S. position in the initial stages of preparing for negotiations under the Trade Expansion Act was that it "would not take part" in the exchange of exceptions lists for nonagricultural products unless there had first been some agreement on how agricultural products were to be handled.

In November, 1964, the U.S. policy position was modified when the U.S. agreed to table action on industrial products separately from agricultural products.

That action was followed by a modified policy statement that the United States would not "conclude" any agreement that did not provide for acceptable conditions of access for U.S. agricultural exports into foreign markets.

In 1964 the United States had advised the EEC that its proposal to negotiate



support levels was not acceptable. That proposal was the essential element of the EEC's reference price and compensatory levy system of agricultural protectionism.

It is now clear from published reports from Europe that the EEC agricultural offers do not provide a basis for meaningful negotiations for trade liberalization. In fact, they embody and perpetuate the restrictions on agricultural imports which the United States had already rejected as a basis for negotiations.

Governor Herter has stated (before the Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs, on August 10, 1966) :

"In regard to agriculture the United States has made it clear that its offers have been put forward in the expectation that the other major participants will make comparable concessions, and has warned that if this proves not to be the case these offers will be withdrawn or modified to the extent it deems necessary. It has also warned that both its agricultural and industrial offers will be withdrawn to the extent required to achieve reciprocity in the over-all negotiations."

The statement from Governor Herter's office recognizes that reductions in U.S. industrial tariffs are the purchase price with which the U.S. will buy improved conditions of access for U.S. agricultural exports. This has been the U.S. position since the start of the Kennedy Round, and its soundness is based on the importance of U.S. agricultural exports to the domestic economic well-being of the U.S. and the contribution of agricultural exports to the U.S. balance of payments. It would be unthinkable for the U.S. to lower its tariffs on industrial products from the EEC without achieving its objectives with respect to agricultural trade liberalization. To do so would preclude hopes for future improvement in conditions of access for U.S. agricultural exports or even for the maintenance of our present level of agricultural exports.

In line with previous U.S. Government policy statements, we insist that the EEC reference price and variable levy system, if implemented, is incompatible with trade liberalization.

Notwithstanding the steadfast support that the U.S. National Fruit Export Council has given the U.S. efforts at trade liberalization, we can come to no other conclusion but that no trade agreement at all is better than a bad trade agreement.

In view of the course of events which is outlined herein, it is the conclusion of the U.S. National Fruit Export Council that the United States should withdraw all offers, industrial and agricultural, on articles of interest to the EEC unless the EEC submits agricultural offers that represent trade liberalization, rather than protection.

Adopted by the U.S. National Fruit Export Council September 20, 1966, at its annual meeting in Washington, D.C.

Senator SMATHERS. One other question: After you have arrived, if you do arrive, at what you consider a satisfactory agreement, does the Congress have any opportunity to look at it? Do we have any veto authority whatsoever?

Mr. ROY. No, sir; except in those areas where we come back to the Congress, as in the case of a grains agreement, which will be a treaty, to the Senate. If we put together a package on American selling price which we have no authority to implement, we would come back to the Congress.

But let me say again that in the final period I would hope we would keep in very close contact, I know we will, with our congressional delegates on both sides of the House.

Senator SMATHERS. So insofar as the fresh National Fruit Council is concerned, this may be their last opportunity to have a word or have a say-so with respect to this negotiation?

Mr. ROY. We have met with this group and other groups over a long period of time, and I hope we are going to be able to continue to do so right up to the end. Among other things, more than ever before we have tried to work closely with agriculture and industry, and particularly to ask them to bring us continually up to date on what the current situation is. Many of them, including those in the fruit area, have

people abroad, and they have been helpful and have often given us a sense of what is happening in Europe.

Senator SMATHERS. All right, sir.

Thank you, Mr. Ambassador. Before I turn you over to the good and magnificent hands of the Senator from Utah let me remind you once again that you have stated that you will get up and walk away from the table before you will enter into an agreement that you think disadvantages the United States. Let me also remind you that we have a balance-of-payments deficit which we cannot afford to let get larger. Finally, let me remind you that there will be other days even after June when negotiations for the reduction of tariffs and increase of trade could be undertaken.

Senator Bennett?

Mr. ROTH. Thank you.

Senator BENNETT. Thank you, Mr. Chairman.

For the record, we don't grow either oranges or lemons in Utah and I am not going to prod you further on that.

The minority leader and a member of this committee, the Senator from Illinois, is in the hospital, and I have eight pages of questions which he has asked me to get into the record. I am also well aware that it is 6 minutes to 12 and the Senate meets at 12 o'clock.

Mr. Chairman, I would like to ask that this text be offered for the record and a copy submitted to Mr. Roth with a request that he answer the questions, but I think they boil down into one question, and I think we can take a few minutes to discuss that question.

Do you agree, Mr. Roth, that under the Constitution the power to set tariffs is in the Congress, and that you are acting under a delegation of authority from the Congress to the executive department?

Mr. ROTH. Yes, sir.

Senator BENNETT. That being the case, despite the fact and I am reading now—

that the broad tariff cutting authority given by the Trade Expansion Act provides no authority for our negotiators to negotiate elimination of ASP valuation, and despite the Senate's clear warning in S. Con. Res. 100 adopted a little less than a year ago, that there should be no negotiations with respect to ASP without obtaining authority from Congress in advance, and despite the obvious deficiencies in the converted rates of duties which have been proposed by the Tariff Commission, as a substitute for ASP valuation, why are you considering abandoning the ASP under the demands from Europe and specifically from Germany?

Mr. ROTH. Senator, it is my impression that even some of the Senators who were responsible for Senate Concurrent Resolution 100 were aware that the President does have the constitutional authority to negotiate on an ad referendum basis to the Congress. They viewed the resolution as an indication of, one, unhappiness that anything should be done in the ASP area; but, second, of a concern, which is certainly a legitimate concern, that if a package were negotiated it should not—as in one recent case which I will not mention—come back to the Congress more or less as a fait accompli.

Therefore, we have felt that it was legitimate to attempt to put together a package which would include the change in the American selling price system. We have not done this yet. We are merely discussing such a change, but also with certain advantages to American industry within the chemical sector as well as in European nontariff barriers of interest to other American industries.

This package would then be quite separate from the Kennedy Round, and would come back to the Congress after June 30 and they can judge it on its merits.

We have, first, by attempting to keep our congressional delegates aware of what we were doing as we progressed, tried to be sure that this would not come back to the Congress as a *fait accompli* or something that surprised them.

More importantly, we have said to the British, the Swiss, and the Europeans who are interested in this issue:

We are not going to be in a position of coming to Congress and saying "unless you agree to the bill authorizing this change you will endanger a substantial part of the Kennedy Round." Therefore, it has to be a separate package with separate advantages in it.

It cannot be connected with large areas of tariff cuts within the Kennedy Round.

Because then it would be a *fait accompli*, and then we would be holding a gun at the head of Congress, in effect saying, "If you don't do this you would endanger this great negotiation."

If this is the way we have to handle it, we have said "no dice." So we are doing everything we can to be sure, one, that the Congress is informed, and, two, that what we bring back will be a separate, clean package and that it can be judged on its own merits.

Senator BENNETT. Well, I think that gets to the heart of the questioning that the Senator from Illinois would have done if he had been here.

I was interested in a comment earlier in your reply which leads me to believe that perhaps the administration thought that the Congress itself didn't take Senate Concurrent Resolution 100 seriously. That it was just a kind of a pious political maneuver and maybe if you bring it back you will find out that it was something different than that.

Mr. ROTH. We are quite aware that it recorded a very strong feeling of concern, one, about the issue itself, and two, about the possibility that the Congress would be faced, as I said, with a *fait accompli*, and we have taken that very much into consideration in our approach to this whole problem.

Senator BENNETT. Those are all the questions I have, Mr. Chairman.

Senator SMATHERS. All right, sir.

Before we get to Senator Curtis, may I say for the record that Senator Dirksen still wants to submit those questions.

Senator BENNETT. I would like to submit the text which is a little argument and then some questions, because I understand that other texts from other Senators, have been submitted for specific answers.

Mr. ROTH. Mr. Chairman, could I also submit answers to those questions for the record? Is this appropriate?

Senator SMATHERS. Yes.

Senator BENNETT. Yes; that is what I am submitting for the record.

Senator SMATHERS. The questions and answers will go into the record.

(The questions and answers referred to follow:)

#### SENATOR DIRKSEN'S QUESTIONS

Mr. Ambassador, I have been particularly concerned about our past failure to obtain reciprocal concessions in our trade negotiations.

Since 1956 we have had two rounds of so-called reciprocal trade negotiations. Yet since 1956 our imports have increased at twice the rate of our exports and our favorable trade balance has fallen to half what it was 10 years ago if in fact we do have a favorable trade balance. This indicates to me that we have been giving twice as much as we have received under our trade agreements program. I am concerned that history might repeat itself in the current Kennedy Round of negotiations. The reports coming out of Geneva have added to this concern. They indicate to me that we are once again being out-bargained. The temerity of the bargaining position we have taken with our European trading partners is most forcefully demonstrated by the ASP issue.

Despite the paucity of their offers, which have been reliably reported to fall \$1 billion short of ours.

Despite their refusal to offer any meaningful concessions on agriculture, which would lessen the effect their onerous variable levy has upon our \$600 million of U.S. agricultural exports each year.

Despite the fact that they have adopted a common value added tax that will result in higher border taxes which threaten to completely offset any tariff reduction we obtain from them in the Kennedy Round, the Common Market has unreasonably demanded that we eliminate ASP valuation which provides much needed tariff protection for a very small group of labor intensive chemicals and rubber footwear.

But it is certainly more shocking that we are letting them get away with it.

Despite the fact that the broad tariff cutting authority accorded by the Trade Expansion Act provides *no* authority for our negotiators to negotiate elimination of ASP valuation.

Despite the Senate's clear warning in Senate Concurrent Resolution 100 that there should be no negotiations with respect to ASP without obtaining authority from the Congress in advance.

Despite the obvious deficiencies in the converted rates of duties which have been proposed by the Tariff Commission as a substitute for ASP valuation.

Despite the serious economic effect which the elimination of ASP valuation would have upon our domestic benzenoid chemical industry and the jobs of its 115,000 employees and the rubber footwear industry and the jobs of its 22,000 employees, our trade negotiators have succumbed to the unreasonable demands of our European trading partners and are currently negotiating the elimination of ASP valuation.

I am concerned by all of these factors that indicate we are not going to be able to obtain reciprocal concessions out of the Common Market in these negotiations. But our failure to stand up to the Europeans on this ASP issue simply goes one step too far. It is fast becoming the symbol of the extent to which we are permitting ourselves to be out-bargained in these negotiations. I am opposed to the elimination of ASP in connection with the current negotiations. In view of your current disposition to flaunt the clearly expressed wishes of the Senate in this subject, I seriously doubt that we will approve any agreement you might bring back on ASP. I for one will staunchly oppose it.

Questions. Mr. Ambassador, in view of the paucity of the Common Market's offers, the Senate's admonition not to negotiate on ASP without authority in advance, and the severe economic effect which it

would have upon domestic industries and their workers, why are you succumbing to Europe's unreasonable demands for the elimination of ASP? Hasn't the Senate made its views clear on this subject?

Answer. The answer follows below.

Question. As many spokesmen in and out of Government have made abundantly clear in the press and elsewhere, the so-called Kennedy Round is so named because of the decision of the GATT countries to set up tariff negotiations to take full advantage of the tariff-reducing authority granted to the President by the Congress in the Trade Expansion Act of 1962. When the discussions took place in GATT to set up this Kennedy Round, everybody understood exactly what the President's authority was and they proceeded in relation to the authority contained in the Trade Expansion Act. No country was misled into agreeing to enter into negotiations by the belief that the United States had the authority to negotiate on ASP, an antidumping agreement, a grains agreement, or other matters unconnected with the reductions of tariffs. Knowledgeable persons in and out of the Government have also correctly described the authority given the President in the Trade Expansion Act as greatly in excess of that conferred by the Congress in any previous trade agreements law. Under these circumstances, why has the administration persisted in honoring the demands of West Germany that the U.S. negotiate a change in the ASP?

Answer. The answer follows below.

Question. It was the administration which generally defined the scope of the authority it wished in the Trade Expansion Act of 1962. It got pretty much what it asked for. Now you and other spokesmen of the administration tell Members of Congress that it is necessary to go beyond the Trade Expansion Act—namely, matters such as ASP and antidumping—if the United States is to persuade other nations to make concessions which you believe we need to benefit our exports. If this is the basis of your extracurricula negotiation—that is, outside of the Trade Expansion Act—why have you not come back to the Congress and asked for new legislative authority instead of proceeding to negotiate as though you were given the authority to do so in the Trade Expansion Act?

Answer. The answer follows below.

Question. Since 1934 the Congress and the executive branch have worked hand in glove in developing our trade agreements program. In each instance the Congress has delegated to the President in advance a portion of its authority to set tariffs. I say delegated, because it should be clear to all concerned that the Congress alone has the power to set tariffs. Yet in this round of negotiations, your office has sought to turn things around by announcing your willingness to negotiate in an area which is clearly beyond the very broad authority accorded you under the Trade Expansion Act. Here I am referring to the issue which the Europeans have made over American selling price method of valuation which applies to a very small portion of our chemical imports. A resolution was introduced in the last session of Congress expressing the sense of the Senate that you should not conduct any negotiations outside the broad negotiating powers accorded by the Trade Expansion Act without first obtaining authority in advance from the Congress. Senate Concurrent Resolution 100 passed

the Senate with but one dissenting vote. Why has your office disregarded the Senate's wishes and persisted in negotiating with respect to ASP?

Answer. First, in light of the severe criticism of the ASP system made by other countries over a number of years and the fact that the United Kingdom and the EEC have made the modification of the ASP system a critical condition of the industrial negotiations, we have been exploring and are continuing to explore the possibility of converting the ASP system. If such a conversion is finally agreed to, however, we will insure that the final concession is consistent with the basic principle that any concessions agreed to by the United States must not result in serious economic injury to a domestic industry. Second, as the Senate Finance Committee acknowledged in its report last year on Senate Concurrent Resolution 100, the President has the constitutional authority to negotiate an agreement subject to the subsequent enactment of implementing legislation by the Congress. Third, the Congress will, in our judgment, best be able to assess the merits of any agreement modifying the ASP system, after, rather than before, it is negotiated. At that time, the Congress would have before it a final set of converted rates and therefore be able to judge their adequacy in terms of specific products and their impact on the domestic industries concerned. Moreover, the agreement would contain a precise statement of the counterconcessions on particular products which other countries were prepared to grant. The Congress could then inquire into and appraise the agreement not as an abstract issue but in terms of the trade interests of the United States. Fourth, it is our understanding that underlying Senate Concurrent Resolution 100 is the basic concern that we might return to the Congress with a fait accompli. In order to avoid doing so, we have insisted that any ASP agreement be a separate, self-contained and self-balancing agreement, which the Congress will be free to consider on its merits and without constraint. In concluding any ASP agreement we will not in any way guarantee its approval by the Congress. We would, however, hope that both the House and the Senate would be prepared to examine the agreement objectively.

Question. Ambassador Roth, since 1956 there have been two rounds of tariff reductions under the auspices of the General Agreement on Tariffs and Trade. During that period the United States has made substantial reductions in its tariffs in return for tariff reductions by our trading partners on the theory that we would stand to gain at least as much trade from their concessions as they would gain from ours. During the period 1956 to 1966 U.S. imports have increased over 100 percent while our exports have increased only about 50 percent. Our reported favorable balance of trade, the accuracy of which I question, has decreased from \$6.5 billion in 1956 to only \$3.8 billion in 1966 and the U.S. share of world trade in manufactured goods has decreased from 31 percent in 1954 to 22 percent in 1964. In the light of our past experience in the last two rounds of trade negotiations, do you believe that we have been obtaining a full quid pro quo from our trading partners for the tariff concessions we have made? Has the EEC made the reductions agreed to in the Dillon Round?

Answer. The records of the past two rounds of trade negotiations—the 1956 GATT negotiation and the Dillon Round of GATT negotia-

tions that was concluded in 1962—indicate an overall balance in terms of concessions granted and concessions received. An analysis that would show more precisely the results of these negotiations in terms of their effect on trade in the intervening period should examine all the relevant factors that would have affected the trade. For example, the analysis should examine trends in trade in the particular items on which concessions were granted and received in each of these negotiations and contrast these trends with those concerning the items not covered by concessions.

With regard to your question concerning the EEC concessions in the Dillon Round, the Community has given effect to the commitments it made in that negotiation.

Question. I raised that question, Mr. Ambassador, because I have become increasingly concerned with our decreasing trade balance and the adverse effect it has upon our balance of payments. If we'd gotten as much as we gave in the last two rounds of tariff reductions we wouldn't find ourselves in the chaotic balance-of-payments situation we're in today. This payments problem has resulted in a serious drain in our gold reserves and has actually been a factor in keeping domestic interest rates high in an effort to keep foreign creditors from cashing in their credits for gold. In order to improve this situation we have imposed an interest equalization tax upon our citizens' purchases of foreign securities, limited foreign investment and bank loans, and sought to encourage foreign investment in the United States via passage of a Foreign Investors Tax Act. We simply can no longer afford a giveaway trade negotiations program in which we give up twice as much as we get. It's not fair to our citizens who are having to pay higher interest rates resulting in part from balance-of-payments pressures and it's not fair to labor and industry, whose jobs and businesses are threatened by rapidly increasing imports. Yet here we are again faced with foreign demands for \$2 or \$3 for every \$1 they give up. What do you intend to do to see that we get a full quid pro quo for our tariff reductions?

Answer. We have made absolutely clear to all our negotiating partners that overall reciprocity in the current negotiations is an essential condition for us. In preparing for, and in conducting the negotiations, we have very carefully evaluated the concessions that we are giving and the concessions that we intend to obtain. We will achieve either a fully balanced agreement or no agreement at all.

Senator SMATHERS. Senator Curtis?

Senator CURTIS. Thank you, Mr. Chairman.

In view of the hour I will try to be short.

I want to express a feeling of sharing the views of Senator Carlson over the agricultural situation.

I would like to ask you, how many countries are we negotiating with?

Mr. ROTH. If you include the less developed countries, too, it is over 50.

Senator CURTIS. Over 50?

Mr. ROTH. But, of course, when you talk about the major trading nations, you are talking about the European Community, which is six countries, you are talking about the EFTA group, which is seven, and you are talking about Japan, Australia, New Zealand, and Canada.

The most important to us would be Japan, Canada, the Community, and the United Kingdom.

Senator CURTIS. Australia and New Zealand will be in it?

Mr. ROTH. Yes, sir.

Senator CURTIS. Tell me a little about the mechanics of negotiating. How many individuals exclusive of interpreters and clerks sit down and negotiate, Americans?

Mr. ROTH. We have a staff in Geneva, including the secretaries and everybody, of about 50 people. Now, when we get into particular negotiations, let's say, in grains, we will send some more grains experts from over here, but our staff here is very small—we have a dozen officers.

Senator CURTIS. No, no, what I mean as you face the negotiators of the other countries, does it boil down to a one-man operation or a three-man operation?

Mr. ROTH. It differs according to the issue. For instance, we may have a bilateral discussion—we have had 40 or 50 of these with the Japanese—in which you have four or five men on each side of the table. You may have a multilateral discussion on grains, for instance, and you will have six major nations in it, each with three, four or five people. But I think as you get further down the road and you have to make some of the hard decisions at the end, the group becomes smaller.

Senator CURTIS. All right.

Now, tell me who, I want their names, will make the decisions, the hard decisions relating to agriculture?

Mr. ROTH. In the final instance, the President.

Senator CURTIS. The President.

Mr. ROTH. May I qualify that? He would—

Senator CURTIS. Yes.

Mr. ROTH. He would do this based on recommendations from me, my office, and I, in turn, would have with that the recommendations of all the principal agencies of the Government, including the Department of Agriculture.

Senator CURTIS. I will state my question again.

Who will make the hard decisions leading up to the point that a deal is recommended to the President in reference to agriculture?

Mr. ROTH. As we operate, Senator, our office coordinates the other agencies, so we have a series of committees, beginning with the technical committee and going up to the policy committee and ending up at a Cabinet level committee, and it is this group which would make the recommendations and ultimately these will go to the President.

In a negotiation sometimes not only the big issues are important, but the small ones, as you go along, and so decisions have to be made in Geneva, always on a tentative and ad referendum basis. These would be made by the American negotiating team headed by Ambassador Michael Blumenthal, but represented on his team are experts and policy people from all the principal agencies of the Government.

Senator CURTIS. Are you able to tell me who the individual is who will say, "This is not good for American agriculture, we are going to walk away," or is going to have the responsibility of saying, "This is good," and go along with it?

Mr. ROTH. In the final analysis, after, I think, a Cabinet level discussion by the agencies in the Government, this is Agriculture, Com-



merce, Defense, Interior, Labor, State, and Treasury—Treasury because of the balance-of-payments situation having a very great concern in this area—a recommendation, which will be from me, will go to the President.

As I said earlier, if we do not get one overall package for industry and agriculture, a reciprocal package, which is clearly not of benefit to the United States, then the recommendation will not be positive. It can't be.

Senator CURTIS. Then do I understand your answer to be that it will be you?

Mr. ROTH. But along with my recommendation must be the recommendation of the other agencies which is transmitted by me, for consideration.

Senator CURTIS. Will agriculture be one of the big items of consideration?

Mr. ROTH. Absolutely.

Senator CURTIS. In the Kennedy Round?

Mr. ROTH. Absolutely.

Senator CURTIS. I hope you won't regard this next question disrespectful, but for the record will you tell us what your background in agriculture is?

Mr. ROTH. Senator I am a businessman, a shipping man, in the insurance business, and not an agriculturist. I do have a prune farm, and I am concerned about the low price of California prunes.

Sometimes it has been difficult in these hearings to answer as well as I would like agricultural questions because our agricultural expert is in Geneva, where he should be, negotiating on grain.

Senator CURTIS. Who is that?

Mr. ROTH. Irwin Hedges, who has been with the Department of Agriculture, one of the really outstanding international agricultural economists. On top of that, because this is important in our business of negotiating, when he goes over to an agricultural negotiation he takes with him principally from the Department of Agriculture experts in that particular field.

In addition, there are agricultural experts in Geneva also from USDA. That is where we have to draw our principal strength from.

Senator CURTIS. Now, is your power in these negotiations limited to reducing trade barriers and not increasing them?

Mr. ROTH. Our concern is to reduce trade barriers, not to increase them.

Senator CURTIS. You have no authority to increase trade barriers?

Mr. ROTH. Yes, sir. The President has the authority to increase tariffs. It is within the act, although not an objective of the negotiations.

Senator CURTIS. You can do it if you wanted to?

Mr. ROTH. We can do it.

Senator CURTIS. Do you have any plans to do anything about the excessive meat imports, to get some agreement from other countries to help us out on that?

Mr. ROTH. Senator, we have been taking part in meat talks looking forward to an agreement.

Let me say, I am not very sanguine. What we propose in terms of what we can do, is in effect what our law of a year or two ago

allows us to do. What we have been particularly concerned about is opening the European market much more for Australian industrial meat to take the pressure off this market. As you know, earlier this year and last year when prices fell in Europe there was great pressure on this market, and it looked at a point that we had almost reached the level that could trigger quotas under the new law.

Senator CURTIS. I don't know whether your experts know it or not, but we have a situation as before. I represent in part the State that raises and finishes more cattle than any State. There are some States that finish more cattle than Nebraska. There are some States that raise more. But we are involved in both processes, and the importations have been excessive, they have been detrimental clear down along the line to both the processors, the cattle producers, and cattle feeders.

Well, I understand the cattle-hide situation does not come into the Kennedy Round purview, I assume that is true.

Mr. ROTH. That is true.

Senator CURTIS. The actions of this Government in reference to cattle hides has cost the cattle producers from \$3 to \$5 a head and it hasn't lowered the price of shoes a nickel. It was done by people who didn't understand what they were doing.

Through American ingenuity we had built up an export of heavy cattle hides, that were not needed in this country because our shoe manufacturers do not use them. In a move to have some appeal to consumers and with reference to the price of shoes, the export of cattle hides was curtailed. It never lowered the price of shoes 5 cents. We had built up an export business in hides for which there was little or no demand in this country, but the hides piled up in warehouses and there was no demand for them, and the lowering effect on the price of cattle was \$3 to \$5 a head.

That was direct Government action—that, coupled with the excessive imports of beef, can be the difference between a satisfactory agricultural situation and one that is very unprofitable and I am quite disappointed that you are going in there with no particular plan to give us some relief from this.

Mr. ROTH. As you say, Senator, the export control of hides does not come with the Kennedy Round. If imports of meat increases it could be that the USDA spring forecast analysis could trigger quotas, which is the protection which the Congress indicated they would like to see.

We feel, in addition, as I said, that it is particularly important to impress other countries to open their markets to meat to take the pressure off this market, and they should. The European market should be opened more to meat because they are more and more consuming it. There is an increase in consumption of meat in Europe and this is going to continue.

Senator CURTIS. Mr. Chairman in light of the hour, I would like to ask the consent of the committee to insert a letter I have in reference to the turkey situation and, also, possibly, certain excerpts from other communications from agricultural interests, and I very respectfully point out—

Senator SMATHERS. Without objection, we will make that a part of the record.

(The material referred to follows:)

U.S. SENATE,  
Washington, D.C., March 10 1967.

Mr. THOMAS L. C. VAIL,  
Chief Counsel, Senate Finance Committee, New Senate Office Building,  
Washington, D.C.

DEAR TOM: You will recall that today I asked that the Record be left open in order that I might include a copy of a letter I have received from the Nebraska Turkey Federation. It is herewith enclosed.

A very great interest has been shown by Nebraskans engaged in agriculture concerning our foreign trade and especially in the damage being done by excessive imports. I want the Record to show that I do have an abundance of mail expressing apprehension about the pending negotiations and that I express the hope that the interests of these citizens will be fully considered.

Thanking you, I am  
Sincerely yours,

CARL T. CURTIS, U.S. Senator.

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THE NEBRASKA TURKEY FEDERATION,  
Lincoln, Nebr., February 27, 1967.

Senator CARL T. CURTIS,  
U.S. Senate, Washington, D.C.

DEAR SENATOR CURTIS: The poultry industry has grave concern over the status of the current trade negotiations underway with the European Economic Community.

The poultry industry strongly supported the enactment of the Trade Expansion Act and inclusion of provisions therein to provide authority to deal appropriately with the trade barriers being established by the EEC against imports of United States poultry and other agricultural products. It is clear that the purpose and effect of these barriers have been to restrict and greatly impair United States trade.

The industry has been hopeful that these unjustifiable trade barriers in the form of gate prices, variable levies, and other devices which unfairly preempt the market and burden our trade would be broken down through effective negotiations under the Trade Expansion Act. These restrictive measures which were put into effect unilaterally by the EEC are contradictory of, repugnant to and violate all fundamental principles and concepts upon which international trade rests.

Four years have now elapsed since the enactment of the Trade Expansion Act and the commencement of negotiations. Throughout these past four years, almost every basic issue concerning equitable access for poultry and other United States agricultural products has been postponed and left unresolved primarily because of the failure of the EEC to submit agricultural offers and to enter into meaningful negotiations under basic GATT principles. The United States may have unwittingly contributed to the failure to come to grips with the issue by its willingness not only to submit its agricultural offers but to go forward with negotiations on industrial items notwithstanding the failure of the EEC to comply with the time schedule and its agreement to negotiate on both agricultural and industrial items.

The poultry industry's request is really a simple one. It wants access to EEC markets for poultry and agriculture on the same terms—under the same basic principle—as they want access to our markets for their industrial and agricultural items.

Very sincerely yours,

DOYLE H. FREE.

Senator CURTIS. I would like to point out that rural America has just reason to be apprehensive about what you do, because a few years ago when we had such a crisis because of meat imports and the Congress attempted to deal with it, and did deal with it, the great lobbying force against the American farmers was not foreign producers; it was the State Department, and they prevailed in conference and destroyed what many of us thought was a very good bill.

We are also apprehensive when you talk about a balance deal which involves both manufactured articles and agriculture, that you do not balance it by sacrificing one for the other.

Mr. ROTH. It is not what I have in mind, Senator, when I speak of a balanced deal. We have to have something in it for industry and for agriculture.

Could I make one other comment on what you said earlier? For the record, my office is not a part of the State Department. The Congress in 1962 decided it wanted to have a trade negotiating function, one that could be present and could be seen clearly and could be watched.

Senator CURTIS. I am aware of that, and I am glad you left the record so that it would not give that impression.

But my observation still stands for this reason: You both constitute arms of dealing with foreign countries, and for all practical purposes the President is the State Department. Under our Constitution he is in charge of foreign relations, he appoints the Secretary of State, and is the only elected branch of the Government that can deal with those things, so while you are separate it is not really too far separated.

Mr. ROTH. Senator, if, when I appear before this committee again, after this is over, we have come back with a package that is not, you feel, a good one, at least we are not in the position that we can say that for these policy reasons or those policy reasons this was agreed to. We have said we are basically traders, and the only answer we could have is that we are bum traders. And we don't want to put ourselves in that position.

Senator CURTIS. One more question.

Do you deal with tariffs as the only barrier or restraint of trade?

Mr. ROTH. No. We are concerned about nontariff barriers, too.

Senator CURTIS. And they have been the effective ones over the last 25 years, haven't they?

Mr. ROTH. Not necessarily. It depends. They are important in some areas. Dumping, for instance is one.

Senator CURTIS. Embargoes, quotas?

Mr. ROTH. Quotas—

Senator CURTIS. Licenses, import fees, unusual inspections, all of those things have been used to restrict commerce, haven't they?

Mr. ROTH. Less and less. Of course these types of barriers have been used particularly in agriculture and by all countries, including the United States. Trade is not quite as free in agriculture as it is in industry because each country has important domestic, social, and economic problems that they have to face. But where there are these barriers, in many cases illegal ones—Japan has a number of them, for instance—we keep pushing to be rid of them because you are absolutely right, we have to look both at tariffs and, where they exist, nontariff barriers.

Senator CURTIS. Do you believe that before a concession is made with reference to agriculture there should be a benefit accruing to agriculture?

Mr. ROTH. That is right, and this is what I said earlier. It won't help us in the case of lemons to accept a tariff reduction if it means we also accept a higher minimum import price that would bring a greater levy against our product. To accept the tariff when the other thing is there will not help our trade, and under those circumstances from our point of view it is a nonoffer.

Senator CURTIS. How many countries other than the 50 involved will benefit from the most-favored-nation clause in what you do?

Mr. ROTH. I am informed there are about 70 GATT contracting parties which would be benefited. Many of these, of course, are very small.

The major countries, all the developed countries, however, have to pay fully in a reciprocal way for what they get.

Senator CURTIS. Mr. Chairman, in view of the hour, that will be all I ask.

Senator SMATHERS (presiding). All right.

Senator Talmadge has some questions, as does Senator Ribicoff. They will be submitted to your staff by our staff, and we would like to have it in the record with your answers.

(The questions and answers referred to follow:)

#### SENATOR TALMADGE'S QUESTIONS

Mr. Ambassador, I have a few questions I'd like to ask concerning the American selling price, the Common Market variable import levy, and various other matters that pertain to our participation in the Kennedy Round.

Question. First, what is the present status of negotiations with respect to ASP?

Answer. We are still in the process of discussing with the other interested countries the possibility of a conversion of ASP rates. To date, the United States has not made a formal offer with respect to ASP.

Question. Mr. Ambassador, as you of course know, I visited Geneva last fall during the congressional adjournment so I could observe firsthand the Kennedy Round proceedings. Also, I have corresponded with you on numerous occasions with respect to an infinite number of trade problems. And I have met with you and the other congressional delegates to GATT to discuss trade matters over breakfast on several occasions. In short, I have done all that I know to do to keep fully abreast of developments in the Kennedy Round as I am dutybound to do in my capacity as a Senate delegate.

Now, each and every time you have replied to a letter regarding the progress of negotiations, especially where ASP was concerned, you have included a paragraph, that has become fairly standard, to the effect that the Senate delegates, which include Senators Ribicoff, Williams, and Carlson beside myself, would be kept fully informed of developments at every step of the way. I notice, also, that you have told other Congressmen that the congressional delegates are being kept fully aware of all developments taking place in Geneva. I specifically refer to your letter of February 23 to Congressman Vander Jagt. In his letter to you he expressed his concern over the probable economic consequences of ASP removal. In what I interpret as an obvious move to conciliate Congressman Vander Jagt you close with an assuring paragraph that the congressional delegates, and I now quote you, "are regularly informed of the progress of the negotiations as a whole and specifically with respect to the ASP issue." Continuing on you mention that the delegates "have attended and are urged to attend meetings in Geneva where the ASP issue is being discussed, so

as to insure that, as Members of the Congress, they are fully aware of the developments in this important area."

Now this is all well and good, and I sincerely appreciate your recognition of the importance of keeping us informed, but have we in fact been kept "fully informed" of developments with respect to ASP? To my knowledge, and please correct me if I am wrong, not one single congressional delegate has been shown a copy of the Tariff Commission's report assessing the probable economic impact of ASP removal. This is perhaps the single-most important development in the ASP issue, yet you have not made a copy of the report available to us. I understand also that your staff has prepared an analysis of the Tariff Commission's conclusions. Is it your intention to withhold the conclusions as well as the study from the delegates?

Answer. The congressional delegates are fully entitled to have access to any final position papers with respect to the negotiation of ASP or any other Kennedy Round matter. As observers of the negotiations, however, they are not entitled, in our judgment, to review working papers and other internal documents which enter into the discussions that lead to recommendations for decisions by the President or the Special Representative for Trade Negotiations.

Question. Is this your idea of keeping the delegates "fully informed at every step of the way?"

Answer. Our obligation to keep the delegates "fully informed at every step of the way" cannot and should not, in our judgment, interfere with the fundamental notion of the separation of powers between the legislative and executive branches.

Question. Have you already transmitted your recommendation to the President on the question of whether or not ASP should be eliminated?

Answer. Yes.

Question. Now, turning to the Common Market variable import levy, I would like to know the U.S. position with respect to seeking its elimination.

According to my information, which is a USDA publication, the variable import levy applies to \$600 million worth of U.S. farm exports annually. It is undoubtedly the most protectionistic device ever conceived in the annals of trade history. As I understand the operation of the variable import levy, there is no possible way for agricultural exports to the Common Market to sell at prices equal to or below the artificial prices maintained internally due to the fact that the variable levy swallows up any price advantage that exports might otherwise enjoy. I wish you would detail to the committee what our official negotiating stance is in regard to this discriminatory levy system.

Answer. Our position is that concessions on variable levy items to be worthwhile must constitute a commitment to reduce the level of protection, in whatever form it is applied to a given product. Unlike fixed tariffs, where we need to concern ourselves only with obtaining agreement on the level of a single import charge, in the case of variable levy items, we are seeking assurances as to the aggregate effect of all elements which determine the amount assessed on imports.

## SENATOR RIBICOFF'S QUESTIONS

1. Question. As our principal negotiator at Geneva, do you feel that we should cut our tariffs without our trading partners making some sort of cut in their own tariff?

Answer. The agreement that will come out of Geneva will balance U.S. tariff concessions against other countries' tariff concessions. Reciprocity will be achieved substantially through this exchange. We shall, of course, also take account of concessions that we and others make in liberalizing nontariff trade barriers. Overall, our concessions—whether in the form of tariffs or of other trade barriers—must be fully met by the concessions of the other participants.

2. Question. Both the Treasury and the Tariff Commission have stated that the Treasury's recent change in its ASP guidelines for appraising rubber footwear amounted to an effective cut in tariffs of roughly 35 percent. Was your Office consulted on this unilateral tariff cut before it was made, and, if so, what position did you take at that time?

Answer. This Office was consulted before the guidelines were changed. We ascertained that no specific value would be attached to the change in the Kennedy Round because it was a correction of an erroneous method of appraisal of many years standing. We, therefore, agreed to the change.

3. Question. Since the rubber footwear tariff has already been cut 85 percent in the course of the past year, may we assume that the maximum cut to be offered in the Kennedy Round for this item will be 15 percent? Do you mean this industry may in fact have its tariff cut by more than 50 percent during the period of the Kennedy Round?

Answer. In determining the possible offer to be made, we would take into account whatever change had been made in the effective level of protection, including that element of change that was attributable to a correction in customs valuation practice. The 50-percent limitation will apply to this product as to any other product.

4. Question. I have been advised that our unilateral 35-percent-tariff cut has cost this country some \$3 million a year in duties which would otherwise have been collected. Do you know whether this is accurate?

Answer. Based on figures for 1965, the last full year in which duty on footwear of this type was collected under the earlier erroneous valuation guidelines, a 35-percent differential would have accounted for the collection of some \$3 million in duties.

5. Question. Would you comment on the effect of this unilateral cut on our balance-of-payments policy since we received nothing in return to offset the balance-of-payments loss?

Answer. On the footwear affected by the change in valuation guidelines, the volume of imports declined by 4 percent in 1966 compared to 1955 and the value increased by 5 percent. It is not possible to determine whether this change is attributable to the change in guidelines.

6. Question. Isn't it true that while domestic employment and production in rubber-soled footwear with canvas uppers went down by roughly 5 percent in 1966, imports from Nationalist China increased by 70 percent, imports from Korea increased by 185 percent, and total imports reached an alltime high of 35 million pairs?

Answer. As shown in the accompanying tables, imports of types of this footwear considered by the Bureau of Customs to be competitive with U.S. production, and therefore dutiable on the basis of ASP, actually decreased during 1966, from 17.6 million pairs in 1965 to 16.9 million pairs. Competitive imports were 9 percent of total consumption in 1966, the same ratio as existed in 1965.

Total imports of all such footwear, both competitive and noncompetitive, rose during the same period to 35.1 million pairs (17.1 percent of total domestic consumption), as imports of noncompetitive footwear increased. Total imports from Taiwan rose 110 percent and from Korea, 41 percent. Neither country was a major supplier to the United States, although in the aggregate in 1966, they accounted for 20 percent of all U.S. imports. Their combined share of total domestic consumption, however, was only 3.5 percent.

Total production of rubber-soled footwear with canvas uppers, including shipments from U.S. plants in Puerto Rico, declined in 1966 to 170.5 million pairs from 177.6 million pairs in 1965. Employment of production workers on the mainland in plants primarily producing rubber footwear, including protective footwear, was 23,800 in 1965 and an estimated 22,600 in 1966. However, 1966 data, also on a preliminary basis, indicate that average weekly earnings, average hours worked, and average hourly earnings all rose during the year. These employment data necessarily include workers involved in the production of other products. According to "The 1966 Rubber Red Book," approximately 3,600 of the production workers in 1965 worked in firms producing only rubber-soled footwear. The remainder in the industry were employed by plants producing a variety of other types of footwear and, in some cases, nonfootwear products.

7. Question. I have been advised that the Japanese have import quotas on more than 150 separate items, including footwear. What progress have you made in persuading the Japanese to remove these quotas?

Answer. During the period 1960-64, Japan made rapid and steady progress in removing the quantitative import restrictions it had imposed during its period of balance-of-payments difficulties. Although some of its remaining restrictions have been removed during the last year under heavy pressure from the United States and other countries, some 120 tariff items or subitems, not including rubber-soled footwear, are still subject to quantitative restrictions inconsistent with Japan's GATT obligations. U.S. dissatisfaction with the slow pace of liberalization has been made known to the Japanese on many occasions, including meetings of the Cabinet-level Joint Economic Committee, the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). U.S. officials are continuing to press for removal of Japan's remaining unjustifiable quantitative import restrictions.

8. Question. Since rubber footwear imports from Japan have steadily increased, reaching an all time high in 1966, which constitutes approximately 17 percent of our market, what is the basis of the Japanese complaint against ASP on rubber-soled footwear and do you feel this complaint has merit?

Answer. As in the case of complaints made by other countries against our ASP valuation system, the Japanese complaint against



ASP on rubber-soled footwear is based on the fact that it controvenes what we consider to be a sound, as well as internationally accepted, principle that the value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin.

9. Question. If you decide to negotiate ASP on rubber footwear, will you assure us that at least part of the quid pro quo obtained is of direct benefit to the domestic rubber footwear industry?

Answer. It is the normal rule in the Kennedy Round, like all the trade negotiations which preceded it, not to grant tariff concessions only in exchange for concessions on identical items. Therefore, in the Kennedy Round the United States will agree to reduce tariffs on products produced predominantly for the domestic market in exchange for concessions on other products. In the case of an industry with strong export interests, it is our policy to seek to increase its export opportunities at the same time that we may be offering to reduce its tariff protection, as in the case of the chemical industry.

10. Question. If you negotiate ASP for rubber footwear, will you do so on the basis of the study made for you by the Tariff Commission?

Answer. If we negotiate ASP as it applies to rubber footwear, our negotiating position will be formulated in the light of all relevant advice and information, including the study made by the Tariff Commission.

11. Question. Since the Tariff Commission data does not go beyond 1965 and, therefore, does not take into account the upsurge from Taiwan and Korea, do you intend to ignore the effect of those imports on any conversion from ASP?

Answer. We have made and are continuing to make an intensive study of the economic condition of the domestic rubber footwear industry, in order to determine the probable economic impact of any conversion of ASP. Such an analysis must necessarily take into account the most recent data concerning all relevant factors, including imports, employment, and investment.

*Rubber-soled, fabric upper footwear, production, imports, and import-consumption ratio, 1965-66*

[Quantity in thousands of pairs]

	Production	Shipments from Puerto Rico to United States	Total production	Competitive imports subject to ASP	Noncompetitive imports	Total imports	Ratio, total imports to total consumption	Ratio, competitive imports to total consumption
1965	168,909	11,700	177,609	17,576	15,787	33,363	15.8	9
1966	157,155	13,300	170,455	16,888	18,171	35,059	17.1	9

NOTE.—Production and shipment data include unknown but apparently small quantities of other types of footwear: e.g., slippers with vulcanized soles, and may not include all other quantities of rubber-soled footwear with canvas uppers made by machines. Exports are negligible.

*Footwear with uppers of fabric and soles of rubber or plastics: U.S. imports for consumption, by principal sources, by duty basis, 1965 and 1966*

(Quantity in thousands of pairs; value in thousands of dollars)

Country	Dutiable on basis of American selling price		Not dutiable on basis of American selling price		Total	
	1965	1966	1965	1966	1965	1966
Quantity						
Japan.....	14,313	12,356	11,356	11,349	25,669	23,705
Hong Kong.....	582	246	1,404	2,617	2,046	2,863
Taiwan.....	1,519	2,582	919	2,554	2,438	5,136
Republic of Korea.....	365	1,046	1,072	980	1,437	2,026
France.....	11	3	158	70	169	73
Belgium.....	87	6	233	220	320	226
Italy.....	6	19	104	182	110	201
United Kingdom.....	144	144	22	35	176	179
India.....	390	358	85	-----	465	358
Netherlands.....	57	102	54	7	111	109
Republic of Philippines.....	49	14	3	1	57	15
Nansei and Nanpo Islands.....	52	-----	-----	-----	52	-----
All other.....	11	12	302	156	313	168
Total.....	17,576	16,888	15,787	18,171	33,363	35,069
Value						
Japan.....	8,722	8,493	4,185	4,225	12,907	12,708
Hong Kong.....	360	154	801	1,383	1,161	1,537
Taiwan.....	717	1,345	351	945	1,068	2,290
Republic of Korea.....	210	609	417	414	627	1,023
France.....	7	2	417	187	424	189
Belgium.....	59	4	206	185	265	189
Italy.....	14	25	189	289	203	314
United Kingdom.....	127	108	63	106	190	214
India.....	128	205	27	-----	155	205
Netherlands.....	49	93	71	18	120	111
Republic of Philippines.....	82	28	13	1	95	29
Nansei and Nanpo Islands.....	31	-----	-----	-----	31	-----
All other.....	15	12	353	197	366	29
Total.....	10,521	11,068	7,093	7,950	17,614	19,018

Source: Bureau of the Census.

Senator SMATHERS (presiding). Mr. Ambassador, I want to close this hearing with this statement: With the Kennedy Round approaching its climax, many people fear American negotiators may thrust forward for an agreement at any price. Such a "panic" approach to trade negotiation would lead to lopsided U.S. concessions. While it is difficult to argue that advantages do flow from freer trade, I believe you must agree that they can come only if concessions on all sides are truly reciprocal. The U.S. objectives in the postwar period were largely to restore devastated economies of Europe, either through trade or aid. Trade policy became closely aligned with aid policy and, perhaps, we gave up more than we got.

Today the European nations and the free Asian nations have recovered. Their economies are bustling and their manufacturers and producers can compete with any in the world. But now the United States is in trouble. Our balance of payments has been unfavorable every year since 1958.

The American share of world exports is diminishing while our imports are increasing. Our trade balance is kept favorable only because our statistics fail to tell the whole story, and improperly at-

tribute foreign aid sales of agricultural commodities as competitive international transactions.

In these changing times you, Ambassador Roth, as our chief trade negotiator, should insist on a fair reduction in foreign tariff and non-tariff barriers in return for opening our markets to further international competition. You should stoutly defend our market, the greatest market on earth, from those who are unwilling to strike a fair bargain with us.

Look at the bargain closely and coldly, and agree to it only if we get as much as we give. Don't trade off a horse and accept a rabbit. Don't trade off a barrel of wheat for a biscuit.

If agriculture does not get a fair shake there should be no agreement.

One final word. U.S. agriculture which accounts for \$6.8 billion of our total exports of \$29.9 billion last year, would suffer a serious setback if you agree to industrial commodities without tying the arrangements to an adequate commitment on agricultural products.

The committee wishes you good luck and particularly good judgment from this point on.

We will stand in recess.

Mr. ROTH. Thank you, Mr. Senator. I will take the statement to heart. It was a good one.

(Whereupon, at 12:30 p.m., the committee recessed, subject to call of the Chair.)

