OVERSIGHT HEARINGS ON U.S. FOREIGN TRADE POLICY

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

JANUARY 29, 30, AND FEBRUARY 4, 5, 1976

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
67-937 WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $4.35

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OVERSIGHT HEARINGS ON U.S. FOREIGN TRADE POLICY

THURSDAY, JANUARY 29, 1976

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

The committee met, pursuant to notice, at 9:40 a.m., in room 2221, Dirksen Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Talmadge, Hartke, Ribicoff, Byrd, Jr., of Virginia, Nelson, Gravel, Bentsen, Haskell, Fannin, Hansen, Packwood, and Brock.

The CHAIRMAN. The committee will come to order.

The Committee on Finance today begins 4 days of public hearings on the foreign trade policies of the United States, including the administration of the Trade Act of 1974 and the progress during the past year of the trade negotiations in Geneva.

A great deal has happened to the world economy in recent times. The economies of the United States and most industrialized countries are slowly recovering from the most serious economic recession since the 1930's. For the United States the recession has been particularly severe. Unemployment during 1975 reached 8.6 percent, a level not seen since 1941. The gross national product declined in real terms in both 1974 and 1975. The progress of our economic recovery is now closely linked to the economic policies of other countries.

Under Secretary of State Charles Robinson and Assistant Secretary of the Treasury Gerry Parsky, 3 days ago, told our Subcommittee on International Finance that OPEC oil price increases in late 1973 accounted directly for about half the acceleration in prices in the developed countries between 1973 and 1974, and the indirect effects on costs, wages, et cetera, may be even greater. We know that the impact of the OPEC cartel has not be confined to the developed countries. Between 1972 and 1974 the developing countries of the Western Hemisphere saw the rate of increase in their consumer prices rise from a 22 percent to a 39 percent figure; those in Asia from 7½ percent to 30 percent; those in Africa from 5½ percent to 9 percent. In my view OPEC will destroy the ability of developing countries to achieve real economic development for decades to come.

If there is one conclusion which can be drawn from the current state of the world economy it is that no country or group of countries can achieve economic security by pursuing policies which are injurious to other countries and detrimental to world economic order. The

process of international economic interdependence compels international cooperation.

The purpose of these hearings is to examine U.S. commercial policy in its broadest sense and to explore the full range of issues which arise in our trading relations with other countries. What is being done to assure access to supplies of vital raw materials at reasonable prices? What are the objectives of the United States in the Geneva trade negotiations and in other negotiations affecting our economic interests? Who is responsible for the formulation and conduct of U.S. foreign economic policy? These are a few of the questions we intend to explore in the course of these hearings.

[The Committee on Finance press release announcing these hearings follows:]

PRESS RELEASE

FOR IMMEDIATE RELEASE
January 19, 1976

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Building

FINANCE COMMITTEE SCHEDULES OVERSIGHT HEARINGS ON U. S. FOREIGN TRADE POLICY AND THE ADMINISTRATION OF THE TRADE ACT OF 1974

The Honorable Russell B. Long (D.-La.), Chairman of the Senate Committee on Finance, today announced that the Committee will conduct oversight hearings on U. S. foreign trade policy and the administration of the Trade Act of 1974. The hearings will be held at 9:30 A.M. in Room 2221 of the Dirksen Senate Office Building on January 29 and 30, and February 4 and 5. Secretaries Kissinger, Simon and Butz along with Under Secretary of Commerce Baker and Ambassador Dent will be the principal Administration spokesmen. Representatives of industry, agriculture and labor will also testify.

Chairman Long said that the purpose of the oversight hearings will be to review U. S. foreign trade policies, including the administration of the Trade Act of 1974 and the progress of the multilateral trade negotiations in Geneva. The Committee will explore a number of foreign trade issues including:

1. What are the U. S. goals in the Geneva trade negotiations and in other negotiations involving U. S. foreign economic policies?

2. What progress has been made in achieving the negotiating goals established by the Trade Act of 1974?

3. Which Departments within the U. S. government are responsible for carrying out foreign economic policy objectives and how are these objectives coordinated in accordance with Congressional intent?

4. What role do commodity agreements and export controls play in U. S. trade policy?

5. Are the statutes which provide relief from injury caused by import competition and from unfair trade practices being administered in accordance with the intent of Congress?

6. What are the prospects for expanding East-West trade in a manner consistent with U. S. interests and objectives?

The following witnesses will testify:

January 29

The Honorable Lloyd Bentsen
United States Senator

The Honorable William E. Simon
Secretary of the Treasury

The Honorable James A. Baker
Under Secretary of Commerce

January 30

The Honorable Frederick Dent
Special Trade Representative

The Honorable Earl Butz
Secretary of Agriculture

The Honorable Henry A. Kissinger
Secretary of State

February 4

R. Heath Larry
Vice Chairman
United States Steel

I. W. Abel, President
United Steelworkers
accompanied by Paul Jennings,
President of International Union
of Electrical Radio and Machine Workers
and William Wimpisinger, General Vice President
of International Association of Machinists
and Aerospace Workers

W. D. Eberle
President and Chief Executive Officer
Motor Vehicle Manufacturers Association
of the United States, Inc., and
Former Special Trade Representative

David Dawson
Director
E. I. DuPont de Nemours and Company

February 5

Lee Morgan, President
Caterpillar, Inc.

Don A. Woodward, President,
National Association of Wheat Growers,
accompanied by William M. Prichard,
Vice President, American Soybean Association;
F. E. Guthrie, President, American Rice Growers
Cooperative Association; A. W. Anthony, President,
Texas Grain Sorghum Producers Association; and
Thurman Gaskill, President, Iowa Corn Growers

Thomas L. Hughes, Esq., President,
American Chamber of Commerce of Venezuela,
accompanied by William R. Rhodes, Fred W.
Sutherland, and William F. Coles, Past
Presidents of American Chamber of Commerce
of Venezuela; Gabriel J. Baptiste, Executive
Vice President, American Chamber of Commerce
of Venezuela; and Frank J. Amador, Executive
Director, American Chamber of Commerce of
Venezuela

Tony T. Dechant, President
National Farmers Union

A. L. Buffington, President
Diamond/Sunsweet, Inc.

William Quarles, President
California-Arizona Citrus League

Chairman Long said that it will not be possible for the Committee to hear oral testimony from all persons desiring to testify during the hearings. The Chairman stated that individuals or organizations desiring to comment on the subject of the hearings should file written statements which will be published in the record of the hearings. Five copies of such statements, not exceeding 25 pages in length, should be mailed no later than February 27, 1976, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510.

PR #2

The CHAIRMAN. This morning we will receive testimony from members of this committee, as well as from Secretary of the Treasury William E. Simon, Ambassador Dent, and Under Secretary of Commerce James A. Baker.

We are pleased to have you here, Mr. Secretary, and we would like to have your statement at this time.

Senator FANNIN. Senator Curtis could not be here this morning, and rather than to delay, I will not read his statement, but I would appreciate if it could be made part of the record.

The CHAIRMAN. So ordered.

Senator RIBICOFF. Mr. Chairman, I have a statement, but in order to proceed, I ask unanimous consent that the statement be placed in the record as if read.

The CHAIRMAN. Without objection, it is agreed.

[The prepared statements of Senators Ribicoff, Curtis, and Bentsen follow:]

OPENING STATEMENT OF SENATOR RIBICOFF

This Committee has, under the procedures laid down in the Trade Act of 1974, the assignment of providing oversight for our nation's trade negotiations, and the management of trade policy. Under the Constitution, it is the Congress, not the Executive, which shall regulate foreign commerce. It is the Trade Act of 1974, together with previous trade legislation, which provides the framework for Executive Branch authorities and actions, and Congressional oversight and approval or disapproval of Executive decisions.

One of the most important innovations in the Trade Act, for which this Committee may take great credit, was the drafting into law of a strong advisory role for Congress in trade negotiations and domestic trade policy management, before decisions and recommendations are made by the Executive, and a strong advisory role for our workers, farmers, businessmen, and consumers before international deals are struck which might affect them.

To insure that these procedures and roles are fully effective, and to keep Americans fully aware of the developments in this area which might affect them, this Committee is holding oversight hearings. As Chairman of the Trade Subcommittee of this Committee I have followed the issues closely. The Chairman and I have worked extremely closely with each other, and with my other colleagues on this Committee. But for the public at large, that is not enough. That is why I have strongly supported the idea of holding hearings. I would hope that hearings on these issues might be held periodically, so that the public can continue to be informed, and so that those who have trouble with the present procedures and policies have an opportunity to make their concerns known.

Prior to these hearings, I sent out an inquiry to the heads of the various industry, labor, and agriculture advisory committees which were set up under the Law. What I asked of them was their views on how the public advisory process was working. The answers have on the whole been positive, although there have been some limited criticisms which I have passed on to the Special Trade Representative, Ambassador Dent. I intend to keep this dialogue open so that we can make sure that the advisory process is working effectively. These hearings are another way of ensuring that people affected by Washington's decisions are aware of, and if they wish, be in on, the decisions.

The hearings will cover what is happening internationally. We are very interested in recent developments. They have been difficult to follow and have frequently been very confusing because of the many different organizations and negotiating approaches being utilized by the Executive. In the Committee, we have kept track of developments in the Multilateral Trade Negotiations in Geneva, but we have only piece-meal information on developments in myriad of other negotiating activities on the part of the Executive. For example, the U.S. Government is actively participating in economic discussions which could affect trade in the Conference on International Economic Cooperation in Paris, in the UNCTAD, in specific commodity groups such as the International Wheat Council in London or in the coffee, cocoa, and tin councils. Obviously the discussions leading up to the World-Bank-IMF meetings in Jamaica were also related to what is happening in Trade.

The Secretary of State released a speech on Sept. 1, 1975 to the General Assembly of the U.N. calling for many new initiatives and negotiations in a variety of organizations, and for the establishment of many new institutions. These all seem to be related in one way or another, at least that is for the appearance given by the speech itself, which calls for a comprehensive new approach to economic relations between the developed nations and and the developing nations.

So far as we on the Committee can see, the Executive Branch is not always united in its thinking. We do not always perceive a unified bureaucracy, but rather we see periodic quarrels between agencies and departments over who

is to speak for the U.S. and who is to negotiate. It is somewhat puzzling that this happens so often in public and in such basic ways. We thought in Congress that we had made it reasonably clear who was to handle trade, and that was the Special Trade Representative. Obviously the President provides policy guidance in whatever way he sees fit, and that is his right; but once policy is set the assignments should not be subject to a continuing struggle over bureaucratic turf. The issues are too important for petty procedural and bureaucratic fights. So we look to these hearings for an explanation of who is doing what; of what issues are being discussed where; and how it all ties in with the intentions of Congress as expressed in the laws and resolutions we have passed and in the public guidance we have provided from time to time.

I would like to add that some of the present confusion is a result of excessive secrecy on the part of the Executive, or parts of it. New policies cannot be introduced in secrecy and by surprise—with a grab for tomorrow's headlines—without strong adverse reaction from the people in our economy who are most seriously affected. When our workers, farmers, businessmen, and consumer groups are surprised, they come to Congress for clarification and assistance to rectify problems. In Congress we are in an impossible situation to deal effectively with our constituencies if we do not know what is happening. This is especially awkward in trade policy where we have a clear constitutional responsibility.

In these hearings I would hope we could agree to set secrecy aside and focus on the need for national consensus. Without consensus, the negotiating victories of the Executive can only be ashes. Let us work cooperatively, and let explain clearly what we are doing in these hearings. Then maybe this Committee and the Senate can help put together, constructively, new policies and agreements which can be widely supported in the U.S. economy.

At home, we will be interested in the evolution of Executive thinking on the management of trade policy in connection with the domestic economy. We have had under the new law many applications for adjustment assistance, countervailing duties, anti-dumping action, escape clause action, and relief from unfair trade practices. Some of these cases obviously are upsetting to our trading partners. They all require skillful handling.

For example, the recent affirmative finding by the International Trade Commission on imports of specialty steel and the upcoming decision on footwear imports will provide a tough test of the effectiveness of our new law. The steel situation is complex.

Many Countries are involved. Wider issues are at stake. The problems relate to the policies of other governments as well as to the competitive behavior of individual companies. The President must act under the law very soon, and I don't see how he could ignore the ITC determination without risking a Congressional override under the new procedures. So he must seek a sound, perhaps imaginative solution, while coping with the concerns of other governments. He should of course bear in mind that some of the European governments have had problems with steel imports too, and they seem to have found a method of dealing with the problems by looking the other way while industry has reached tacit understandings. In our system that method is frowned on. We have our own procedures.

The problems in the area of Trade are not easy ones to solve, but the Congress would not have spent nearly two years deliberating on the trade bill in 1973 and 1974 if the issues were not difficult. We have a Trade Act and it must now be made to work, or we will be back in the predicament of earlier years when special pressures and problems arose one after another without control, and the result was international controversy and endless Congressional debate, and sometimes unhappy actions. The whole footwear situation still puzzles me, because in the closing days of deliberations on the Trade Act the Senate asked for and wrote into the law its intention that the Executive work out an international agreement. Now we are waiting for another ITC decision. Maximum delay sometimes can be a useful way of dealing with sticky problems. The Executive lately seems enamored of that approach. I hope it works out in the end, because if not, there will be many unhappy Senators who tried their best in developing the Trade Act to formalize and channel the issues and pressures so that we might all work together instead of at cross purposes. We are proud of the Trade Act in Congress. It is easy to forget how much opposition there was to it, and how hard it was to organize its passage.

So in these hearings, let us have honest views on how the Trade Act works, and what is being done to make it effective in all its aspects.

Opening Statement of Senator Curtis

Mr. Chairman, I would like to thank you for scheduling these timely Trade oversight hearings. The farm community in particular has a vital interest in what appears to be modifications in our foreign economic policy. These modifications concern the use of food power as a weapon to advance U.S. national interests and what appears to be a drift toward the establishment of commodity cartels.

Mr. Chairman, let me emphasize that the benefits of farm exports do not simply accrue to the farmer, they are vitally important to the economic welfare of the nation as a whole. The past year's $28 billion worth of farm exports—including $2 billion to the Soviet Union served to spur the country's recovery. The Department of Agriculture reports that every billion dollars of farm exports means another 50,000 jobs for Americans. In 1975 the net plus of $12 billion in farm production offset the $10 billion deficit in the trade of non-farming commodities, pushing the U.S. trade balance into the black by about $2.2 billion. Fiscal 1976 favorable agricultural trade balance will be even bigger, approaching $13 billion.

Certain sectors of the agricultural community are now experiencing a serious downswing in prices. In addition, farmers are faced with the rising costs of fuel, fertilizer, pesticides and machinery. This squeeze follows a moratorium on grain shipments in the midst of record production.

As a result this committee must determine if our foreign economic policy is denying the American farmer control over his future. Are we at a point where farmers are simply expected to produce grain while others decide how much of it is to be sold, to whom and at what price?

The Committee must also determine what modifications of the "Declarations and Program of Actions for the Establishment of a New International Economic Order" adopted by the United Nations General Assembly has had on U.S. Commodity Policy. The efficient allocation of resources made possible by the market system has improved the living standards of all the world's people. Should our policy be aimed at improving and strengthening the market oriented system or should our policy be directed toward a generalized system of commodity agreements aimed at fixing prices?

Mr. Chairman, it is essential that the answers to the above policy issues be determined by this Committee. The American farmer must export in order to maintain the incentive to generate the high levels of production that we have in this country. It is important to consumers here and abroad, that farmers continue to produce the large volumes that bring efficiencies of scale and assure abundance for all.

Opening Statement of Senator Bentsen

Mr. Chairman, I welcome the opportunity to appear before this Committee to offer a few comments on Title V of the 1974 Trade Act, particularly on that section prohibiting preferential tariff treatment for members of OPEC.

I share the deep concern of my Colleagues over the damage inflicted on the world economy by the four-fold increase in oil prices over the past two and one-half years. I support efforts to achieve a reduction in that price although I am reluctantly coming to the conclusion that there exists only a remote possibility for such an achievement. It appears that the world will be forced to adjust to a permanently higher level than was enjoyed in the past. Certainly we should continue to work for a reduction in the price of oil but we should also realize that the energy problem is a two-pronged one: price and supply. Although there may be substantial agreeemnt within the OPEC on pricing, this is not the case with supplies. The OPEC is not a monolithic political or economic bloc. Indeed the attitudes and behavior of OPEC members have been divided on the question of embargoing supplies. I remind my Colleagues on this Committee that certain members of OPEC—specifically Venezuela, Ecuador, Nigeria, Indonesia, Iran and Gabon—did not participate in the Arab oil embargo against the U.S. and the Netherlands. On the contrary, indications are that at least one country, Venezuela, substantially increased production and supplies of oil to the U.S. during that time. Some estimates indicate that shipments of Venezuelan oil to the U.S. even increased as much as 20% to 22%. And Venezuela has frequently stated that it will never use oil exports as a political weapon. But rather than rewarding Venezuela,

rather than encouraging such independent behavior for the future among those who did not embargo in the past, the 1974 Trade Act penalizes them.

Mr. Chairman, the U.S. should address itself to this divergence in OPEC behavior by making every effort to encourage the development of closer ties with those countries which did not participate in the embargo. While we all seek an eventual freedom from reliance on imports, there is much the U.S. should be doing in terms of working with these nations on political and economic issues in order to maintain access to their supplies of energy while we develop alternatives.

There is also much that the U.S. should not be doing. A case in point is the failure of the 1974 Trade Act to distinguish between those who participated in the OPEC embargo and those who did not. Therefore, I have introduced legislation to exempt from the prohibition on preferences those members of the OPEC which did not participate in the embargo. This will be a significant stimulus toward improving relations with these nations and insuring continued supplies of energy to the U.S. in the event of another OPEC embargo. It is a minor and largely symbolic concession by the U.S. but one which will pay off in substantial dividends.

Let me point out to the Committee that in the case of Venezuela, for example, it is estimated that less than 1% of total Venezulean exports would be eligible for GSP . . . this is a trade situation where we export substantially more to Venezuela than we import—indeed our exports to Venezuela increased during 1974 by 71%. Mr. Chairman, it is clearly essential that we maintain access to Venezuela's market and supplies, not just to her oil but to her iron and her other substantial supplies of raw materials as well—and we cannot maintain this access if we restrict our own. Clearly, we must be under no illusion that failure to end this discriminatory treatment will not affect our own export and supply opportunities in these countries. Our major trading competitors already grant GSP to these nations. Our own failure to do so will be cutting off our nose to spite our face.

The reaction of Latin America in particular to the anti-OPEC amendment has been a harsh one. The Organization of American States unanimously condemned the trade act as being "discriminatory and coercive." Indeed it is no exaggeration to state that our relationship with Latin America has deteriorated to an all-time low, partially as a result of this amendment.

Some would argue that those who have hiked the price of oil should not be rewarded wtih preferential tariff treatment. But is there anyone who really believes that withholding GSP will cause the price of oil to go down? Will it not only harden resistance to flexibility on oil pricing?

Mr. Chairman, Latin America—and indeed the entire Third World—has for too long been relegated to too low a priority by our foreign policy decision-makers as far as economic and strategic considerations are concerned. Yet it is equally clear that Latin America's strategic location and its enormous reserves of raw materials make it a continent of exceeding importance to our own economic and strategic security. I urge the Committee to eliminate the discriminatory anti-OPEC amendment from the 1974 Trade Act.

Mr. Chairman, let me take this opportunity as well to make a few more general comments concerning Title V.

I believe it particularly important that the Executive Branch and the Congress use Trade Act authorities to achieve true reciprocity in trade benefits.

Our negotiations in Geneva to reduce U.S. and other trade barriers and our duty free preferences for developing countries should aim at stimulating and expanding, not contracting, U.S. employment and industry. Particular care should be taken so that U.S. regions with persistent poverty and high unemployment—already hurt by the recession—not have existing employment opportunities reduced or employment in new industries foreclosed by foreign imports. The impact of duty reductions and preferences on such regions should be considered *before* making reductions.

Even where employment benefits are expected to outway damage from trade concessions, the Executive Branch should assume responsibility for advance planning of adjustment assistance, rather than waiting for the damaged communities, firms or workers to plead for assistance after industries have closed and employment is lost.

Puerto Rico is one such region. Unemployment is still more than 19% but this is based on only a 42% work force participation rate for those 14 and over compared to 60% of the equivalent U.S. group. Many Puerto Rican workers are dis-

couraged and no longer try to find work. As a result primarily of the U.S. recession, manufacturing employment in Puerto Rico plummeted from 155,500 in May 1974 to 129,700 in July 1975, a loss of 26,800 jobs or 16.6%. By November 1975 only 6,500 of these jobs had been recovered. Based on projections of the present 3.1 million population and 872,000 labor force, private industry must create 350,000 new jobs in Puerto Rico to reduce unemployment from the present 19% to 5% in 1985, compared to the 192,000 jobs created in the previous ten years.

About 40% of Puerto Rican manufacturing employment is in labor intensive industries most threatened by competition from low wage foreign producers. Petrochemical industries are threatened by huge increases in energy and feedstock costs which has disadvantaged them greatly in comparison to mainland plants. Some leading, high wage industries also face stiff foreign competition.

So, it is vital that special consideration be given to Puerto Rico and other regions with like problems so that U.S. trade and economic policy truly creates thousands of new jobs, not the reverse.

Senator PACKWOOD. I am going to leave about 10 o'clock, Mr. Chairman, we have the final arguments on the day care, and we have limited time to get the bill out of committee. So, Mr. Secretary, I apologize if I get up in the middle of your statement.

Senator FANNIN. I'm in the same position.

The CHAIRMAN. You can come back and ask your questions.

Senator FANNIN. Thank you.

The CHAIRMAN. I must inform the Secretary that there is a bill reported by this committee being considered on the Senate floor today, and at least two or three of our members have to be present to debate the issue. I don't think it necessary that all of the committee needs to be there, we all voted on the issue that will be decided by the Senate today. But, it will be necessary for some of our members to attend to that legislation while we have the hearings today. I hope the Secretary will understand that.

Mr. SIMON. Yes, sir.

The CHAIRMAN. I will keep the record open so that any questions the Senators want to ask could be made part of the record.

Senator FANNIN. Thank you.

The CHAIRMAN. Secretary Simon?

STATEMENT OF HON. WILLIAM E. SIMON, SECRETARY OF TREASURY

Mr. SIMON. Thank you, Mr. Chairman and gentlemen. I have a very lengthy statement, which I will not read but I would like to summarize and just highlight the parts, and you can read it at your convenience.

I welcome the opportunity to join in this review of the administration of the Trade Act of 1974; and this statement that I am presenting this morning, I believe, answers in a comprehensive way all the questions you asked me in your letter requesting me to testify.

I start out by giving an update on the international economic outlook, the recovery outlook in the industrialized as well as the developing countries of the world, and the LDC's and their reduced growth rate coming later than the industrialized countries', of course their recovery obviously coming later as the developed countries' economic outlook improves.

The continuation of the current solid recovery in the world is going to depend on continued sound economic policies by all countries.

In approaching the problems of the world economy, the United States has formulated a consistent international economic policy; no

nation is more intimately involved in the shaping up of a cooperative international economic system. The core of our international policy is the dedication to certain fundamental principles, most important is our commitment for a free environment for world trade and investment. So, we seek certain basic objectives, first and foremost to maintain a sound U.S. economy; eliminate or reduce barriers to and distortions to trade on a reciprocal basis; establish fair trade rules and improve the structure of GATT; permit the free flow of capital in order to allow productive use; assist the developing world to grow and become economically self-sufficient with fair, reasonable access to developed nations' markets, and cooperation with other nations in resolving problems, and responding to change in the international economy.

Now, the policy guidelines and decisions to implement these principles are coordinated through the Economic Policy Board and CIEP. The President established EPB in September of 1974. I am the Chairman of this, and I am also the Chairman of the Council of International Economic Policy. The Assistant to the President for Economic Affairs, Bill Seidman, is its Executive Director. The Secretary was designated the Chairman of both these committees.

The membership of the EPB and CIEP differ somewhat. The EPB includes the Secretary of the Interior, HEW, HUD, and the Executive Director of the CIEP. EPB does not include the Secretary of Defense, who is a member of the CIEP. And, as you know, Mr. Chairman, the Secretary of Defense is also a member of the East-West Foreign Trade Board.

This organizational structure reflects the increasingly close intertwining of domestic and international economic policies which led first to the appointment of the Cabinet officer most intimately concerned with these issues, which is of course the Secretary of the Treasury.

The Executive Committee of the EPB, of which the Executive Director of CIEP is a member, was established to meet daily, and we do at 8:30 each morning, to consider issues relating to international and domestic economic policy. The fact that there is a Cabinet-level meeting daily considering these issues is tremendously important. It has given the executive branch the capability to respond rapidly to changing conditions, and it has provided an institutional focus for decisionmaking on matters relating to economic policy. Participation in the Executive Committee has been limited to the designated members. Other agencies and departments have participated on a regular basis in areas where it is felt they could contribute to economic policy decisions.

In the international trade area, the Trade Act of 1974 provides the legislative framework for the development and implementation of policy. Responsibility for the MTN rest with the STR, Ambassador Dent, who is a member of the CIEP, and is Chairman of the Cabinet-level Trade Policy Committee. The STR joins the deliberations of the EPB on matters of interest to him and is able to bring to the EPB matters for attention or decision.

In addition to these formal mechanisms, Secretary Kissinger and I meet frequently on an informal basis to discuss economic and foreign policy issues to assure coordination in our approach.

The principles of our international trade policy are embodied in the Trade Act of 1974, and we are actively pursuing them in the MTN. Our success in these negotiations will in large measure determine the future of our international trading system. Progress is therefore essential. We are encouraged by the strong impetus which the MTN received from the agreement at Rambouillet, with the goal of completing in 1977.

Recognizing the close interrelationships between international trade and economic policies, the six participants at Rambouillet agreed to work in the monetary area to create greater stability in the economic and financial conditions underlying the world economy. They also made the fundamental decision to reach specific agreements in the IMF relating to exchange rates. This commitment was implemented in the recent agreements achieved at the Interim Committee in Jamaica. Because these understandings are so important to the future of our international monetary system, and thereby, to the environment in which international trade will take place, I would like to comment briefly on the Jamaica accords.

The Jamaica meeting marked the successful conclusion of several years of negotiations, resulting in the first general revision of our monetary arrangement since the basic framework at Bretton Woods.

The package that has been developed combines longer term structural reforms with measures to meet current financial needs. They consist of four major elements: New provisions governing exchange rate practices which nations can follow in the future; measures to phase gold out of the system; steps to increase the resources of the IMF and to strengthen the Fund's ability to meet the balance of payments financing problems of member countries; and proposals to amend the IMF articles, the constitution of the monetary system, so as to streamline its operation, and to conform the institution to the different world which has developed since the 1940's. Together these agreements lay a foundation of impressive strength on which we may base our efforts in the MTN.

The agreement to reduce the role of gold in the monetary system removes an important disruptive factor from the system. Its private use conflicts with its monetary use. Its extreme price volatility can be very destabilizing to a monetary asset. Its relatively fixed supply means that new output cannot be expanded or contracted in line with requirements for more, or less, international liquidity.

Action to update and streamline the IMF articles, relating to the operations of the general account and the account, provides a flexible basis to future evolution of the rules of the system.

In the third area, steps are being taken to enhance the IMF's capacity to provide its members medium term financing for balance-of-payments problems while adjustment measures become effective. These actions include an increase in IMF quotas, increase in members' potential access to IMF credit, the establishment of a trust fund, compensatory finance facility liberalization.

A final area where agreement was reached involves exchange rate practices. In sharp contrast to the rigid system of exchange rates established at Bretton Woods, which sought stability by requiring adherence to a specific exchange rate regime—par values—the new

provisions focus on achieving the underlying economic stability that is a prerequisite for exchange rate stability. The provisions legalize the various exchange arrangements presently applied by countries; provide a flexible framework for future adaptation of the exchange rate system; and provide wide latitude for countries to adopt specific exchange arrangements of their own choosing so long as they fulfill certain general obligations relating to the maintenance of internationally appropriate economic policies. Of particular importance in this respect for the trade negotiations is the obligation to avoid manipulating exchange rates to gain an unfair competitive advantage.

Those who criticize the present system of semi-floating exchange rates state their case in terms of the volatility of the system and the impact exchange rate variability has on international merchants. Such arguments are not supportable. The floating exchange rate system did not produce exchange rate variability. The variability that characterized the past several years is the result of the violent financial pressures generated by boom and recession, by the sharp rise in inflation rates and by the increase in the price of oil. Central to the agreement reached in Jamaica was the recognition that instability was not caused by the exchange rate regime, but rather by underlying economic and financial conditions.

The agreed new provision relating to exchange rates provides for a floating system and, upon an 85-percent majority vote, a par value system. In either case, the exchange rate system is not viewed as producing stability.

Let me now turn to the MTN, where we are attempting to implement our important commitment to an open international trading system. I would like to devote particular attention to two areas where the Treasury Department has special responsibility: The enforcement of our antidumping and countervailing duty legislation and our trade relations with non-market economy countries. I would then like to discuss an area of special importance, our commodity policy; I then discuss the changes that were made in countervailing duties and antidumping in the Trade Act of 1974.

The act did not substantially amend the Antidumping Act, but for the most part codified various Treasury practices and policies previously established by administrative action. During 1975, 25 cases were initiated, preliminary actions were taken on 13, and final decisions, including referrals to the ITC were made on 12 cases.

I believe the Department has continued to demonstrate its determination to administer effectively the Antidumping Act, and this committee can be assured that these high standards will be maintained.

The Trade Act of 1974 made significant changes in the countervailing duty law with the addition of time limits for completion of investigations and the inclusion of a provision for the temporary waiver of countervailing duties to aid the MTN. You will recall that section 331 of the act authorizes the Secretary of the Treasury to waive the assessment of countervailing duties otherwise assessable until January 3, 1979, if all of the following three conditions have been met:

One: Adequate steps have been taken to reduce substantially or eliminate the adverse effect of the bounty or grant;

Two: There is a reasonable prospect that successful trade agreements will be entered into reducing or eliminating distortions of international trade; and

Three: The imposition of additional duties would be likely to seriously jeopardize those negotiations.

Either House of Congress may override a waiver, and the Secretary may revoke it at any time.

During the year Treasury initiated 38 countervailing duty investigations, a record number. This included those cases outstanding as of the date of enactment of the Trade Act. Thirteen investigations were terminated at the request of petitioners, 25 preliminary determinations were reached, and 20 final determinations were made, of which 9 were affirmative and 10 were negative. A temporary waiver of countervailing duties as provided in the act was granted in six of those cases. Summaries of these cases are appended to my testimony.

These figures alone do not tell the full story concerning the effectiveness of our efforts to protect U.S. markets. In several of the cases which resulted in negative findings, substantial "countervailable" programs existed at the time the inquiries began. Discussions with Treasury officials during the course of the proceedings or the mere pendency of the actions themselves convinced the responsible officials of the governments concerned to eliminate the subsidies. Furthermore, in each of the six cases where duties were waived, the exporting country had taken significant action which in our judgment eliminated or substantially reduced any threat posed by the subsidy programs. In four of the six cases this action involved the elimination of substantial portions of the subsidies. In the other two we believed that while potential existed for adversely affecting the domestic industry concerned, that potential was removed by other price or export policy guarantees obtained from the exporting countries.

Treasury exercised its authority to waive the imposition of countervailing duties in six instances. In all cases of substantial subsidization, Treasury worked closely with interested Members of Congress, representatives of the concerned domestic industry, and appropriate executive branch agencies. In my opinion, we have by our actions thus far, fulfilled the basic purpose for which the waiver provision was added to the law. We have avoided unnecessary friction with our trading partners while negotiations continue in Geneva, while at the same time protecting the interests of our farms, factories, and workers.

Let me now turn to the need for these negotiations to arrive at a new set of international guidelines to limit the use of subsidies in international trade.

Section 331 of the Trade Act provides a specific mandate to negotiate on subsidies and countervailing.

Mr. Chairman, as you know, the STR is charged with negotiating a subsidy/countervailing duty code within the MTN. I am certain Ambassador Dent will wish to address this issue. Treasury has worked very closely with STR and other agencies in carrying out the mandate of the Trade Act in this area. As a result, the U.S. Government has proposed a framework for negotiation of international rules on subsidies and countervailing. We submitted a concepts paper on the elements that should be included in a subsidies and countervailing code.

I then go on and describe the paper, the three categories permitted, conditioned, and prohibited.

Effective international rules are needed in this area both to deal with the widespread use of subsidies and to cover the application of countervailing duties against subsidies.

Present GATT rules do not now provide adequate controls on the use of subsidies that distort international trade. The MTN provide the opportunity for developing clear and effective controls on subsidies and linking subsidy controls with rules on countervailing action.

Our objective, then, is to gain agreement on the prohibition of subsidies, the intention and effect of which is to promote exports, whether to the United States or to third countries. To gain this objective we must realistically be willing to accept some limitations on our unilateral use of countervailing duties. What we have proposed is that where the programs complained of are purely domestic in nature—that is, where they apply equally to domestically consumed products and from the evidence available have neither the intent nor effect of stimulating exports—countervailing action by the importing country would be conditioned upon a showing that the imports in question are actually or potentially injurious to domestic industry. I would point out that all countries, including our own, maintain an array of programs for legitimate domestic purposes, which can be judged to be bounties or grants under the broadest interpretation of those words. A typical example is the investment incentive programs maintained by the individual States to attract new industries. Some of those industries inevitably export some of their production.

I would like to turn now to the second area of special Treasury responsibility under the Trade Act, the operation of the East-West Foreign Trade Board.

In accordance with section 411 of the Trade Act of 1974, President Ford established the East-West Foreign Trade Board. The organization of the Board follows the organization of its predecessor, the Committee on East-West Trade.

The President designated me as Chairman of the Board; Bill Seidman was named Vice Chairman; and then I list the other members. Treasury Assistant Secretary Parsky is the Executive Secretary. In addition, in response to a suggestion by the distinguished chairman of this committee; he appointed the Secretary of Defense.

I then describe the function of the East-West Foreign Trade Board, my reports, the administrative mechanisms.

Notwithstanding the importance of the Trade Act in creating the East-West Foreign Trade Board, this administration has consistently established its objection to the provisions of this act which adversely affect our trade with the Soviet Union and other nonmarket economy countries, and which do not serve our political and humanitarian interests. My contacts with Soviet leaders and with American businessmen during the past year have firmly convinced me that it is in our interest to find a way to unblock these impediments to increased trade.

In consultations with congressional leaders, I have been encouraged by a common appreciation that we must move ahead. Last summer, I met with the Members of the Senate delegation to the U.S.-U.S.S.R. Parliamentary Conference before and after their visit to Moscow. The

Senators had an extremely frank exchange of views with top Soviet officials on the impact of the Trade Act on United States-Soviet relations. I believe their visit was extremely useful, as was the visit of the House delegation which took place the following month.

The normalization and improvement of our commercial relations with the U.S.S.R. and other nonmarket economy countries is a necessary element in the improvement of our overall relations with these countries. We believe strong economic ties tend to create a foundation of mutual interest which in turn can improve the environment for progress in the relaxation of political tensions.

A solution to the legislative impasse we now face would materially enhance our business community's efforts to expand trade with the East. We have had many indications that the lack of official credits from the United States is causing the U.S.S.R. and some of the Eastern European countries to direct their purchases elsewhere. The major European countries and Japan have agreements with the U.S.S.R. under which $10 billion of government-backed credits will finance export sales to the Soviet Union. This total is in sharp contrast to the $469 million in credits extended by the Eximbank before lending to the U.S.S.R. was suspended in May 1974.

At Treasury's request, the Commerce Department is now conducting an inquiry to determine how much business this country has in fact lost as a result of this. The Soviets have given us their estimate that for January through October 1975, as much as $1.6 billion in contracts which the Soviets were ready to sign with United States firms have gone to Western Europe and Japan because of the United States restrictions on Eximbank credits. Many of these contracts are being negotiated as part of the Soviet 1976–80 plan and therefore represent business opportunities that are going to be lost.

I expect that much of the competition among Western industrial nations for exports through government-subsidized credits will soon be constrained through the establishment of guidelines on credit terms to be followed by the larger industrial countries. However, such arrangements will not mean that other countries will not continue to provide large amounts of credit to the East. Our firms will continue to be seriously disadvantaged by not having access to these credits.

I would also like to discuss the related issues of commodity policy, U.S. relations with the developing countries, and the MTN. Commodity policy is a major element of our relationships with the non-oil-producing LDC's. For the foreseeable future many of these countries will largely depend upon commodity trade for their economic well-being and for their hard currency earnings. Our commodity policy decisions are therefore crucial to the ongoing dialog with the developing nations. Moreover, our actions now in setting forth clearly and forcefully our views will play a pivotal role in the evolution of the world's system of commodity trade.

Over the next few months the United States will be involved in discussions in several international forums of a variety of such proposals involving export controls, widespread commodity agreements, price indexation, and new international financial institutions.

I believe more fruitful approaches are envisioned in the Trade Act of 1974. I would argue that both our own economic interests and those

of the developing countries can best be served, not by putting new controls on the free market for raw materials and their products, but by working to dismantle those that exist.

The United States has put forth its own set of proposals on commodity policy which we believe would constructively and positively come to grips with the basic economic problems faced by the developing countries within the context of our fundamental commitment to free markets. I want to sumarize these proposals.

The United States has important interests in raw materials. As an importer of raw materials, the United States seeks assured supplies at reasonable prices. This will require adequate investment in raw materials production, and supply commitments from exporting countries. As a major exporter of raw materials, we wish to improve our access to other countries, markets for our exports, and convince other countries that we are a dependable supplier. Excessively volatile price fluctuations are a matter of concern both to developing and developed countries. They can distort investment patterns and contribute to inflationary pressure. We also recognize the significant dependence of many developing countries on earnings from raw materials exports, and we wish to help increase the security and stability of those earnings. To accomplish those goals, we have put forward specific proposals.

To help assure adequate investment, we have proposed that the World Bank Group, especially the IFC, take the lead in bringing together private and public capital as well as technical, managerial, and financial expertise to finance new minerals development.

To assure our access to supplies at reasonable prices, and convince other countries of our dependability as a supplier of raw materials, we are seeking supply access commitments in the MTN.

Because no one approach can apply to all commodities, we propose to discuss new arrangements for individual commodities on a case-by-case approach. We have participated actively in negotiations for new commodity arrangement discussions.

We will sign the new Tin Agreement, which will be submitted to the Senate for advice and consent, because it operates with a minimum of market interference and permits full latitude for the operation of our own tin stockpile.

However, we do not propose to sign the new International Cocoa Agreement in its present form because it sets rigid price ranges, does not adequately protect consumers, and relies excessively on export quotas. We have suggested that the agreement be renegotiated and are awaiting the reaction of other countries.

We are currently reviewing the new International Coffee Agreement, which contains substantial improvements. Our review is focusing on the adequacy of the consumer safeguards and the possible future price impacts.

To help primary producing countries stabilize earnings from commodity trade, the United States proposes a substantial improvement in the compensatory finance facility. The IMF has now agreed.

We are also supporting an improvement of the IMF's arrangements for national financing of buffer stocks, by amending the Articles of Agreement to remove any effect of buffer stock drawings on member-country access to other IMF resources.

To provide even longer run stability and security of export earnings for the LDC's, we have urged that in the MTN particular attention be paid to the issue of tariff escalation. If LDC's are given improved access to developed country markets for processed forms of their raw materials, they will be able to diversify their economies and decrease dependence on exports of raw materials.

As this enumeration of measures demonstrates, there is no single approach to commodity trade problems. We reject price fixing arrangements that distort the market, restrict production and waste resources, and we have made clear we will not join such agreements. On the other hand, we are prepared to consider measures that will improve the functioning of markets and will directly meet the problems of raw material producers and consumers. In this regard, we seek the establishment of consumer-producer forums for each key commodity to promote efficiency, growth, and stability of particular markets.

I would suggest that by using the mandate and authority in the Trade Act of 1974, we can improve our access to needed raw material imports, increase other countries' confidence in us as a supplier of raw materials which we export, and assist the developing countries in their drive to improve export earnings and develop their economies. I then talk about border tax adjustments.

It is my firm belief that progress in negotiating a more open and equitable world trading environment is essential to a world beset with economic difficulty and unprecedented change.

In carrying out the mandate of the Trade Act of 1974, our efforts in the MTN are going to help us move toward our fundamental goals of freer markets, improved rules and regulations governing the conduct of trade, and a more efficient allocation of world resources; provide a positive counter to the threat of a potentially hazardous slide into world protectionism; and enable us to better meet the justifiable needs of the developing countries, while providing that they gradually assume equivalent responsibilities as their economic situation improves.

Negotiations are a vital element of our international economic policy. Upon the success of our efforts rests in large measure the nature of our future world trading system. I am confident that if we approach these negotiations with the aim of preserving and broadening the freedom of the private sector to conduct international transactions with a minimum of Government intervention, the future economic system will be one with which we can all live and from which we will all benefit.

Mr. Chairman, I have with me from the Treasury Department Dave McDonald, Assistant Secretary for Law Enforcement, who will be delighted to respond to any questions, as will I.

Mr. Dent has just arrived, and I notice Senator Bentsen came in, and I will be glad to step aside and have him present his testimony; he's got to vote.

Senator TALMADGE. If there is no objection, we'll proceed with 10 minutes' interrogation. Is there any objection?

Mr. SIMON. I will be glad, if you've got votes to step aside and let you finish yours.

Senator BENTSEN. No, go ahead and finish yours.

Senator TALMADGE. Mr. Secretary, do you think the Canadians have lived up to the spirit and the letter of the United States-Canadian Automobile Agreement?

Mr. SIMON. To the best of my knowledge they have, Mr. Chairman, yes.

Senator TALMADGE. The International Trade Commission sent us a report which is being released today, indicating the Canadians have not lived up to their side of the bargain.

Mr. SIMON. We have not seen that report, but what we will do, we will study that immediately and give you our analysis of that report.

Senator TALMADGE. I wish you would look into it.

Mr. SIMON. We certainly will, sir.

[The following was subsequently received for the record:]

ANALYSIS OF THE INTERNATIONAL TRADE COMMISSION'S REPORT ON THE AUTO PACT

The Commission's study is timely and comprehensive. However, some achievements under the Agreement are not fully recognized. In addition, I would like to place some of the Commission's findings in more adequate perspective.

First, I would like to focus on what the Commission played down: The situation immediately preceding signature of the Agreement was that Canada had adopted a scheme for subsidizing exports of automotive products by means of conditional duty remission on imports. This scheme was not sustainable. The U.S. would have countervailed. Canada agreed to drop its subsidies but made clear that it would increase sharply existing Canadian content requirements for Canadian automobile manufacturers or take other restrictive action.

As a result of the Agreement, Canada dropped its export subsidies and did not impose additional restrictions. It conceded duty-free entry to formerly dutiable parts and automobiles from the United States in exchange for duty-free entry into the United States of parts and automobiles from Canada. Without this agreement, tighter Canadian restrictions on imports of United States automobiles would have been inevitable.

The Commission also failed to place due emphasis on the extent to which the objectives set out in the Agreement have been achieved. The first two objectives of the Agreement were "the creation of a broader market for automobile products within which the full benefits of specialization and large scale production (could) be achieved" and "the liberalization of . . . automotive trade with respect to tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries." The facts presented in the Commission's study with respect to the integration and rationalization of the industry and the tremendous growth in bilateral automotive trade clearly demonstrate that progress toward these objectives has been substantial.

Moreover, the United States has received important benefits from this process of integration, rationalization, and trade expansion under the Agreement.

—Without the Auto Pact, the United States might well have lost the entire Canadian market as the United States has lost all other major automobile export markets.

—Tariff-free imports into Canada from the United States have increased the profits of United States-owned firms, allowing them to grow. Some of these profits are repatriated to the United States.

—The cost savings from integration of North American production and the elimination of Canadian duties on United States produced cars led to prices that are lower than they would have been in the absence of the Agreement and consequent greater unit sales by the United States-owned producers. These firms gained additional sales as American style cars displaced Canadian imports from third countries. (As expected, the pact has reduced price differentials between the United States and Canada. The Commission's finding of increased price differentials since 1971 is accounted for by the inclu-

sion of the 12 percent manufacturer's excise tax in the Canadian price, while the 7 percent auto excise in the United States was eliminated on August 15, 1971.)

—Similar but smaller effects on sales within the United States result from lower automobile prices in the United States. Industry spokesmen cited production economies in the United States which have been translated into lower prices. Due to the already longer production runs in the United States, these economies are naturally smaller per unit of output in the United States than in Canada.

—United States has a cumulative export surplus under the pact through November 1975 of five billion dollars (See Table).

—During the last recession, trade under the Agreement had a countercyclical impact upon the United States economy and our automotive industry in particular. Thus our increasing trade surplus under the Agreement contributed to ending the recession in the United States economy last year.

All in all, we feel that the net effect of the Pact on the United States has been positive. This view is reinforced by the positions of the United States auto industry and the UAW.

Canada has also gained under the Agreement. The Commission finding that the Agreement has mainly benefitted Canada is not surprising. The potential for the growth of the Canadian industry was greater than that of the United States industry when the Agreement was made. It was clear then that the relatively less efficient industry in Canada could benefit more than the more efficient United States industry.

Easily identified gains to Canada are the creation of an efficient automobile industry, access to American-owned technology, lower prices to consumers before tax, and improved wages and employment. Canada has also avoided a trade war with the U.S. However, trade is not a zero sum game. Canada's gain was not our loss.

Unfortunately, as the Commission points out, there are some problems with the Agreement. Progress toward the third stated objective of the Agreement ("to develop conditions in which market forces operate effectively to attain the most economic pattern of investment, production, and trade") has been less satisfactory than in the case of the other two. Production guarantees in effect in Canada continue to inhibit the effective operation of market forces. Canada justifies these guarantees in terms of its interpretation of the "fair and equitable" clause in the second objective. Thus while the United States stresses the operation of market forces under the Agreement and wants to see it become more of a free trade pact than it is, Canada tends to fear that rapid progress toward free trade might weaken the Canadian industry. Nevertheless, some progress towards the third objective has been made. Market forces today have a greater impact on automotive investment, production and trade between the United States and Canada than they did before the inauguration of the Agreement. Further progress toward achieving this objective is needed.

The United States understands that the three safeguards in Annex A of the Agreement, together with the ancillary commitments in the letters of undertaking are transitional. The length of the transitional period has not been agreed.

The Agreement itself, however, did not specify that the Annex A safeguards were transitional, nor did it mention the ancillary commitments in the letters. Article IV of the Agreement required the two governments to undertake no later than January 1, 1968 a joint review of the progress made towards achieving the objectives set forth in Article I, including "the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production, and trade."

During that review, the U.S. pressed the Canadian Government to drop the transitional safeguards, but the Canadians maintained they were still necessary. We continue to believe that these safeguards should be phased out, and have pressed the Canadian Government to do so.

While Canada's performance has been consistent with the *letter* of the Agreement, these transitional safeguards have prevented the accomplishment of the full *intent* of the Agreement by interfering with free trade in autos and parts.

The United States and Canada differ on the letters of undertaking between the American-owned companies and the Canadian Government. Our position is that these letters have expired. We so informed the Canadians during the 1968 review. However, as the Commission notes, the Canadian Government holds that the letters are still in effect.

Both participating governments are being urged to modify the Agreement. Recently the United States and Canadian governments agreed to initiate in depth studies of the long-term outlook in the North American automotive industry. These evaluations provide a valuable basis for consideration of options for future policy.

NET AND CUMULATIVE BALANCES OF TRADE COVERED BY THE CANADIAN AUTOMOTIVE AGREEMENT—U.S. IMPORTS-CANADIAN IMPORTS

[In millions of U.S. dollars]

Year	Balance of U.S. net [1]	Exports over imports, cumulative [1]
1965	658	658
1966	556	1,214
1967	483	1,697
1968	360	2,057
1969	83	2,140
1970	−196	1,944
1971	−197	1,747
1972	−99	1,648
1973	426	2,074
1974 [2]	1,233	3,307
January–November 1974 [2]	918	
January–November 1975 [2]	1,688	4,995

[1] Canadian import data. Parts exports (Canadian imports) adjusted to exclude tooling charges in millions of U.S. dollars as follows: 1966, $29; 1967, $44; 1968, $47; 1969, $75; 1970, $89; 1971, $68; 1972, $85; 1973, $68; 1974, $128.
[2] Preliminary.

Source: U.S. Department of Commerce.

Note: Data exclude U.S.-Canadian trade in materials for use in the manufacture of automotive parts. Data are adjusted to reflect transaction values for vehicles. $1 Canadian equals U.S. $0.0925, 1964–69; U.S. $0.958, 1970; U.S. $0.990, 1971; U.S. $1.009, 1972; U.S. $0.9997, 1973; US $1.02246, 1974.

Senator TALMADGE. The best staff economist who specializes in trade on this committee also thinks they have not, and he has specific details he would be delighted to furnish to the Treasury Department.

Mr. SIMON. That will be fine, and we certainly will look into that.

Senator TALMADGE. Do you agree that we need a vigorous enforcement of our unfair trade practice statutes, antidumping and countervailing duty laws?

Mr. SIMON. Yes, Senator Talmadge, I do. I think that our actions of last year where we have processed a record number of complaints, you know, for years—well, let's go back to my hearings when becoming Secretary of the Treasury, where I promised vigorous enforcement of countervailing and antidumping. I think all of our actions have supported the statement I made in my prepared text that, indeed, we have done this; we have wiped the slate clean as far as all of the complaints. You know, they used to back up for sometimes 3, 4, and 5 years. Sometimes three or four Secretaries would come through before we finally got them.

Senator TALMADGE. I congratulate you, sir.

Mr. SIMON. We are trying, and I think we have done it with a minimum disruption in the world trading system. The other countries understand our problem, and we have worked in great harmony and accomplished what is in everyone's best interest.

Senator TALMADGE. Secretary Kissinger represented there would be an International Consumer Conference for every major commodity. Is such a conference necessary for every commodity?

Mr. SIMON. Well, we are discussing in the Consumer-Producer Conference commodities, and studying them on a case-by-case basis each

commodity, understanding at the outset that the United States will not participate in any per se commodity arrangement that goes against our very strong free market principles. Anything that distorts the price, we would certainly not agree to.

But, each commodity is subject to its own particular dynamics in the market, and so, therefore there is a reason to study each commodity on a case-by-case basis, one cannot generalize in that area.

Senator TALMADGE. What are the commodities the free market does not work with?

Mr. SIMON. Well, one of the outstanding examples today, of course, is oil.

Senator TALMADGE. That's not a free market.

Mr. SIMON. No, sir. Oil, temporarily, is being controlled by a cartel that has about 67 percent of the world's proven reserves. I still maintain, as I said just now—and I underline the word "temporarily"—because I believe that history has shown that cartels don't work and this one is going to be no exception. It has been more successful and lasted longer than most cartels in history, but this one will meet the same fate.

Senator TALMADGE. What other commodities are controlled by a cartel, rather than the free marketplace?

Mr. SIMON. Well, we could say bauxite to a more limited degree. But, you know, we can't compare other commodities to oil because there is no single commodity that the world economies depend upon—if my memory serves me correctly, 45 percent of the energy used in all countries of the world is supplied by oil; and all the incremental demands, as our economies continue to grow, will have to be imported from the OPEC nations in the near future.

Now, as far as other commodities, such as bauxite, there are substitutions available, there are stockpiles available. So, their ability to raise prices is limited. And also, none of these other commodities are as essential to these economies as the commodity of oil.

Senator TALMADGE. What is the substitute for bauxite?

Mr. SIMON. Alumina.

Senator TALMADGE. Alumina. There are tremendous quantities of that.

Mr. SIMON. Down in your part of the country.

Senator TALMADGE. It takes 2 tons of alumina to produce the same amount of aluminum as 1 ton of bauxite. So, a depletion allowance is favorable to bauxite and nonfavorable to alumina. I wish the Treasury Department would look into that and come in with a recommendation that would save us countless millions of dollars on the importation of bauxite and bring that cartel down at the same time.

Mr. SIMON. We certainly will, Mr. Chairman.

[The following was subsequently received for the record:]

TAX TREATMENT OF BAUXITE AND ITS SUBSTITUTES

Domestic bauxite presently receives a 22 percent depletion allowance. A similar allowance is accorded to anorthosite, from which alumina can be extracted. Foreign bauxite and substitutes receive a 14 percent allowance. Thus the percentage depletion rate for domestic production is already over 50 percent higher than that for foreign ore.

Given the present world situation with respect to bauxite, further domestic tax incentives are *not* required at this time. The U.S. imports about 90 percent of its bauxite. The price has risen sharply as a result of a dramatic increase in internal taxes imposed by producing countries. The high price of imported bauxite, however, has the beneficial effect of providing substantial price incentives for domestic producers of bauxite and its substitutes to expand their production above what it might otherwise be. There price incentives are much more powerful than additional tax incentives would be.

Senator TALMADGE. It is generally true that we pay a high price on a commodity that comes in under commodity agreement in the free market; is it not?

Mr. SIMON. Yes, sir.

Senator TALMADGE. Then, what justification is there to bring in commodities?

Mr. SIMON. If it disrupts the free market, Mr. Chairman, there is no justification. I think that at times there is justification to moderate fluctuation, and I can make a comparison to our international monetary arrangement where the finance ministers in the central banks in the world will intervene in a market that is disorderly and subject to erratic fluctuations, rather than underlying economic change, if you will.

Now, if there are going to be shortages that occur for one reason or another, or the phenomenon of the simultaneous boom that occurred 2 years ago, at times like that assurance of supply and some stability in the prices is a desirable thing. But nothing that distorts the free market process.

Senator TALMADGE. It appears that the governments of most Western industrialized countries look to the United States to bear the burden of leading the world out of its most serious recession in some 40 years.

What are the implications of this on our own economy? Are they asking that we assume our old role of again running payment and trade deficits to facilitate their recovery?

Mr. SIMON. No, sir. Our steadfast stand as far as our economic policy and feelings of stability in the world economy as far as the exchange rate system is concerned have been well known. We know what happened back in Bretton Woods when the United States and Great Britain, the two pre-eminent countries in the world at the end of World War II set a par-value system which basically gave a competitive advantage to other countries. The problem increased, and was magnified during the 1960's, when we used billions of dollars to finance deficits on an overvalued dollar. Floating rates have taken care of this, Senator Talmadge. We have withstood suggestions of the past year that the United States reflate more actively because of the answer to world recovery and winning the battle of inflation starts first and foremost with everyone taking the appropriate actions in their own domestic economies. The United States cannot and will not reembark on inflationary policies in order to help the exports, if you will, and provide them with an export recovery.

This is not necessary, and therefore, I believe, we have built the foundation for a durable and lasting recovery.

Senator TALMADGE. Thank you very much, Mr. Secretary.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. I think Senator Ribicoff is next.

Senator RIBICOFF. Thank you very much, Senator Hartke.

Secretary Simon, my questions are rather long, they are a statement and a question. I will try to read them slowly.

You are the coordinator of economic policy for this administration through the Economic Policy Board. I gather you and your representatives meet at the White House daily to pull things together. Yet, we frequently see differences of opinion, and even squabbles erupting over international economic issues in the press. Your staff appears to disagree in public with the State Department and the Secretary of State personally. The Agriculture Department gets excited in public over the role of State in grain negotiations.

The Special Trade Representative's Office seems to be in continuing bureaucratic fights over its jurisdiction and responsibility. In the meantime, basic issues fall between stools. A basic problem in the steel trade was not raised in the OECD a month or so ago, even though the opportunity arose.

The agricultural questions—and I defer to the chairman of the Agricultural Committee here—are a real mess because there is a fight between agencies over whether food stocks negotiated in London should be dealt with in conjunction with the trade talks in Geneva.

Speeches are made in the United Nations, and negotiations carried out in Paris and in commodity groups in London without apparent effort to tie these questions to the mainstream of the trade policy. Why does this have to happen?

Mr. SIMON. Let me comment for a moment, and I also would like Fred Dent to comment as well, Senator Ribicoff.

We meet daily, yes. We have an 8:30 meeting at the White House every morning, which is the Executive Committee of the Economic Policy Board, and the membership is attached. Sure, there are differences. We are dealing with complex subjects, we have departments with different missions, if you will; and there are, naturally, differences of opinions. The fact that sometimes these differences of opinions leak in the press—as I have often said, the Ship of State is the only ship that leaks from the top, and that is unfortunate because it does give the appearance of confusion to the Congress and to the American people.

What we try to do is handle these differences of opinion at the Assistant Secretary level to the best of our ability. We then escalate it to the Secretary level to finish it off, if we can. We then bring it to the President in the form of an options paper. The President makes the ultimate decision, having taken the foreign policy and economic policy into consideration.

Much has been written in the newspapers about the State Department and the Treasury Department. I think it's important to understand that is not only in this country and not only in this period of time. The mission of the State Department and foreign policy quite often conflict with the missions of chief fiscal officers and financial officers of a given country. And, taking into consideration our economic policies and the strength of our dollar, and our fiscal integrity, which I must, obviously, there are going to be differences of opinion.

We try to work them out, but, as I say, sometimes we cannot, and we take it to the President; he makes the ultimate decision, having weighed both.

As far as the agricultural policy is concerned, Secretaries Butz and Kissinger will be here tomorrow. With the Economic Policy Board, the Food, Deputies Group, Commodity Policy Coordinating Committee that the President appointed with Secretary Kissinger and me as the chairmen to deal with these problems, I think the formulation of agriculture policy has worked very smoothly.

I guess I could be immodest for a moment and say that I have seen the mechanisms of government in the economic area, having been a consultant to the Treasury for 9 years before I came to government, and seeing the "troika and quadriad," which was the traditional way of handling the policy function, I think we have an economic policy group now that covers the Government better; that brings out all the differences of opinion where they were not brought out in the past. And, certainly, we are going to have differences of opinion.

But these differences in opinion don't mean divisiveness or discord among the participants, we are pretty strong-willed men and feel very strongly about our basic missions. We try to do what's best for the country as we see it from our own particular vantage point.

Senator RIBICOFF. That isn't the answer, there should be differences of opinion: that should be thrashed out, I can understand that. But when the differences of opinion make it impossible to zero in, ultimately, in a crunch, on what is your policy, or what you do, then you've got a problem. That's what I laid out here.

Mr. SIMON. That's the point, I don't believe that our differences of opinion—we do resolve them, and we resolve them very quickly—I don't think it has inhibited us from putting our policies forward.

[The following was subsequently supplied for the record.]

AGRICULTURE POLICY COORDINATION

The Committee has requested information on the formal procedures established in the Administration to address agricultural and food policy issues.

The Cabinet level Economic Policy Board (see attached) reports directly to the President and is responsible for the coordination of general economic policy, including both domestic and international agricultural and food policy. The Board is chaired by the Secretary of the Treasury and its Executive Director is the Assistant to the President for Economic Affairs, Mr. Seidman.

Input to the EPB in the form of analysis and positions on the issues is provided by the Food Deputies Group and a special group on food aid, the OMB Senior Review Group. Both of these auxiliary groups are made up of membership at the Assistant Secretary level. The Food Deputies Group is chaired by the Council of Economic Advisors and the OMB Senior Review Group is chaired by OMB. Staff work on food aid is furnished to the Senior Review Group by the Interagency Staff Committee chaired by USDA.

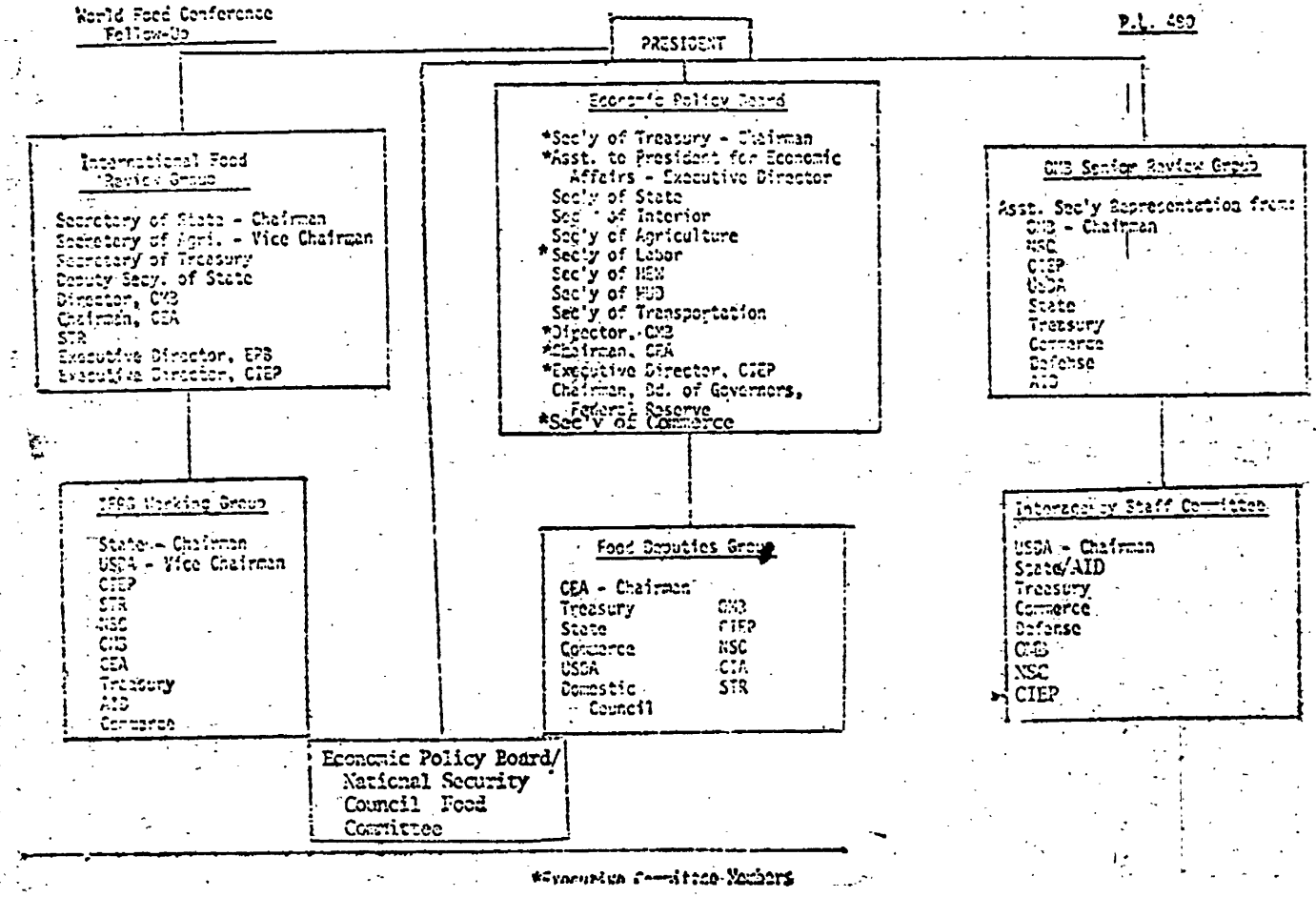
In addition to these more routine functions, certain international agriculture and food issues such as the World Food Conference follow-up and the development of the U.S. proposal for an International Grain Reserves Agreement have been highlighted for special emphasis. Responsibility for these areas has been delegated to the International Food Review Group which reports directly to the President. The IFRG is chaired by the Secretary of State; the Vice Chairman is the Secretary of Agriculture. The IFRG receives staff level input from the IFRG Working Group.

Also, with the announcement of the U.S.–U.S.S.R. long-term grain agreement in October, 1975, the President established the Economic Policy Board/National Security Council Food Committee to closely monitor the effects of the agreement and to consider other agricultural and food issues that impact on domestic economic and national security policy.

The food and agricultural policy organizational structure is currently being reviewed.

Preliminary Chart

Executive Office Organization for Food Issues



Senator RIBICOFF. Just why wasn't the problem of the steel trade raised in OECD a month ago? In other words, if there was an American policy, why wasn't this raised? I mean, that is certainly something Senator Hartke is interested in, coming from a steel-producing State.

Mr. DENT. Senator, the OECD consultation was to review the status of the European steel industry, which had been petitioning the European commission for action. We have already established within the multilateral trade negotiations a steel sector operation which is reviewing the entire area of the steel and iron industry.

The OECD does not cover all nations who are involved in the steel industry. We feel it is better to get this resolved within the context of the MTN, rather than in an ad hoc consultative group which was not established, for negotiating purposes. We think the interests of the American steel industry can better be accommodated on a long-term basis within the multilateral trade negotiations.

[The following was subsequently supplied for the record:]

STEEL TRADE POLICY COORDINATION

The Committee has requested further information on the manner in which U.S. trade policy for steel is coordinated within the Administration.

There are essentially three areas in which U.S. steel trade policy is and has been closely coordinated on an interagency basis: (1) the recent consultations on steel within the OECD, (2) the current interagency review of the U.S. International Trade Commission's recommendation on import relief for the stainless and alloy tool steel industry, and (3) our policy for negotiations on steel within the Multilateral Trade Negotiations.

Within the OECD, the European Community requested consultations under the Trade Pledge to review its domestic steel industry problems in the context of internal pressures for steel import controls. The consultations were not designed as a negotiation on steel in general, which is more properly the responsibility of the Multilateral Trade Negotiations. The U.S. delegation to the OECD consultations was jointly headed by representatives of the State Department and the Office of the Special Trade Representative, with delegation members from other interested agencies. The U.S. position was coordinated in advance among these agencies. As a result of the consultations and international expression of concern that unilateral action not be taken to restrain imports in this sensitive sector, formal import restraints by the EC were avoided.

The Administration's work on the specialty steel escape clause case is being done on an interagency basis through the Trade Policy Committee (TPC) framework. Members of the Trade Policy Committee are:

(1) the Special Trade Representative, who shall be chairman,
(2) the Secretary of State,
(3) the Secretary of the Treasury,
(4) the Secretary of Defense,
(5) the Attorney General,
(6) the Secretary of the Interior,
(7) the Secretary of Agriculture,
(8) the Secretary of Commerce,
(9) the Secretary of Labor,
(10) the Assistant to the President for Economic Affairs, and
(11) the Executive Director of the Council on International Economic Policy.

In accordance with the Trade Act provisions, the Trade Policy Committee will advise the President on this case. The information which the Trade Act requires the President to consider in making his decision in escape clause cases, and other necessary information, is being developed for the TPC and the President by an interagency task force which includes representatives from the Office of the Special Trade Representative (chairman), the Departments of Agriculture, Commerce, Defense, Justice, Labor, State, and Treasury, the Office of Management and Budget, and the Council on International Economic Policy.

Steel policy for the Multilateral Trade Negotiations is formulated by an interagency task force chaired by STR. Agencies participating in the iron and steel group include Commerce, Treasury, State, Labor, CEA, Interior, CIEP, FTC, and the International Trade Commission. The task force has begun a study of steel mill products with a view to developing U.S. negotiating strategy for steel in the MTN. The task force will, of course, take into account the industry and labor advisory reports on steel.

Senator RIBICOFF. Now, let's take the next step. We have been thinking about the conclusion commodity policy, and the fact that business, labor, and agriculture, as well as the consumer are all affected by your policies and negotiations. We are increasingly concerned that policy is made in a vacuum. Negotiations on commodities necessarily affect the conditions of trade.

So, logically, such negotiations should be dealt with as trade negotiations. Yet, they are handled in some other special and secretive way. We don't understand this.

Consequently, to help the Senate deal with our constituents, and at the same time work constructively with the executive branch, to help your work with the Congress Senator Long and I introduced yesterday a Senate concurrent resolution that simply states that agreements that affect conditions of trade in commodities shall be treated as trade agreements within the meaning of the Trade Act of 1974.

Thus, if you want to talk to other nations about commodities and the results affect trade in any way, there will be a clear-cut procedure for working with Congress, with the farmers, industry, and workers. We should not be surprised, and you should not be embarrassed by congressional rejection of international agreements if we follow the proper procedure. We all ought to be able to assist each other in finding the best solutions for our Nation; and working separately, we are bound to have conflicts.

Do you agree with me and Chairman Long that Congress and the Executive should work more closely in this area?

Mr. SIMON. I agree fully, Senator Ribicoff, with the need for close and frequent consultation. We fully agree.

Senator RIBICOFF. Ambassador Dent?

Mr. DENT. Yes, sir. As you know, we are committed to working as closely as possible with the members of this committee, committee staff, and the House Ways and Means Committee. In all efforts we try to keep them posted and have their input as policies, trade policies develop. We will be glad to review this proposed legislation and give you our detailed views on it.

Senator RIBICOFF. You agree, then, both you gentlemen, that agreements affecting supplies, prices, stock, or assurances of purchase or supply, affecting the conditions of doing business, are these not then trade agreements?

Mr. DENT. There are certain laws, for instance, the Agricultural Act, under which commodity agreements can be negotiated; in some instances they are negotiated in treaties. All others, we do believe, fall under the Trade Act, and we would contemplate consulting on those. Where other types of commodity agreements are under discussion, we think you should be advised on those as well.

Senator RIBICOFF. But, shouldn't they come to the Ways and Means Committee and to the Finance Committee, which would be acting for the House and the Senate; should they not come here?

Mr. DENT. If there is legislation under which it is negotiated, for instance, that is the responsibility of the Agriculture Committee, we believe that the working out of the relationship between the two committees should be handled by the Senate. As far as we are concerned, we would be delighted to consult with both, if that is the wish of the Senate.

Senator RIBICOFF. There is no problem that Senator Long and Senator Talmadge would be able to work out the jurisdictional situation. Senator Talmadge happens to be deeply involved with trade matters.

In other words, do I understand from both of you, the careful work that the Finance Committee put into the Trade Act of 1974 over many months ought to be put to work in this area as it was intended, rather than start a whole new wall of words over jurisdiction and assessment of national interest?

In other words, the chairman, with the support of this committee very carefully worked out a bill in such a way that there would be oversight, understanding we would prevent conflicts that would embarrass you and any subsequent administration, by coming to the chairman and the Finance Committee with things. And yet, our fear is that you are proceeding to enter into agreements and negotiations on an executive basis without coming to the U.S. Senate.

I am sure the chairman intended, and the whole committee backed him up unanimously that trade agreements and negotiations should come here. And of course, as you say, if you've got agriculture, there is no question that this would be worked out in conjunction, without difficulty, between Chairman Long and Chairman Talmadge.

Mr. SIMON. That's the thing, I get into enough trouble without monkeying with the jurisdictional problems in Congress.

The coffee agreement today, for instance, would come before Ways and Means and Senate Finance. The tin agreement would come before the Senate Foreign Relations Committee. And these are the problems that have to be straightened out.

The point of the whole matter is, yes, we want to work with the Congress intimately on every one of these potential commodity arrangements. I have always had a bias toward the Senate Finance Committee and working on one committee with these problems rather than a proliferation of committees. But, again, I don't want to get into the jurisdictional problems you may have.

The CHAIRMAN. May I just interject that there is a great need of working together. I think this committee, as much as any committee on this Hill, has been able to work with other committees, including Labor, Commerce and all the others. We respect their jurisdiction, and we ask them to respect ours. I'm proud to say that in this group we are flexible; we see the other fellows' points of view.

But, I think that is satisfactory, Mr. Secretary, you want us to work that out and do business with whoever we designate up here.

Senator RIBICOFF. Mr. Chairman, the bell rang while you were commenting. I do have some more questions, and I will come back on the second round, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Mr. Dent is before us.

The CHAIRMAN. I see him.

Senator HARTKE. I mean officially.

The CHAIRMAN. Including in the flesh.

Mr. DENT. Senator, I'm here today, and I will be back tomorrow, to coordinate the administration's presentation. So, whenever it suits you.

Senator HARTKE. The question I raise is one which was introduced by Senator Talmadge, concerning the Canadian Automobile Agreement. I have been a long-time critic of that agreement, as you well know, for about 11 years.

On July 9 of last year, this committee at my request asked the Tariff Commission, which is now called the International Trade Commission, to do a study on that matter. That study was released today. Have you had a chance to look at it?

Mr. DENT. No, sir, it has not been made available in this country. We understand the Canadians have a copy, and the Canadian press.

[Laughter.]

Mr. DENT. We look forward, in anticipation, to this study.

Senator HARTKE. Well, let me say to you, this is the first time I have found our intelligence to be superior rated to yours, Mr. Dent. I have a copy of it. I have already addressed a letter to the President. I have a copy which I will be glad to give to you and Secretary Simon.

I will say, it verifies every complaint, and a few that I didn't even have, about the agreement. Since you don't have a copy of it, there is not much I can ask you about it at this time, except that it is very appropriate concerning Secretary Simon's statement on page 4, the "Principles of U.S. International Economic Policy," and item 2, "To eliminate or reduce barriers to and distortions of trade on a reciprocal basis." I think it is fair to conclude that the report says the Canadian Automobile Agreement does not constitute trade on a reciprocal basis.

Let me ask you, then, whoever wants to answer it, are we following deflationary policies in our economic policies today?

Mr. SIMON. I would say, Senator Hartke, yes, we are. But then I would hasten to add, we are fighting the twin battle of killing inflation, and the terrible——

Senator HARTKE. I was not asking for the rationale, but practical factors.

Mr. SIMON. We are fighting a twin battle, inflation and unemployment.

Senator HARTKE. Well, let me point out to you, in your statement, page 4, you make rather severe indictments of the cause of the international recession. "Simultaneous reflationary measures in 1972 and 1973 led to worldwide inflation. Simultaneous deflationary policies in 1973 and 1974 led to cumulative recession and here you have the very cause of the international recession being pursued at the present time.

Now, let me ask you a question. Do you agree with this statement that "Things are better today than they were yesterday"?

Mr. SIMON. Things are better today than they were yesterday? Yes, and I will go one step further, they will be better tomorrow than they are today.

[Laughter.]

Senator HARTKE. Would you say that conditions are more favorable for farmers' crops than they have been in the past year?

Mr. SIMON. Yes, I do, sir.

Senator HARTKE. Would you say that you can see little on the horizon today to give you undue, or great concern?

Mr. SIMON. Yes. I think there are quite a few things that continue to give us concern. But then, again, we don't want to get overly pessimistic about that because a country, or a world always has problems. I think one of the important things that we have succeeded in doing these past couple of years is recognizing international interdependence of nations.

Senator HARTKE. Can I just go ahead?

Mr. SIMON. I'm sorry.

Senator HARTKE. I mean, I'll be glad to listen to you in a moment, you can make any statement you want to, but on my time I would like you to answer my questions.

Mr. SIMON. I'll answer "yes" or "no" if I can. [Laughter.]

Senator HARTKE. Would you agree there is nothing in the present situation that is either menacing, or warrants pessimism?

Mr. SIMON. Pardon me?

Senator HARTKE. Let me repeat it. Would you agree there is nothing in the present situation that is either menacing, or warrants pessimism?

Mr. SIMON. Well, the danger of excessive stimulating through fiscal and monetary policies could make me very pessimistic.

Senator HARTKE. Would you say there is nothing in the situation at the moment to be seriously disturbed about?

Mr. SIMON. I'm disturbed about that.

Senator HARTKE. About that, all right. Would you say employment has been slowly increasing?

Mr. SIMON. Yes, sir, it has increased by 1.7 million.

Senator HARTKE. And all the evidence indicates that the worst effects of the recession have been passed in a relatively short period of time?

Mr. SIMON. Well, if you talk about unemployment as the worst effect, that will not be a relatively short period of time. A week is a long time, as far as the people that are unemployed are concerned; and unfortunately we are not going to be able to, as our forecasts show, to bring down unemployment.

Senator HARTKE. Mr. Secretary, let me tell you, I have been reading from a rather noted author's book called Schlesinger, "Crisis of the Old Order." And the statements that I read to you, the first one was a statement by Robert Lamont; the second one by Henry Ford, "Things are better today than they were yesterday"; the third one was by Charles Schwab, president of Bethlehem Steel; the next one by George E. Roberts, vice president of National City Bank; the next one by Secretary Melvin, who at that time was Secretary of the Treasury; and the last one was made by the then President Herbert Hoover.

All I can say to you, as I look at this chart which was put out by the Finance Committee, on page 2.* I find it very disturbing that we are being asked to lead the country out of the depression, recession, and the charge is being made persistently and consistently that the unemployment rate in the United States is almost triple that of any industrialized country in the world.

Mr. SIMON. When you say lead country, you mean lead the "world" out of a recession?

*See p. 33 of this hearing.

Senator HARTKE. Well, that is what this report says. They are looking to the United States to lead us out of the recession.

Mr. SIMON. Well, I responded to that question when Senator Talmadge was in the Chair, and there were requests, Senator Hartke, a year ago, that the United States must reflate faster, that the other countries must have an export lead recovery.

One, that would endanger us, reembarking immediately upon the old inflationary policies, only to bring about worse miseries later on. We resisted that, Senator Hartke.

Senator HARTKE. Let me ask you, if this is so good, how come the rate of unemployment in the United States is, as I said, triple that of any other industrialized country?

Mr. SIMON. One cannot make a general statement on unemployment rates and say, if they are all 4 percent, worldwide, that it's relative. For instance, in the German economy, the first 1 or 2 percent of unemployment in Germany is exported back to countries which sent migrant workers to Germany, by the return of those workers to their own countries. Every economy is different.

Senator HARTKE. Why can't we do that? I mean, why should our people be sacrificial lambs to the rest of the world?

Mr. SIMON. Our people are not made sacrificial lambs because of deliberate policy, Senator Hartke; the recession, and the attendant high unemployment is a result of severe inflation.

Senator HARTKE. In our country?

Mr. SIMON. Yes.

Senator HARTKE. They didn't have high inflation in Japan? I understood theirs was higher than ours.

Mr. SIMON. Inflation and Japan's relative unemployment is just as high as ours at the present time.

Senator HARTKE. What do you mean, "relative unemployment"? Unless this chart is wrong—and I didn't prepare it—but it says here that at present it is 2.2 percent.

Mr. SIMON. Again, I don't have the figure, but we cannot make simplistic relative comparisons of an x percent in the United States versus Japan, or Germany, or Italy.

Senator HARTKE. The inflation in the United Kingdom has certainly been higher than in the United States.

Mr. SIMON. That's correct.

Senator HARTKE. Their unemployment rate today is only 5 percent, and we point to them as a country headed for disaster.

Mr. SIMON. But let's look at the United Kingdom. They adopted restraint programs last of all the industrial countries in the world. They are bringing their inflation down, and they are suffering as a result by higher unemployment, which always occurs.

Senator HARTKE. The unemployment in Italy, which had a very much higher inflation rate than the United States, even at this late date is only 3.3 percent. How do you account for that?

Mr. SIMON. The proportion of unemployment in most countries relates to, obviously, their dependence upon food and fuel, to a much greater degree imports than the United States, as well.

Senator HARTKE. But why is the unemployment rate so low in these countries, on a comparative basis; do you have any explanation at all?

Mr. SIMON. Again, what I would like to do because one cannot simplistically answer that, I will supply you for the record, country by country of the industrial countries of this world, with unemployment rates; and also, importantly, methods of calculations of the unemployment rate in the United States versus these other countries.

[The Department subsequently supplied the following analysis for the record. Oral testimony continues on p. 41.]

DIFFERENCES BETWEEN U.S. UNEMPLOYMENT RATES AND THOSE OF OTHER INDUSTRIAL COUNTRIES

The adjustments made to other countries' unemployment figures to make them more comparable to U.S. data, are in some cases as large as 30% of the original figure (Table 2, p. 3). The basis for these adjustments is outlined in the attached materials provided by the Bureau of Labor Statistics (Tab A); a more detailed article is in preparation. As attached Tables 1 and 2, and the data Senator Hartke referred to in the Senate Finance Committee Print, show, the recorded U.S. unemployment rate is still much higher than those of other industrial countries (with the exception of Canada), after adjustment to a comparable basis is made. However, several points need to be made if the significance of this fact is to be properly understood.

Perhaps the basic point is that this is not a new phenomenon—indeed, the relationship between current unemployment rates in the U.S. and Canada, and the other major industrial countries, has existed for some 15 years. There appear to be some rather basic institutional and cultural differences between the U.S. and Canada (or "North America") and the other major industrial countries which are reflected in the unemployment statistics. The attached Treas. Discussion Paper, and reprints of two relevant articles from the *Monthly Labor Review*, set these out in some detail.

Among the factors noted are:

The degree of employee mobility and job attachment. While hard data are scarce, it appears that job turnover rates in the U.S. and Canada may be as much as double those in other major industrial countries. In other words, some of the higher U.S. unemployment may reflect a healthy degree of "frictional" unemployment—employees between their old jobs and new, hopefully better ones.

Institutional practices concerning short-time working *vs.* layoffs. Due to different customs, union rules, unemployment systems, etc., employers in some countries apparently are more likely to reduce hours worked rather than laying off staff during a business slump.

For example, in Germany it is possible to draw "unemployment" compensation in situations involving less than full-time work, without actually being laid-off. In Japan, large firms seldom if ever lay off their "regular" workers.

Some members of the labor force may become discouraged and stop seeking work for a time, thus reducing the recorded unemployment figure. It's not known to what degree this may cause recorded U.S. unemployment to be higher than in some other countries.

The U.S. civilian labor force increased by 33% between 1960 and 1975. In contrast, the Japanese labor force grew by less than 20% and in the Western European countries by less than 15%. It actually declined in several countries (Table 2). At the same time, labor force participation rates were rising in the U.S., while falling in virtually every other country. (Table 3)

For both these reasons, the U.S. had to create more jobs than other countries just to stay even.

The U.S.-foreign comparisons looks quite different if we follow the advice of Julius Shishkin, Commissioner of Labor Statistics, and look at the employment "donut" as well as the unemployment "hole." For example, as the data in Table 2 show, between 1970 and 1975, employment in the U.S. increased by nearly 8%. By contrast, employment grew 2½% or less in France and Japan, by less than 2% in the U.K. and Italy, and may have actually declined in Germany. Over longer periods, a similar pattern emerges. For example, U.S. employment rose 19% between 1965 and 1975, compared with rises of 11% in Japan, 8% in France, less than 1% in Italy, and actual declines in Germany and the U.K. (Table 2, p. 2).

Attachments

TABLE 1.—UNEMPLOYMENT RATES IN 8 COUNTRIES, ADJUSTED TO U.S. CONCEPTS, SEASONALLY ADJUSTED, 1970–75

Period	United States	Canada	Japan	France [1]	Germany	Italy [2]	Sweden	United Kingdom [2]
1970	4.9	5.9	1.2	2.7	0.5	3.5	1.5	3.0
1971	5.9	6.4	1.3	3.0	.7	3.5	2.6	3.8
1972	5.6	6.3	1.4	3.0	.9	4.0	2.7	4.2
1973	4.9	5.6	1.3	2.9	1.0	3.8	2.5	2.9
1974	5.6	5.4	1.4	3.1	2.1	3.1	2.0	2.9
I	5.0	5.4	1.3	3.0	1.6	3.1	2.2	2.8
II	5.1	5.3	1.3	2.8	1.9	2.9	2.1	2.9
III	5.6	5.4	1.4	2.9	2.3	3.0	2.0	3.0
IV	6.7	5.6	1.7	3.5	2.9	3.3	1.7	3.2
1975	8.5	7.1	[4] 1.9	[4] 4.3	[4] 3.9	[4] 3.6	[4] 1.7	[4] 4.9
I	8.1	7.0	1.7	3.9	3.2	3.2	1.5	3.7
II	8.7	7.3	1.8	4.2	4.0	4.0	1.8	4.5
III	8.6	7.2	1.9	4.4	4.6	3.7	1.6	5.8
IV	8.5	7.1	2.2	4.6	4.5	3.9	1.7	6.0
October	8.6	7.1	2.2	4.6	4.7	3.9	1.7	6.0
November	8.5	7.2	2.2	4.7	4.5	.....	1.7	6.1
December	8.3	7.0	.....	4.7	4.3	.....	.....	6.1

[1] Revised on the basis of analysis of the annual labor force survey for 1975.
[2] Quarterly rates are for 1st month of quarter.
[3] Great Britain.
[4] Preliminary.

Note: Quarterly and monthly figures for France, Germany, Italy, and Great Britain are calculated by applying annual adjustment factors to current published data, and therefore, should be viewed as only approximate indicators of unemployment under U.S. concepts. Published data for Canada, Japan, and Sweden require little or no adjustment.

Source: U.S. Department of Labor, Bureau of Labor Statistics, February 1976.

TABLE 2.—LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1959–75

Year	United States [1]	Canada [1]	Australia [1]	Japan	France	Germany	Italy	Sweden	United Kingdom [2]
CIVILIAN LABOR FORCE (THOUSANDS)									
Adjusted to U.S. concepts:									
1959	68,369	6,214	(3)	43,330	19,100	25,850	20,530	(3)	23,410
1960	69,628	6,382	(3)	44,120	19,120	25,970	20,340	(3)	23,650
1961	70,459	6,491	(3)	44,610	19,090	26,180	20,270	3,581	23,900
1962	70,614	6,584	(3)	45,040	19,180	26,220	20,160	3,663	24,250
1963	71,833	6,715	(3)	45,420	19,340	26,350	19,760	3,731	24,470
1964	73,091	6,898	4,559	46,040	19,660	26,340	19,740	3,687	24,600
1965	74,455	7,105	4,689	46,770	19,750	26,450	19,440	3,713	24,740
1966	75,770	7,382	4,833	47,850	19,980	26,380	19,150	3,766	24,830
1967	77,347	7,657	4,958	48,810	20,140	25,850	19,290	3,743	24,780
1968	78,737	7,821	5,070	49,680	20,420	25,700	19,220	3,803	24,640
1969	80,734	8,116	5,213	50,140	20,680	25,970	19,030	3,815	24,600
1970	82,715	8,323	5,381	50,730	21,040	26,240	19,090	3,884	24,470
1971	84,113	8,579	5,486	51,030	21,270	26,350	19,010	3,932	24,220
1972	86,542	8,840	5,589	51,140	[4] 21,490	26,310	18,803	3,939	[4] 24,530
1973	88,714	9,225	5,723	52,310	[4] 21,710	26,420	18,930	3,952	[4] 24,720
1974	91,011	9,602	5,869	52,080	[4] 21,970	26,230	19,230	4,013	[4] 24,810
1975	92,613	9,957	5,979	[4] 52,140	[4] 21,930	[4] 25,960	[4] 19,430	[4] 4,089	[4] 25,180
As published [5]:									
1959	68,369	6,242	(3)	44,330	18,925	26,337	21,286	(3)	23,229
1960	69,628	6,411	(3)	45,110	18,951	26,518	20,972	(3)	23,523
1961	70,459	6,521	(3)	45,620	18,919	26,772	20,832	3,632	23,799
1962	70,614	6,615	(3)	46,140	19,050	26,844	20,629	3,676	24,063
1963	71,833	6,748	(3)	46,520	19,398	26,930	20,137	3,749	24,219
1964	73,091	6,933	4,559	47,100	19,638	26,922	20,026	3,710	24,408
1965	74,455	7,141	4,689	47,870	19,813	27,019	19,717	3,738	24,577
1966	75,770	7,420	4,833	48,910	19,964	26,962	19,396	3,792	24,663
1967	77,347	7,694	4,958	49,830	20,118	26,409	19,525	3,774	24,542
1968	78,737	7,919	5,070	50,610	20,176	26,291	19,484	3,822	24,465
1969	80,734	8,162	5,213	50,980	20,434	26,535	19,266	3,840	24,468
1970	82,715	8,374	5,381	51,530	20,750	26,817	19,302	3,913	24,393
1971	84,113	8,631	5,486	51,780	20,958	26,910	19,254	3,961	24,160
1972	86,542	8,891	5,589	51,820	21,155	26,901	19,028	3,969	24,448
1973	88,714	9,279	5,723	52,990	21,388	26,985	19,169	3,977	24,726
1974	91,011	9,662	5,869	52,740	21,655	26,813	19,458	4,043	24,810
1975	92,613	10,015	5,979	[4] 52,780	[4] 21,646	[4] 26,546	19,650	[4] 4,122	[4] 24,987

See footnotes at end of article.

TABLE 2.—LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1959–75—Continued

Year	United States [1]	Canada [1]	Australia [1]	Japan	France	Germany	Italy	Sweden	United Kingdom [2]
EMPLOYMENT (THOUSANDS)									
Adjusted to U.S. concepts:									
1959	64,630	5,843	(3)	42,350	18,720	25,410	19,360	(3)	22,740
1960	65,778	5,937	(3)	43,370	18,770	25,770	19,460	(3)	23,130
1961	65,746	6,026	(3)	43,950	18,780	26,060	19,520	3,529	23,430
1962	66,702	6,194	(3)	44,450	18,900	26,120	19,520	3,609	23,570
1963	67,762	6,343	(3)	44,830	19,090	26,230	19,230	3,668	23,630
1964	69,305	6,574	4,496	45,500	19,370	26,250	19,150	3,629	23,990
1965	71,088	6,826	4,628	46,200	19,450	26,370	18,670	3,669	24,210
1966	72,895	7,116	4,761	47,200	19,620	26,310	18,330	3,707	24,270
1967	74,372	7,337	4,879	48,180	19,740	25,590	18,560	3,664	23,950
1968	75,920	7,492	4,992	49,080	19,880	25,400	18,480	3,718	23,840
1969	77,902	7,735	5,133	49,570	20,180	25,750	18,320	3,743	23,860
1970	78,627	7,829	5,306	50,140	20,460	4 26,100	18,430	3,830	23,730
1971	79,120	8,028	5,398	50,390	20,640	4 26,170	18,350	3,831	23,300
1972	81,702	8,279	5,464	50,410	4 20,840	4 26,070	18,050	3,832	4 23,490
1973	84,409	8,706	5,615	51,650	4 21,090	4 26,160	18,210	3,854	4 23,990
1974	85,936	9,079	5,736	51,350	4 21,290	4 25,680	18,630	3,933	4 24,080
1975	84,783	9,253	5,725	4 51,160	4 20,990	4 24,940	4 18,720	4 14,021	4 23,950
As published: [5]									
1959	64,630	5,870	(3)	43,350	18,671	25,797	20,169	(3)	22,785
1960	65,778	5,965	(3)	44,360	18,712	26,247	20,136	(3)	23,177
1961	65,746	6,055	(3)	44,980	18,716	26,591	20,172	3,582	23,487
1962	66,702	6,225	(3)	45,560	18,820	26,690	20,018	3,622	23,631
1963	67,762	6,375	(3)	45,950	19,126	26,744	19,663	3,686	23,698
1964	69,305	6,609	4,496	46,550	19,422	26,753	19,477	3,652	24,036
1965	71,088	6,862	4,628	47,300	19,544	26,887	19,003	3,694	24,260
1966	72,895	7,152	4,761	48,270	19,684	26,801	18,637	3,733	24,332
1967	74,372	7,379	4,879	49,200	19,753	25,950	18,846	3,695	24,021
1968	75,920	7,537	4,992	50,020	19,749	25,968	18,800	3,737	23,916
1969	77,902	7,780	5,133	50,400	20,093	26,356	18,611	3,768	23,924
1970	78,627	7,879	5,306	50,940	20,394	26,668	18,693	3,854	23,811
1971	79,120	8,079	5,398	51,140	20,521	26,725	18,645	3,860	23,402
1972	81,702	8,329	5,464	51,090	20,663	26,655	18,331	3,862	23,604
1973	84,409	8,759	5,615	52,320	20,938	26,712	18,500	3,879	24,128
1974	85,936	9,137	5,738	52,010	21,164	26,231	18,898	3,963	24,210
1975	84,783	9,308	5,725	4 51,800	4 20,806	4 25,472	18,996	4 4,054	4 24,017
UNEMPLOYMENT RATE (PERCENT)									
Adjusted to U.S. concepts:									
1959	5.5	6.0	7 2.1	2.3	2.0	1.7	5.7	(3)	2.9
1960	5.5	7.0	7 1.6	1.7	1.8	.8	4.3	(3)	2.2
1961	6.7	7.1	7 3.0	1.5	1.6	.5	3.7	1.5	2.0
1962	5.5	5.9	7 2.4	1.3	1.5	.4	3.2	1.5	2.8
1963	5.7	5.5	7 2.3	1.3	1.3	.5	2.7	1.7	3.4
1964	5.2	4.7	1.4	1.2	1.5	.3	3.0	1.6	2.5
1965	4.5	3.9	1.3	1.2	1.5	.3	4.0	1.2	2.1
1966	3.8	3.6	1.5	1.4	1.8	.3	4.3	1.6	2.3
1967	3.8	4.1	1.6	1.3	2.0	1.0	3.8	2.1	3.3
1968	3.6	4.8	1.5	1.2	2.6	1.2	3.9	2.2	3.2
1969	3.5	4.7	1.5	1.1	2.4	.8	3.7	1.9	3.0
1970	4.9	5.9	1.4	1.2	2.7	4.5	3.5	1.5	3.0
1971	5.9	6.4	1.6	1.3	3.0	4.7	3.5	2.6	3.8
1972	5.6	6.3	2.2	1.4	4 3.0	4.9	4.0	2.7	4 4.2
1973	4.9	5.6	1.9	1.3	4 2.8	4 1.0	3.8	2.5	4 2.9
1974	5.6	5.4	2.3	1.4	4 3.1	4 2.1	3.1	2.0	4 2.9
1975	8.5	7.1	4.2	4 1.9	4 4.3	4 3.9	4 3.6	4 1.7	4 4.9
1959	5.5	6.0	7 2.1	2.2	1.3	2.6	5.2	(3)	2.0
1960	5.5	7.0	7 1.6	1.7	1.3	1.3	4.0	(3)	1.5
1961	6.7	7.2	7 3.0	1.4	1.1	.8	3.4	1.4	1.4
1962	5.5	5.9	7 2.4	1.3	1.2	.7	3.0	1.5	1.9
1963	5.7	5.5	7 2.3	1.3	1.4	.8	2.5	1.7	2.3
1964	5.2	4.7	1.4	1.1	1.1	.8	2.7	1.6	1.6
1965	4.5	3.9	1.3	1.2	1.4	.7	3.6	1.2	1.4
1966	3.8	3.6	1.5	1.3	1.4	.7	3.9	1.6	1.4
1967	3.8	4.1	1.6	1.3	1.8	2.1	3.5	2.1	2.2
1968	3.6	4.8	1.5	1.2	2.1	1.5	3.5	2.2	2.4
1969	3.5	4.7	1.5	1.1	1.7	.9	3.4	1.9	2.4
1970	4.9	5.9	1.4	1.2	1.7	.7	3.2	1.5	2.5
1971	5.9	6.4	1.6	1.2	2.1	.8	3.2	2.5	3.4
1972	5.6	6.3	2.2	1.4	2.3	1.1	3.7	2.7	3.8
1973	4.9	5.6	1.9	1.3	2.1	1.2	3.5	2.5	2.6
1974	5.6	5.4	2.3	1.4	2.4	2.6	2.9	2.0	2.6
1975	8.5	7.1	4.2	4 1.9	4 3.9	4 4.7	3.3	4 1.6	4 4.2

See footnotes at end of article.

TABLE 2.—LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES, 1959–75—Continued

Year	United States [1]	Canada [1]	Australia [1]	Japan	France	Germany	Italy	Sweden	United Kingdom [2]
UNEMPLOYMENT RATE (PERCENT)—Continued									
Adjusted to U.S. concepts:									
1959	3,740	371	([3])	980	380	440	1,170	([3])	670
1960	3,852	445	([3])	750	350	200	880	([3])	520
1961	4,714	465	([3])	660	310	120	750	52	470
1962	3,911	390	([3])	590	280	100	640	54	680
1963	4,070	372	([3])	590	250	120	530	63	840
1964	3,786	324	63	540	290	90	590	58	610
1965	3,366	279	61	570	300	80	770	44	530
1966	2,875	266	72	650	360	70	820	59	560
1967	2,975	314	79	630	400	260	730	79	830
1968	2,817	380	78	590	540	300	740	85	800
1969	2,832	381	80	570	500	220	710	72	740
1970	4,088	494	75	590	580	[4] 140	660	59	740
1971	4,993	551	87	640	630	[4] 180	660	101	920
1972	4,840	561	125	730	[4] 650	[4] 240	750	107	[4] 1,040
1973	4,304	519	108	670	[4] 620	[4] 260	720	98	[4] 730
1974	5,076	523	133	730	[4] 680	[4] 550	600	80	[4] 730
1975	7,830	704	254	[4] 980	[4] 940	[4] 1,020	[4] 710	[4] 68	[4] 1,230
As published [5]:									
1959	3,740	372	([3])	980	254	540	1,117	([3])	444
1960	3,852	446	([3])	750	239	271	836	([3])	346
1961	4,714	466	([3])	660	203	181	710	50	312
1962	3,911	390	([3])	590	230	154	611	54	432
1963	4,070	374	([3])	590	273	186	504	63	521
1964	3,786	324	63	540	216	169	549	58	372
1965	3,366	280	61	670	269	147	714	44	317
1966	2,875	267	72	650	280	161	759	59	331
1967	2,975	315	79	630	365	459	679	79	521
1968	2,817	382	78	590	427	323	684	85	549
1969	2,832	382	80	570	340	179	655	72	544
1970	4,088	495	75	590	356	149	609	59	582
1971	4,993	552	87	640	446	185	609	101	758
1972	4,840	562	125	730	492	246	697	107	844
1973	4,304	520	108	670	450	273	668	98	598
1974	5,076	525	133	730	501	582	560	80	600
1975	7,830	707	254	[4] 980	[4] 840	1,074	654	68	969

[1] Published and adjusted data for the United States and Australia are identical. Canadian data are adjusted only to exclude 14-yr olds.
[2] Great Britain only.
[3] Not available.
[4] Preliminary estimates based on incomplete data.
[5] Including military personnel for Japan, Germany, Italy, and Sweden.
[6] For the United States, Canada, Australia, Japan, Italy, and Sweden, unemployment as recorded by sample labor force surveys; for France, annual estimates of unemployment; and for Germany and Great Britain, the registered unemployed.
[7] The Australian labor force survey was initiated in 1964. Unemployment rates for 1959–63 are estimates by an Australian researcher.
[8] For France, unemployment as a percent of the civilian labor force; for Japan, Italy, and Sweden, unemployment as a percent of the civilian labor force plus career military personnel; for Germany and Great Britain, registered unemployed as a percent of employed wage and salary workers plus the unemployed. With the exception of France, which does not publish an unemployment rate, these are the usually published unemployment rates for each country. Published rates shown for Germany and Great Britain cannot be computed from data contained in this table.

Note: Data for the United States relate to the population 16 yr of age and over. Published data for Canada, France, Germany, and Italy relate to the population 14 yr of age and over; for Sweden, in the population aged 16 to 74; and for Australia, Japan, and Great Britain, to the population 15 yr of age and over. The adjusted statistics have been adapted, insofar as possible, to the age at which compulsory schooling ends in each country. Therefore, adjusted statistics for France and Sweden relate to the population 16 yr of age and over; and for Canada and Germany, to the population 15 yr of age and over. The age limits of adjusted statistics for Japan, Italy, and Great Britain coincide with the age limits of the published statistics. Statistics for Sweden remain at the lower age limit of 16, but have been adjusted to include persons 75 yr of age and over.

Source: National sources and statistical publications of the international labor office, the organization for economic cooperation and development, and the statistical office of the European communities. Some data are based partly on estimates by U.S. Department of Labor Bureau of Labor Statistics, Office of Productivity and Technology, Division of Foreign Labor Statistics and Trade, January 1976.

TABLE 3.—LABOR FORCE PARTICIPATION RATES ADJUSTED TO U.S. CONCEPTS, 9 COUNTRIES, 1960-74

Year	United States	Australia	Canada	France	Germany	Great Britain	Italy	Japan	Sweden
Both sexes:									
1960	59.4	(1)	55.5	[2] (61.9)	60.0	61.2	54.8	67.9	(1)
1961	59.3	(1)	55.4	(1)	60.0	61.4	54.3	67.8	62.7
1962	58.8	(1)	55.2	[2] (61.5)	59.6	61.3	53.3	66.9	63.5
1963	58.7	(1)	55.2	60.6	59.6	61.5	51.9	65.7	64.0
1964	58.7	58.7	55.5	[2] (60.4)	59.2	61.4	51.3	64.8	62.6
1965	58.9	58.3	55.8	59.6	58.9	61.4	50.2	64.4	62.4
1966	59.2	59.5	56.4	[2] (59.8)	58.4	61.4	48.8	64.6	62.6
1967	59.6	59.8	56.8	58.9	57.3	61.0	48.9	64.8	61.7
1968	59.6	59.9	56.8	58.7	56.9	60.6	48.3	64.9	62.3
1969	60.1	60.3	57.1	58.4	57.0	60.3	47.8	64.6	61.9
1970	60.4	60.9	57.1	58.0	56.9	59.9	47.4	64.5	62.5
1971	60.2	60.7	57.4	57.7	56.4	59.6	47.1	64.2	62.8
1972	60.4	60.8	57.3	57.9	55.9	[3] 60.1	46.1	63.7	62.7
1973	60.8	61.2	58.9	[3] 57.9	55.5	[3] 60.3	[3] 45.9	63.9	62.7
1974	61.2	61.3	59.6	[3] 58.0	54.8	[3] 59.9	[3] 46.3	62.9	63.6
Male:									
1960	83.3	(1)	82.7	[2] (84.3)	82.6	86.2	81.6	83.7	(1)
1961	83.2	(1)	81.8	(1)	82.9	85.8	80.7	83.8	82.3
1962	82.0	(1)	81.1	[2] (83.7)	82.3	85.2	79.5	83.1	82.1
1963	81.4	(1)	80.5	83.7	82.2	85.1	78.2	81.9	81.8
1964	81.0	84.2	80.2	[2] (82.5)	81.7	84.3	77.6	81.0	80.2
1965	80.7	84.0	79.9	81.5	81.2	83.8	76.6	80.6	79.7
1966	80.4	84.1	79.8	[2] (81.3)	80.9	83.3	75.0	80.6	79.2
1967	80.4	84.7	79.5	79.8	79.8	82.7	75.1	80.5	78.2
1968	80.1	83.4	78.9	78.4	79.2	81.9	74.0	81.1	78.1
1969	79.8	83.3	78.5	77.7	79.1	81.1	73.2	81.0	76.7
1970	79.7	83.2	78.3	77.0	78.7	80.1	72.4	80.2	76.4
1971	79.1	82.7	78.0	76.6	77.8	79.4	72.0	81.4	75.9
1972	79.0	82.5	78.1	76.3	76.5	[3] 79.2	70.6	81.2	75.3
1973	78.8	82.2	78.7	[3] 75.7	75.8	[3] 78.6	[3] 69.8	81.7	75.0
1974	78.7	81.6	79.2	[3] 75.2	74.8	[3] 77.2	[3] 69.5	81.4	75.1
Female:									
1960	37.7	(1)	28.6	[2] (43.2)	41.2	39.3	30.6	52.7	(1)
1961	38.1	(1)	29.4	(1)	40.9	39.8	30.6	52.4	43.4
1962	37.9	(1)	29.7	[2] (42.7)	40.7	40.1	29.9	51.3	45.5
1963	38.3	(1)	30.3	40.9	40.7	40.5	28.3	50.0	46.9
1964	38.7	33.4	31.2	[2] (41.6)	40.3	40.8	27.4	49.3	45.6
1965	39.3	34.4	32.1	40.6	40.1	41.3	26.4	48.8	45.6
1966	40.3	35.3	33.5	[2] (41.4)	39.5	41.7	25.0	48.2	46.6
1967	41.1	36.3	34.6	40.8	38.5	41.6	25.1	48.4	45.8
1968	41.6	36.8	35.2	41.3	38.3	41.5	24.9	49.2	46.9
1969	42.7	37.3	36.0	41.4	38.4	41.6	24.8	48.8	47.6
1970	43.3	38.8	36.3	41.3	38.4	41.7	24.7	48.7	49.0
1971	43.3	39.2	37.3	41.0	38.3	41.9	24.5	47.7	50.0
1972	43.9	39.4	38.0	41.7	38.1	[3] 42.9	23.7	46.8	50.5
1973	44.7	40.5	39.6	[3] 42.2	38.0	[3] 43.8	[3] 24.2	47.3	50.8
1974	45.6	41.5	40.6	[3] 42.7	37.4	[3] 44.3	[3] 24.6	45.7	52.7

[1] Not available.
[2] Labor force surveys were conducted in October 1960, 1962, 1964 and 1966. Since French surveys for other years were conducted in March, data for these 4 years are shown in parenthesis in order to indicate that year-to-year comparisons should be made with caution.
[3] Preliminary estimate.

Note: Data relate to the civilian labor force of working age as a percent of the civilian population of working age. Working age is defined as 16-year-olds and over in the United States, France, and Sweden; 15-year-olds and over in Australia, Canada, Germany, Great Britain, and Japan; and 14-year-olds and over in Italy.

Source: Bureau of Labor Statistics.

Notes on Adjustments of Foreign Unemployment Rates to U.S. Concepts

CANADA

Source of official statistics: Monthly household survey of the labor force, seasonally adjusted.

Derivation of unemployment rate: Total unemployed as a percent of the civilian labor force.

Adjustments to U.S. concepts: None required since Canadian concepts are closely comparable to U.S.

JAPAN

Source of official statistics: Monthly household survey of the labor force, seasonally adjusted.

Derivation of unemployment rate: Total unemployed as percent of labor force.

Adjustments to U.S. concepts: Adjustments to exclude unpaid family workers working less than 15 hours a week and career military personnel.

Effects of adjustments: Usually no effect; occasionally official rate is adjusted upward by 0.1 percentage point.

FRANCE

Source of official statistics: Employment office registrations, counted at the end of each month, seasonally adjusted by INSEE. No monthly unemployment rate is published.

Supplementary sources: Annual household surveys of labor force conducted by INSEE but tardily published; annual estimate of labor force issued by EEC.

Derivation of unemployment rate: Annual rate calculated from INSEE estimate of the labor force and job registrant figures raised by INSEE to account for higher unemployment totals recorded by censuses.

Adjustments to U.S. concepts: Benchmark factors derived from household surveys (latest available, 1974, in summary form only), applied to registered series. Until recently, adjustments were based on household surveys for 1967 and prior years.

Effects of adjustments: The benchmark adjustments raise the French estimated annual rate by about 30 percent, owing mainly to the "marginally unemployed," i.e., students and housewives who are seeking work but not registered at employment exchanges.

GERMANY

Source of official statistics: Employment office registrations, counted at end of each month, seasonally adjusted later by Bundesbank; quarterly figures on wage and salary earners taken from household survey (microcensus).

Supplementary sources: Household survey (microcensus) conducted quarterly but published for only the second quarter each year.

Derivation of unemployment rate: Registered unemployed as a percent of employed wage and salary workers plus the unemployed.

Adjustments to U.S. concepts: Benchmark factors derived from microcensus (latest, April 1974), applied to registration series; microcensus is adjusted to exclude 14-year olds, career military and unpaid family workers working less than 15 hours.

BLS obtains the unpublished quarterly microcensus figures from the German Federal Statistical Office. Because of delays in processing these data, BLS has not as yet received the unpublished quarterly statistics for 1971 and later years. Therefore, adjusted figures since 1971 have been based on the data for only one quarter and are subject to revision when the data for the other quarters are received.

Effects of adjustments: Registrations overstate unemployed because of inclusion of (a) part-time workers who register to obtain full-time work, and (b) older persons who are not actively seeking work. After all adjustments to microcensus, the registrations overstate unemployed by 15–20 percent.

ITALY

Source of official statistics: Quarterly household survey of the labor force, not seasonally adjusted.

Derivation of unemployment rate: Total unemployed as percent of labor force.

Adjustments to U.S. concepts: Seasonal adjustment by X–11 program; adjusted to count those on temporary layoff, those not looking for work because of temporary illness, and those waiting to start a new job as unemployed; also some adjustments to labor force data.

Effects of adjustments: Published Italian rate is raised by about 10 percent.

UNITED KINGDOM (GREAT BRITAIN)

Source of official statistics: Registrations at employment exchanges and youth employment offices, seasonally adjusted; quarterly labor force data based on establishment surveys.

Supplementary sources: Decennial censuses; 1966 sample census; household survey of labor force (available for 1971).

Derivation of unemployment rate: Registered unemployed as percent of employed wage and salary workers plus the unemployed.

Adjustments to U.S. concepts: Benchmark factors derived from 1971 household survey, applied to registration series. Until recently, adjustments were based on

1966 factors. Adjusted figures for 1972 and later years are subject to further revision when results of later household surveys are published.

Effects of adjustments: Registration data understate unemployment of youth and women, many of whom choose not to register, and slightly overstate unemployment of men because of "occupational pensioners" who are not actively seeking work. Net adjustment increases published rate by 10–15 percent.

International Comparisons of Unemployment

Since the early 1960's, the Bureau of Labor Statistics has published unemployment rates adjusted to U.S. concepts for seven foreign industrial countries—Canada, France, Germany, Great Britain, Italy, Japan, and Sweden. Recently Australia was added to the program. The basic labor force and unemployment statistics of these countries, with the exceptions of Canada and Australia, require adjustments to bring them into closer comparability with U.S. data. Adjustments have been made for all known major definitional differences. The adjusted figures provide a better basis for international unemployment rate comparisons than the figures regularly published by each country.

Two systems for measuring unemployment are used by the countries studied by BLS, as follows: (1) Labor force sample surveys, and (2) employment office registrations. Labor force sample surveys usually yield the best overall statistics since they include groups of persons who are not covered in the unemployment statistics obtained by other methods; also, changes in legislation and administrative regulations do not affect the continuity of the series. These surveys record the labor force status of a person as of a reference week. Employment office figures usually relate to the number of persons registered as of one day during a month.

Labor force sample surveys currently provide the "official" statistics on the unemployed in the United States and four of the foreign countries studied. Statistics for Italy are based on quarterly sample surveys; those for Canada, Japan, and Sweden are based on monthly sample surveys. For Great Britain, Germany, and France, the regularly published unemployment figures refer to the registered unemployed. Germany also has a quarterly labor force survey; however, unemployment figures are now published for only one quarter each year. France has an annual labor force survey, but results are usually published three or more years after collection. Great Britain recently (1971) initiated a regular labor force survey.

A brief country-by-country review of the national systems of unemployment statistics and the Bureau's method of adjustment to U.S. concepts is presented below. The appendix table shows the published and adjusted labor force, unemployment, and unemployment rates for each country for the 1959–1971 period. Concepts used in the U.S. labor force survey are discussed first to provide the basis with which the foreign systems are compared.

UNITED STATES

The United States data on labor force and unemployment are based on a sample survey of about 50,000 households scientifically selected to represent the civilian noninstitutional population 16 years of age and over. The inquiry relates to the calendar week which includes the 12th of the month.

Persons are considered as unemployed if they did no work at all during the survey week, made specific efforts to find a job within the past 4 weeks, and were available for work during the survey week (except for temporary illness). Also included as unemployed are those not at work, available for work, and (1) waiting to be called back to a job from which they had been laid off; or (2) waiting to report to a new wage or salary job within 30 days. Excluded from the unemployed are "inactive jobseekers"— i.e., persons who would have been looking for work except for the belief that no work was available. Under the new U.S. definitions adopted in 1967, such persons are not in the labor force if they took no steps to find work in the past 4 weeks.

All those who during the survey week did any work at all are counted as employed. This includes persons who worked as paid employees, or in their own business, profession, or farm, or who worked 15 hours or more as unpaid helpers in an enterprise operated by a family member. Also counted as employed are all those who were not working but had jobs or businesses from which they

were temporarily absent because of illness, bad weather, vacation, labor-management dispute, or personal reasons, whether or not they were paid by their employers for the time off, and whether or not they were seeking other jobs.

The civilian labor force comprises the total of all civilians classified as employed or unemployed in accordance with the criteria described above. The unemployment rate represents the number unemployed as a percent of the civilian labor force.

CANADA

Canada has a system of unemployment statistics very similar to that of the United States. The Canadian labor force survey conducted by the Dominion Bureau of Statistics, (now Statistics Canada) is based on a sample of 30,000 households. Launched as a quarterly survey in 1945, the labor force survey was converted to a monthly basis in November 1952. It covers the noninstitutional population 14 years of age and over.

Since the concepts and definitions of the Canadian survey are closely comparable with those of the United States, no adjustment of the data has been made.

FRANCE

The usually published unemployment figures for France relate to the number of persons registered as unemployed. France does not publish an unemployment rate. In addition to the monthly counts of the registered unemployed, the French National Institute of Statistics and Economic Studies (INSEE) makes annual estimates of the labor force and unemployed which are intended to be comparable with the results of the French population censuses. The annual unemployment estimate is obtained by increasing the unemployed job registrant count to compensate for the higher unemployment totals recorded by the censuses.

In October 1960, a regular series of annual labor force surveys was initiated by INSEE. These surveys indicate that even the annual French unemployment and labor force estimates based on the population censuses need to be increased to conform more closely with U.S. concepts.

The methods and definitions used in the French labor force surveys are basically quite similar to those used in the United States. The results of these surveys can be analyzed in order to obtain coefficients of adjustments to apply to the annual French unemployment and labor force estimates. The French unemployment rate adjusted in this way is higher than the unemployment rate obtained from the regularly published French data. For example, the preliminary adjusted unemployment rate for France in 1973 was 2.8 percent, whereas the rate based on the annual French estimates was 2.1 percent.

GREAT BRITAIN

British unemployment statistics are the result of collection procedures, concepts and definitions that differ substantially from those used in the United States. The British data are based entirely on a count of registrants at employment exchanges and youth employment offices. Separate figures are compiled for the wholly unemployed and for persons temporarily laid off. The count of registrants is made on a specific Monday of each month.

The completeness of coverage of the British registered unemployed statistics is a function of the extent to which persons looking for work register at the employment exchanges.

Adjustment of British data is particularly difficult because, unlike all other countries covered here, Britain only recently began a regular force survey. Adjustments for the 1960's must be based on the results of the April 1961 population census and the April 1966 "sample census" conducted in Great Britain. In both of these censuses, questions were asked similar to those of the U.S. labor force survey. These data give some notion of the extent of undercount of the British registered series.

Coefficients of adjustment were derived from the 1961 and 1966 census results and applied to the regularly published British statistics on the registered unemployed. For 1971, adjustment coefficients were derived from the household survey.

Quarterly estimates of the labor force are made in Britain based on a count of National Insurance Cards and extrapolations from the population censuses.

These figures also require certain adjustments for comparability with U.S. definitions. Unpaid family workers are not included, for example; therefore, an estimate based on information from the census is added to the reported labor force figure.

BLS adjustments result in an increase in the British unemployment rate. In 1971, the published rate of 3.4 percent was raised to a preliminary level of 3.9 percent for comparison with the U.S. rate. Previously published figures, based on the 1966 relationships, considerably overestimated the comparative British rate.

GERMANY

The official unemployment statistics for Germany are administrative statistics representing unemployed registered at the employment exchanges. The count is taken on a specified day at the end of each month. Registration is not compulsory, but it is an essential condition for receiving unemployment benefits.

The registration series has certain limitations as a precise measure of unemployment. There are indications that certain unemployed persons, particularly women and teenagers, choose not to register. Also, unemployed persons who do not want to work at least 24 hours a week are excluded. On the other hand, registrations include part-time workers (i.e., working less than 24 hours per week) who want more work. Under U.S. definitions, such persons would be regarded as employed. The fact that the count is made as of a single day instead of a longer period tends to produce a higher figure than would a count of persons who had not worked at all the entire week.

Since 1957, the German registered unemployed series has been supplemented by the Microcensus, a quarterly sample survey of households designed to obtain comprehensive labor force statistics. The Microcensus is quite similar in concepts and definitions to the U.S. survey and yields a lower rate of unemployment than the registration system. The Microcensus is used as the basis for adjusting German unemployment data to U.S. concepts. In 1973, the German unemployment rate based on the registered unemployed was 1.2 percent. The preliminary rate adjusted to U.S. concepts was 1.0 percent.

ITALY

Prior to 1963, the registered unemployed series was regarded as the official Italian unemployment series. Beginning in 1959, however, the Italian Central Institute of Statistics (ISTAT) has conducted quarterly labor force surveys covering some 80,000 households and in 1968 these statistics supplanted the registration series as the more representative unemployment figures. The results of the Italian sample survey form the basis of the adjustment of Italian data to U.S. concepts.

In contrast to U.S. practice, persons temporarily laid off are classified as employed rather than unemployed in the Italian survey. Also, persons not looking for work in the survey week because of temporary illness and persons waiting to start a new job are classified as not in the labor force in Italy. In the United States, such persons are regarded as unemployed. BLS has obtained estimates from ISTAT on the number of persons who are included in the above categories, and they have been added to the unemployed count for comparability with U.S. cconcepts. In addition, adjustments are made to the reported labor force to exclude career military personnel, unpaid family workers who did not work in the survey week, and unpaid family workers who worked less than 15 hours. An estimate of the number of persons waiting to begin new jobs is added to the labor force. The result of the adjustments to the Italian unemployed labor force counts is to raise the Italian unempolyment rate for comparison with the U.S. rate. In 1973, the published Italian rate was 3.5 percent, and the adjusted rate was 3.8 percent.

JAPAN

The principal system of unemployment statistics in Japan—the labor force survey—was patterned after the American system and was installed with the aid of American experts. Japanese statisticians have subsequently introduced a number of modifications to adapt the system better to Japanese needs. The survey has been conducted monthly since September 1946. The survey has been conducted monthly since September 1946, and currently comprises a sample of about 26,000 households.

Japanese unemployment concepts are more restrictive than U.S. concepts. Excluded from the unemployed count are persons on temporary layoff who were waiting to return to their jobs and not seeking other work. There is no way of accurately estimating the number of such persons in Japan; however, the total number is believed to be very small. The "lifetime employment" system is a basic pattern of labor-management relations in Japan. The worker is granted permanence of tenure, and when the activity of the plant is reduced, the employer retains the worker, either transferring him to another job or reducing hours.

Two differences between U.S. and Japanese concepts of the labor force exist. First, Japan includes and the U.S. excludes unpaid family workers who worked 1 but less than 15 hours in the survey week. Secondly, Japan includes career military personnel in the labor force. Adjustments are made for these differences and the preliminary adjusted unemployment rate in 1973 of 1.3 percent is the same as the published Japanese rate. In most years, the published and adjusted rates are identical for Japan.

SWEDEN

Sweden depended for many years on unemployment statistics maintained by trade unions. Beginning in 1956, however, the Swedish Labor Market Board has issued monthly statistics on registrations of the unemployed at local unemployment offices. Until quite recently, the registered unemployed statistics were regarded as the official unemployment series for Sweden. However, a labor force sample survey, begun experimentally in 1959 and on a regular quarterly basis in 1962, has increasingly gained recognition as an official source for Swedish unemployment figures. In 1970, Sweden initiated survay data collection on a monthly basis.

Definitions of the Swedish labor force survey are closely comparable with U.S. definitions. The survey covers the noninstitutional population aged 16 to 74; therefore, estimates of 75 year olds and over in the labor force and unemployed must be added. The labor force is further adjusted to exclude career military personnel and persons with jobs but temporarily absent from work during the survey week because of service as military conscripts. The adjustments made are so small that the adjusted rate for 1973—2.5 percent—is identical to the published Swedish unemployment rate.

Senator HARTKE. Well, I am not willing to accept the assertion that the staff of the Finance Committee has misled us.

Mr. SIMON. I don't think they have, it's just a different matter of computation in each one of the countries. That requires analysis.

Senator HARTKE. What I am concerned about is that all these pictures of a rosy future are not justified by the figures. And the fact very simply is, as far as this country is concerned, there is no assurance that we are heading up at all. In fact, some of the economic indicators imply that we are heading down.

I understand what you are saying, the last month's economic indicator shows we are going up.

Mr. SIMON. No; I don't work on 1 month, that is the mistake a lot of people make. I think we ought to look over a longer period of time. The real growth rate over the last three-quarters of last year was close to 7 percent, increased retail sales, and leading indicators of industrial production.

You know, we have said, and let's not kid ourselves, we are not trying to kid anyone; we have made progress after the deepest recession in a generation. It's not good enough. It is not going to be good enough until we get unemployment down, but most importantly, get unemployment down permanently. We don't want to provide people with temporary jobs, again, only to have the same problem happen again, and worse.

Senator HARTKE. The President himself projects an unemployment rate of 4 percent until 1980. You know, that's a long time for a family to suffer. Those babies can't live, you know, on that kind of emergency treatment all their lives; even the food stamps don't help. You know, this is sort of a cold, and callous indifference toward the people that you are supposed to be representing.

I find it very difficult for us to really feel that we are making substantial progress when so many people are living in such substantial misery.

Mr. SIMON. Yes, and the fact, as I said, that we are trying to adopt policies that will guarantee these people permanent work is the most important aspect. If we adopt excessively stimulating policies now, it is going to result in even higher inflation and worse unemployment, Senator Hartke.

The CHAIRMAN. I am going to yield my turn. In the sense of bipartisanship, I think we ought to go over to our Republican friends. I am going to offer my time to one of my colleagues. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

May I say by way of apology to you, Mr. Secretary, that the Republicans probably sense more keenly than do our friends on the other side of the aisle the need for some spiritual guidance, and I was a little late getting back from prayers.

I was amazed to hear Senator Hartke state that food stamps don't help. If that is a fact, and I'm not certain that everyone would agree, than I would suggest that maybe we could agree that is a way to cut back on the deficit. I think there were some of us who presumed that they were helpful.

Mr. SIMON. That $6 billion is going somewhere.

Senator HANSEN. Yes. I heard all sorts of criticism of that program, that they were being misused, and I got a bill in, along with others. to impose a work requirement, or at least a registration that would make one available for a job, if he were receiving food stamps. Maybe I'm taking advantage of a statement my good friend from Indiana made and he really wouldn't want to hold up as fact. But, if they don't help, why, I surely join with him in helping to cut out a substantial part of that $6 billion expense.

Mr. Secretary, let me say that one of the very distressing things that I know concerns all of us has been this subject of unemployment. I know on page 2 of the pamphlet that I expect may be before you, in trying to make comparisons between the rates of unemployment in various industrialized countries of the world, West Germany has an unemployment rate of 5.4 percent. Our distinguished chairman has just informed me that it is his understanding that a person may be working, let's say, 30 hours a week in West Germany, and still be eligible for unemployment benefits for the 10 hours that he is not employed, per week.

Now, I understand further from the chairman that that sort of situation would result in showing that West German part-time employed person as working, so as to reduce the percentage of unemployed in West Germany. I think your point, if I understand it correctly, is that it is difficult to understand these comparative charts without knowing the background.

Is it your understanding, also, that there may be variances as we try to make comparisons between the unemployment situation in the United States, Japan, West Germany, France, the United Kingdom, and Italy, that need to be understood in order to make meaningful comparisons?

Mr. SIMON. Absolutely. It is impossible to make simplistic statements—4 percent in one country could equal 8 percent—in the method of calculation, and other measures in that country. I will provide this committee with an analyisis on a country-by-country basis.

Senator HANSEN. I was impressed with one of your first responses you made to my good friend from Indiana when you said that we were waging a double-barreled fight, or campaign, not only to reduce inflation, but also to reduce unemployment. I thought you might perhaps want to elaborate just a little bit for me on what the goals of the administration are in trying to meet the economic situation that concerns all of us so much.

Mr. SIMON. Senator Hansen, our goals are to implement sound policies, economic policies, as opposed to stop-go policies of the past 10 years, if we are going to provide durable and lasting prosperity, and permanent employment, if you will, for those who are willing and able to work.

We recognize, as most do in this country, that the fundamental enemy, and the fundamental battle that has to be won in order to achieve those objectives is the battle against inflation; and most importantly against inflationary psychology and expectations that are so deeply ingrained in our society today.

It disturbs me, Senator, as I look back over the last 10 years at inflation, unemployment, the recession, high interest rates, each time we embark on new stimulants; and each time the results are the same, even higher inflation, higher unemployment, and even worse recession. We are starting from, again, a new plateau, a higher level.

Here we are, pulling out of the deepest recession in a generation, with unemployment unfortunately 8.3 percent, and inflation at a 6½ to 7 percent base rate. It is going to take time.

We are not, as I have said so often, as we are being accused, callous and inhumane. We are not going to take care of these things of a decade by a short period of a year's pennance, it is going to take time to wring this inflation out of our economy.

What is our option? Our option is, once again, just to go and spend as much as possible, to bring down, falsely, the unemployment rate because it would do it, in our judgment, on a very temporary basis; and once again we would be back in the inflationary binges of the past, resulting, as I said, in even higher unemployment and worse human misery.

Senator HANSEN. You have spoken out on a number of occasions about the merit that you believe exists in encouraging businesses to provide jobs, more jobs for more Americans. We have extended unemployment compensation benefits, at least partially federally funded, for as much as 65 weeks in those States wherein the overall rate of unemployment exceeds a certain level.

The point has been made that a family out of work, where the breadwinner is out of work, is just as hard up in Wyoming, where our

unemployment rate is among one of the lowest among the States, as would be a similar family in the State of Washington, or Connecticut, or some place else, where a number of people are unemployed.

Do you think that the jobs in the public sector that generally don't result in the production of either goods or services, may be a good way to fight unemployment and inflation?

Mr. SIMON. No. Let me start out by saying that I think the Government has a responsibility to assist those in the country who cannot help themselves, those who carry a disproportionate burden in our battle against inflation.

I have not felt, however, that public service employment, which is two-and-a-half to three times more expensive as employment in the productive sector and doesn't produce benefits in our real GNP, is a good way to fight inflation and unemployment.

You brought up at the beginning the problem of savings and investments and capital formation in this country. And, you know, it is such a complex subject, people don't pay attention to what is happening. Over the past 20 years in this country our productivity has been declining in the United States, and declining really alarmingly in the past 10 years.

Now, there are many factors that affect productivity, and one of the major factors, I think, is, and most economists would agree, is capital investment, capital formation. We have to not only bring this economy back to full employment, but we have to provide for 1.6 million new jobs each year, and that is significant. We are only going to do it if we build new plants and expand existing ones, and provide permanent employment opportunity and upward mobility for our population. That is why this whole subject of capital formation is so critically important.

You know, we are quick to damn the United States economy and all its problems. You know, this is a tremendously strong economy. There are those who use the popular slogans, "trickle down economics", and all the rest. I guess I could use some slogans, if we want to go into "sloganeering", about what has happened in the last 10 or 15 years in this country that got us into the mess we are in today. But nobody can dispute the fact that we created 20 million jobs in the last 20 years. We cut in half the poverty level, 10 percent of our population. Our domestic assistance programs have grown at a tremendous rate. We still have a gross national product that is 28 percent of the entire world. We've got an extremely efficient agricultural community—a farmer feeds 50 people. I could go on and on.

But, what we have to do is make sure that we take care of the unemployed, that we bring this unemployment rate down. But, let's never forget that we've got 86 million people that are employed today.

Senator HANSEN. Thank you, Mr. Chairman; my time is up.

The CHAIRMAN. Senator Gravel has agreed that Senator Bentsen go ahead because Senator Bentsen has to go elsewhere.

Mr. SIMON. Mr. Chairman, before you arrived I offered to give Senator Bentsen—you know, he was supposed to go on first, and he is welcome.

Senator BENTSEN. Thank you very much.

The CHAIRMAN. I will call on Senator Bentsen right now.

Senator BENTSEN. Mr. Chairman, I would like just a few minutes to make some comments on title V of the 1974 Trade Act, particularly concerning the question of denial of trade preferences to OPEC countries.

The Congress approved that prohibition, but we have to recognize, as the Secretary said, that the OPEC countries do not form a monolithic bloc. They have been quite successful on agreeing on prices, but there is a substantial difference among them on the question of supply and how supplies are allocated and used.

Now, what we have failed to recognize, I believe, is that during the embargo, there was monolithic reaction by all of the OPEC countries. A number of them, countries such as Venezuela, Iran, Ecuador, Nigeria, and Indonesia, continued to supply oil to the West, particularly the United States. And that is certainly true of Venezuela. Venezuela increased its production by 20 to 22 percent during that time.

I believe that we should demonstrate to those countries that we recognize their assistance in continuing to supply oil to us. We should help in giving them some trade preferences. We are really not talking about a highly significant thing in the way of numbers. The amount of exports, for example, from Venezuela to this country are really quite minimal. But, as a matter of prestige thing, we had a very serious reaction by the Latin American countries to this. And I would say that our relationship with Latin America today is at about as low an ebb as we have seen in a long time; and part of that is, I think, because of what we have done on the trade bill.

My amendment would except from the prohibition on preferences those members of the OPEC countries that did not participate in the embargo. Now, I know some would say, "Well, now, you really don't want to help those countries who are increasing the price of oil." Well, frankly, I'm very concerned about the increase in price of oil. I believe, finally, that that cartel will come apart. There is a great deal of difference between an oil cartel and a banana cartel; there is a great deal more strength to an oil cartel. The only difference, I would say, as the distinguished Secretary said, is the time.

This is the essence of the amendment introduced, Mr. Secretary and Mr. Ambassador. I would like to have your comments on it.

Mr. DENT. Senator, I will be glad to comment. We have already testified on behalf of the administration in favor of the authority being granted to the President that you have suggested, that nonembargoing OPEC nations be granted GSP in our national economic interest.

Senator BENTSEN. Mr. Secretary, do you have anything further?

Mr. SIMON. No, sir, that is our position, Senator.

Senator HARTKE. Will the Senator yield?

Senator BENTSEN. I will be glad to yield.

Senator HARTKE. I want to endorse that. I have had a bill on that for some time.

Senator BENTSEN. Let me ask my next question about the International Trade Commission. It was recently recommended to President Ford that he impose quotas on specialty steel that is coming into this country that is substantially hurting our domestic production.

Now, there has been some comment that the President might not impose those quotas because of opposition by some of the exporting nations, such as Sweden, Germany, France, and Canada, that that might trigger a trade war. And yet I know how important specialty steel is to our country in the way of jobs and our national defense.

Now, as one of the President's leading economic advisers, would the Secretary recommend an imposition of quotas?

Mr. SIMON. Well, I don't want to prejudge the issue at this point. The administration is now reviewing the ITC case, and the President, as you well know, has 60 days to make a decision on this matter. So, we will be making our recommendation to the President in the very near future, Senator Bentsen.

Senator BENTSEN. Well, I will be looking forward to your recommendation, Mr. Secretary because I think we have a very serious problem facing us here, and we should have some restrictions imposed.

Now, Mr. Secretary, the President recently vetoed legislation naming the Secretary of the Treasury to the National Security Council. And we have a Secretary of State who at one time bragged about the fact that he didn't have a background and understanding of economics. I think some of his actions buttress his earlier statement.

[Laughter.]

Senator BENTSEN. But I believe that more than ever before questions of economics deeply affect our national security, and that one of your responsibility and position should be a member of the National Security Council. We should see a much greater priority placed on foreign economic policy within the NSC. Would the Secretary care to comment?

Mr. SIMON. Only at the expense of my life, Senator.

[Laughter.]

Mr. SIMON. Well, I have studiously ducked this issue—unsuccessfully, I might add—since it first came up. I was asked to comment upon it in testifying before the Senate Foreign Relations Committee. I think the President's objection is well taken that the Congress should not remove his flexibility to have whom he pleases on a committee.

I went on to say at great length in my testimony before the Senate Foreign Relations Committee that I felt the international economic problems that exist today are not going to go away in the near future, that foreign policy, or most, I should say, foreign policy judgments require an economic judgment at the same time, and I have always felt that a Secretary of the Treasury should be a statutory member.

But again I start out with my first statement, I think it is probably wrong that the Congress mandate the membership of any Presidential committee.

Senator BENTSEN. Well, I would have to differ with the Secretary on that.

Mr. SIMON. The Senate already has, I guess.

[Laughter.]

Senator BENTSEN. Let me further state an observation, Mr. Secretary, that concerns me very much, about the State Department, and its lack of concern, in my opinion, with the economic strength of this country, especially with our having strong industrial production exports and jobs.

As I go into embassies in foreign countries and meet with our economic attachés, I find time and time again people I don't think are sufficiently qualified to hold those positions.

As I go into embassies of other countries, whether it is the French, German, Australian, or English, I find that that particular position is at the top of the pecking order, the top of the totem pole. They are giving a very high priority to the development of exports from their countries and are putting men into those positions with great ability and experience.

But I don't think our State Department people are doing that sort of thing. I find time and time again among our commercial attachés men who really have no experience in economics, business, and who are not doing an adequate job of pushing export of our products. That is my observation, Mr. Secretary. I will yield back to the Chairman.

The CHAIRMAN. Senator Gravel?

Senator GRAVEL. Mr. Secretary, you stated that we were not going to sign the Cocoa Agreement. I wonder if you could tell me what percentage we purchase of that market, and if we are not going to sign the agreement, what is the projected result?

Mr. SIMON. We purchase about 15 or 20 percent of the cocoa in the market; yes, sir.

Senator GRAVEL. Then, by our not signing the agreement, what will happen in our marketplace? I understand our objection. It is because we believe that pegging the price so high will be injurious to our consumers. By our not signing, will that essentially void our effectiveness in the international marketplace, and will we be able to buy cocoa?

Mr. SIMON. Our not signing the agreement should not alter the effectiveness of the international marketplace. We will be able to purchase cocoa as usual because the agreement does not contain incentives for exporters to sell cocoa to member importers at the expense of nonmembers. A cocoa agreement has been in effect since 1973, and it has not affected our ability to import cocoa.

Senator GRAVEL. What I am trying to get at, is whether our action will be effective and will do violence to the actions of the cartel?

Mr. SIMON. Only time would tell that. Again, I am not familiar with how this operation has succeeded, or not succeeded over the last 15 years. But certainly, its incidence of success would be greatly improved if we did join.

Senator GRAVEL. I wonder if for the record and my own edification you could make a judgment on how effective these policy decisions are.

Mr. SIMON. Absolutely.

Senator GRAVEL. I would like to know our reasons for not signing, and what we hope would be the result of our policy.

Mr. SIMON. Absolutely.

[The following was subsequently supplied for the record:]

THE U.S. DECISION NOT TO JOIN THE INTERNATIONAL COCOA AGREEMENT

The U.S. has announced its decision not to join the recently negotiated International Cocoa Agreement. However, we are willing to participate in any new negotiations which may be undertaken.

The primary U.S. objection to the 1975 draft Agreement is its excessive rigidity. The draft Agreement would allow little room for the operation of free market forces. Export quotas are its main feature, with their imposition and modification meant to stabilize cocoa prices within a pre-determined range. A buffer stock arrangement acts as a backup to the export quota system. We believe that the export quota system will restrict and disrupt world trade in cocoa as its operation runs counter to underlying market forces.

A second objection to the draft Agreement is its price range of 39–55 cents per pound compared to the 29.5–38.5 cents of the presently operating 1973 Agreement. While the stated minimum price is 39 cents, quotas come into effect at 47 cents so that price will probably be the effective minimum. Furthermore, quotas are triggered by an indicator price which is often 10 cents or more below the spot price at which cocoa is traded.

While the current spot price of cocoa is well above 55 cents (about $.75 per lb.), a more revelant indication of what it costs to produce cocoa is the price paid farmers by national marketing boards. The price is well below 47 cents in some countries.

The Ivory Coast has stated that it will not sign the draft Agreement. If they maintain this position and Mexico and the Dominican Republic, not members of the present Agreement, also don't sign, then it cannot enter into force. If this happens it is likely that new negotiations will be called for. The draft Agreement is scheduled to take effect on October 1. Producers are scheduled to hold a February 24 meeting in Brazil. Possibly the need for renegotiation will be decided upon then.

U.S. nonparticipation in the new Agreement will not affect international cocoa trade, nor will it jeopardize the Agreement unless at least one other major consuming country also does not join. On the producers' side, if the Ivory Coast maintains its determination not to sign the Agreement and Mexico and the Dominican Republic (not currently members) also do not sign, the Agreement will not enter definitively into force. If any one of these countries joins, the Agreement will come into force.

Senator GRAVEL. I understand we are about to sign the Paris Energy Agreement to peg the price, the floor price of oil at $7, $7.50 a barrel. Is there any truth in that rumor?

Mr. SIMON. I'm not aware of the fact that they have set a minimum safeguard price, Senator Gravel, that will be agreed to. I think that issue is still somewhat in doubt.

Senator GRAVEL. Thank you very much, Mr. Chairman.

[The following was subsequently supplied for the record:]

PROBLEMS OF ACCESS TO SUPPLIES OF CRITICAL RAW MATERIALS

In the wake of the oil shortage induced two years ago by the OPEC, there was much concern that we were facing a new era of resource scarcities, as other commodity producers followed the example set by OPEC. So far these concerns have proven unfounded. Numerous producer associations have indeed been formed, but they have been unsuccessful in restricting production. It is ironic, for example, that U.S. copper producers have cut back production more in response to market signals than members of the copper exporters association have been able to do.

Moreover, commodity producers are unlikely to be more successful in the future than they have been in the past. Chromium and platinum group metals would be the most likely candidates for successful supply restrictions, based on the market strength of producers, but cartel action is remote. In another case, bauxite producer action could impose short term increases, only at the risk, however, of creating new sources of supply. Consequently, the conclusions of the U.S. Government's report on critical imported materials published in December, 1974, by the Council on International Economic Policy still stands: We are not likely to see OPEC-style supply restrictions for other commodities.

The fact that we do not now see the United States in a dangerous supply situation, with respect to imports of raw materials our industry needs, does not mean that we are complacent. We have, therefore, been going ahead on a number of fronts with the aim of introducing more order and predictability of supply for the benefit of both consumers and producers. For examples, supply access is one of the central issues for discussion at the current Multilateral Trade Negotiations. The U.S. seeks new rules to govern the use of export controls and the need for effective consultations on supply shortages. The United States has also pro-

posed the establishment of producer-consumer forums for every key commodity in an effort to improve the growth, efficiency and stability of markets. Furthermore, the United States supports an expanded program of compensatory finance to help developing countries over shortfalls in their balance of payments earnings stemming from swings in commodity prices. In addition, the United States has also proposed an increase of $400 million in the capital of the International Finance Corporation of the World Bank Group to expand worldwide investment in raw materials production.

These efforts will not solve the problems of supply access over night. But over time such means will allow the marketplace to substantially reduce the problem of shortages.

The CHAIRMAN. Senator Haskell?

Senator HASKELL. Thank you, Mr. Chairman.

Mr. Secretary, in your testimony you indicated reliance on the free market in world trade, and I think that is probably a part of the administration's philosophy generally. But there is one area that I would like to question you about, and that is the wheat area. As you know, the President vetoed the farm bill that passed Congress. He said the farm population should rely on the free marketplace in disposing of their products. My understanding is, and I think it is roughly correct, that we produce about 2.1 billion bushels of wheat, while domestic consumption is about 700 million bushels.

Now, just as the wheat farmers in my part of the country are generally looking forward to a good price, good sales, good sales overseas, the administration embargoes the deliveries to foreign countries. I don't understand the rationale in that, nor, would I say, do the affected farmers.

Mr. SIMON. Senator, there was a great fear at that time, as we look back, that the Russians were going to come in and do the same thing that a lot of people saw happen in 1972, which resulted in shortages, et cetera.

We were awaiting a final farm report at that time. We had an announcement from labor that they would not indeed load the ships. We had been trying for some time, I had, as the Chairman of the Commission of the United States–U.S.S.R., to get commitments from the U.S.S.R. for our farmers, so that we could have reliable buyers of our grain in this country.

Admittedly, the embargo was unfortunate from that point of view, trying to provide this fine balance between the conflicting interests, is sometimes extremely difficult in this country.

But, what we succeeded in doing was getting a 5-year agreement from the U.S.S.R., which is going to guarantee that they are going to buy x million bushels of grain each year, and I think that will have a healthy result.

Senator HASKELL. I'm sure that is your viewpoint. However, I observe that at the time the embargo went on, the current estimate was 1.8 billion.

I would hope that, if the administration is going to take this type of action, to look more favorably on the agricultural bill, which raises the trigger point on prices because in my part of the country, anyway, there is substantial hardship.

Mr. DENT. Senator, I think that the important thing to recognize here is that the administration was challenged with the domestic concern of restarting inflation.

The agreement has preserved for the American farmer a free market by better meshing the monolithic purchasing power of a state-trading operation with our free market, which involves thousands of small people as well as some big ones. And, for the longer term, the American farmer now has an assured market for exports between 6 million and 8 million tons per year.

Senator HASKELL. At what price?

Mr. DENT. At the going price, there is no price specified, just quantity.

Senator HASKELL. Will there be further embargoes if you think they are buying too much?

Mr. DENT. There is a range, which will operate at a level of 6 million tons per year, up to 8 million. To buy over 8 million tons in any given year, they must first consult with the USDA to determine if we have adequate supplies.

Senator HASKELL. Is that 8 million, or 8 billion; 8 million tons?

Mr. DENT. Yes.

Senator HASKELL. Russia will only buy 8 million tons?

Mr. DENT. No, that is the annual purchase, and above the maximum in the agreement, they must check with USDA to determine if additional supplies can be purchased without detriment to the domestic consumer's interest, if we have it available.

So, that on the one hand the free market has been preserved, and on the other hand a new market for the American farmer has been established on a steady basis over this 5-year-period.

Senator HASKELL. Well, Mr. Secretary I don't think the affected people would agree with your views. I hope you are right, if you are going to rely on the free market.

Mr. DENT. Senator, there are two things. The farmers did not like the embargo that was placed.

Senator HASKELL. I don't blame them.

Mr. DENT. But, I think if they can take in isolation from that the agreement which has assured them a new market access at the world prices, that part of it should certainly satisfy their production needs.

Senator HASKELL. Thank you, Mr. Secretary.

Senator RIBICOFF. If the Senator would yield. At that point there is a concern. I am not a farmer, but there is a concern for a consumer advocate. Will you yield for a minute?

Senator HASKELL. Certainly.

Senator RIBICOFF. Wasn't the whole problem, basically, the Russians came into the market unexpectedly and secretly with enormous requirements at regular intervals, shoving prices way up. And then we went into an agreement.

Wouldn't it have been better to solve all the problems, if we required that the Russians, before entering the market, come to the United States? Now, you entered into a bilateral agreement for a single year, and then you will have all the dislocation in a year.

Wouldn't it be better if you knew, and they knew where they stood on the market? So, instead of entering into a bilateral agreement annually only, wouldn't the farmer be better off and the consumer be better off if we did it on a month-to-month basis? I defer to you, Senator Haskell because that is your field. Wouldn't the farmer and the consumer both be better off?

Mr. SIMON. Senator Ribicoff, we did try, in this agreement that we finally achieved, we did try to get the annual projections given to us quarterly, or any other way from the U.S.S.R., and we could not get those.

Senator RIBICOFF. This is what has always bothered us, and that is why we put these restrictions into the trade agreement. We have always resented here that everybody in this Government defers to the State Department. The Russians needed that wheat desperately, they still need it.

When the Russians are up against us, they press. We never pressure the Russians at all. They needed that wheat, and what is wrong to require the Russians to enter into this agreement, enter into it from year to year, but on a month-to-month basis they should regularize, so you know how you stand every month, instead of every year; and then the farmer and the consumer understand what's happening.

I think everybody would be better off if this were on a month-to-month basis, instead of annually.

Mr. SIMON. I agree with you, and that is the result of this agreement.

Senator RIBICOFF. But, on an annual basis, you don't know where you stand.

Senator HASKELL. If the Senator would yield. I think the real problem is the great fear in the farm community that agricultural products, which are our single largest source of export income, will be used as a foreign policy negotiating tool. This is the real fear in the hearts of the farmers, and I share it with them.

If you are going to use them as a negotiating tool, then you'd better put up the target prices so they can make a living.

Mr. DENT. Might I come in on your monthly purchase suggestion. When a free market has knowledge that the Russians have an agreement to purchase a minimum of 6 million tons a year to a maximum of 8 million, the market is discounting this over the entire 12-month crop period. So that, whether they buy 1 week or another, those who operate in the market know that, as far as their projections of consumption are concerned.

So, I think having this new knowledge is so much better than letting them come into our market at will, without any foreknowledge to the American producer and consumer.

Senator RIBICOFF. Now, here you have a World Food Conference where we are talking about setting up a world reserve scheme, and the Russians don't want to come into it. Don't the Russians get a free ride if they don't share the burden? Where should the Russians be in this question of reserve, that the United States and Canada, and Germany, and France, and Australia are going to set up on this problem of world stock. Why shouldn't the Russians be part of that?

Mr. DENT. Our Government suggests that the Russians do become part of it, that is why the negotiations have been held under the aegis of the International Wheat Conference and the Council in London. But, at the moment they are resisting.

If a world reserve system is set up, primarily for the benefit of importing nations, and they elect to stay out of it, down the road in years, they may regret not being part of it when the reserves go to those who perhaps don't have as great a need, but who are participants in this.

Senator RIBICOFF. That is why it is important that these type of agreements do come back to the Finance Committee because this becomes a very big issue. And I reaffirm what Senator Bentsen said, and I will say that to Secretary Kissinger tomorrow; Secretary Kissinger is a politician, and he is great at it, but basically economic policy is a problem of economics and is really what has been the determining factor in the world today.

And we have a situation, and I agree with Senator Bentsen, where we are completely deficient in the economic field. And it is so important to put the Secretary of the Treasury on the National Security Council, but it is also important that our representatives in the trade field and the economic field are top people.

I think this is the chairman's concern, and the concern of this entire committee, that we have a continuing growth. And I would hope that this administration and you gentlemen would realize the concern of the chairman and this committee.

I think our attitude may be different from the Foreign Relations Committee's, and we don't want to deny them their role. but when you are dealing with commodities you are dealing with trade, and you are dealing with economics. We feel very strongly that the Finance Committee has a continuing role in that process, and I think the Senate would expect it of us.

Mr. DENT. Senator, the administration agrees with you. We are ready to cooperate, but we don't want to infringe on senatorial prerogatives. And, if it can be worked out between the committees themselves, we will consult with as many as the Senate advises us is appropriate.

The CHAIRMAN. Senator Gravel.

Senator GRAVEL. We did not embargo the Soviets with respect to wheat, did we? This was a mutual agreement made before the contract was negotiated; was that not the case?

Mr. DENT. That was an executive action.

The CHAIRMAN. Senator Brock?

Senator BROCK. May I first say to my colleague, the administration did not specifically embargo the sale of Russian wheat, they embargoed the sale of all wheat. They did naturally stop any sales at all until they could come to a decision on what to do.

I appreciate the fact that we got a firm agreement with Russia, a sales agreement for 6 to 8 million tons; and I'm sure my farmers will be delighted about that, too.

But I think the administration was dead wrong in doing what it did. I don't think, after the fact, the agreement changes that judgment in any sense whatsoever. The administration has made mistakes with regard to embargoes for the last 3 or 4 years with tragic consequences in soybeans, then later on it hit our beef people, then it hit the grains. I just think it is the height of something or other for us to think that you can continually have Government injection into the marketplaces which are legitimately designed by our farmers and our business people, without destroying the fabric of international trade.

I think you would in general agree with that. I appreciate the fact this is a 5-year sale, but that doesn't change the absence of logic in terms of the embargo itself. The embargo was wrong.

We had these people come in one year for more than 14 million metric tons, and the next year they wouldn't. The uncertainty is there in the marketplace, and it causes undue market speculation. I feel as strongly, or stronger than you do about export controls.

Senator BROCK. I know you do, that's why I asked the question. I tell you something, the farmers of Tennessee, and I think every other State, will support almost any policy that we determine is in the interest of this country, and in the interest of the extension of freedom, peace; and if they thought it would help to increase Jewish emigration from 5,000 to 30,000, they would support that policy. But, you are talking about human beings, they have to make market decisions, how much do you plow, how much do you plant, how much do you fertilize; and they cannot make these rational decisions unless they have an idea as to whether or not their Government is going to help them sell that product when they harvest it. That is the situation.

Mr. SIMON. And the problem is, Senator, I'm not sure I know the answer to it. Our policies are well and often enunciated, however, when events occur that are unforeseen, we debate them, and sometimes we have to make decisions at that time, and therefore we have problems.

Senator BROCK. I understand that. I think the reasons we have problems is because we don't have a policy. This Congress and this administration have not come to grips with what is the basic determination, the goals of American foreign policy, there are enormous disagreements, not just with Angola, because the Congress doesn't know what the tool of the policy is.

Now, the people in this country have to come to grips, and then we can make a rational decision in whatever parameters, as a clear national objective.

Senator HASKELL. Will the Senator yield?

I would just like to underline this, Mr. Secretary, we do have a monitoring system, so now we know how much we sold—as you know, Senator Talmadge is the chairman of the Agriculture Committee.

If we are going to rely on the free market, let's not wait until the last minute. Now, if we are not going to rely on the free market, let's set an adequate agricultural price. This is a statement, not a question, but I do feel very strongly about it. Thank you, Senator Brock.

The CHAIRMAN. Mr. Secretary, you said earlier today that during the last 15 years we have reduced the percentage of people in poverty in half. I think that statement is correct. I went down to the White House and was told by President Nixon, and I believe by President Ford that that happened. But I'm under the impression that happened under Lyndon Johnson. Can you tell me whether there was any reduction of the poverty level under this administration, or the Nixon administration?

Mr. SIMON. I don't have a year-to-year breakdown, Mr. Chairman, on the reduction in poverty, just the general statement that in the 15 years it has declined from 20-some percent to 10.2 percent of our families, but I will get it. I would like to know that myself.

The CHAIRMAN. I would like for you to provide us the figures and show us how you figure it because I would like to cut it in half, again, but I haven't had much help from this administration.

But anyway, the point is, where are we going from here. If, and this was the point Senator Haskell was touching on, if food is going to be used as a weapon by the administration in terms of international policy, then we ought to determine what the "dickens" the policy is, and I don't think Congress has any knowledge of the defined policy on the part of the administration, and neither do our farmers. Perhaps we'd better engage in a little dialog, debate—I detest the word "dialog," I'm getting tired of it, good healthy debate—about what this country is all about; what our mission is, what our purpose is; and whether or not our farmers are going to be asked to be used in an international conflict in some fashion that they are not aware of because they will need to make adjustments. I agree with Senator Haskell that we have to make certain assurances to them if that will be the practice of this country in the future.

They will produce. They will produce all you can "say grace over", they are the most productive people in the history of man. But they've got to know whether or not they've got some place to sell their product. We either have to give them some assurances in terms of price, or some assurances in terms of a market if we want the quantity of food produced that we think we need to not only serve the needs of the people of this country, but to play a very specific role in international relations.

And finally I would like to suggest that perhaps it would be helpful for this Senator at least, if I knew for what purpose this weapon was going to be used. Is it to trade for oil? Is it to trade for an increased immigration of Jewish inhabitants of the Soviet Union? Is it to be used for pressure to get them to withdraw from Angola? What is the purpose of this weapon, if we want to call it that? I just don't know, I really and truly am reaching for an answer because unless we determine where we are going it is going to be very hard for you to get the support of this committee, or any other committee in Congress to what may be a perfectly right and proper action. I think we need to engage in that kind of debate.

If you want to comment, I will be delighted.

Mr. SIMON. I basically agree with your closing statement about the need for debate and clarification because there is a great deal of confusion.

We are dedicated to the principle, as you know, Senator Brock, of the free market. But sometimes there are necessarily going to be contradictions because events dictate a contradiction as we deal with the conflicting elements in this society of ours, where we have the threat of export controls, if you will; the threat of an additional rate on our agricultural commodities; purely and simply an attempt to work out a temporary suspension of sales. For clarification, it wasn't really to the world, it was to just to the U.S.S.R. and Poland, the rest of our sales continued.

Senator BROCK. We do have a monitoring system, we have to be notified if it is over a hundred thousand.

Mr. SIMON. That's right, we have a deputy's group that Paul McAvoy heads. And I wanted to do that before, Senator, to put into the record the organization on these food issues, which I think will help.

But finally, I was just going to say that this enables us to get the crop report. But, more importantly, what we need, what Senator Ribicoff and everybody recognized, we had to get the buying intentions.

I have been making some suggestions up here, and I must say, I haven't had much luck on the other side in getting the administration to go along with some things that I think would reduce the poverty level. So, I'm available to cooperate, but so far I haven't had much help from the administration. I hope we can work together to reduce the poverty level.

[The following was subsequently supplied for the record:]

PERSONS BELOW THE LOW-INCOME LEVEL BY FAMILY STATUS, 1959 TO 1974

[Number in thousands]

	Persons		In families		Unrelated individuals	
	Number	Percent	Number	Percent	Number	Percent
1959	39,490	22.4	34,562	20.8	4,928	46.1
1960	39,851	22.2	34,925	20.7	4,926	45.2
1961	39,628	21.9	34,509	20.3	5,119	45.9
1962	38,625	21.0	33,623	19.4	5,002	45.4
1963	36,436	19.5	31,498	17.9	4,938	44.2
1964	36,055	19.0	30,912	17.4	5,143	42.7
1965	33,185	17.3	28,358	15.8	4,827	39.8
1966	28,510	14.7	23,809	13.1	4,701	38.3
1967	27,769	14.2	22,771	12.5	4,998	38.1
1968	25,389	12.8	20,695	11.3	4,694	34.0
1969	24,147	12.1	19,175	10.4	4,972	34.0
1970	25,420	12.6	20,330	10.9	5,090	32.9
1971	25,559	12.5	20,405	10.8	5,154	31.6
1972	24,460	11.9	19,577	10.3	4,883	39.0
1973	22,973	11.1	18,299	9.7	4,674	25.6
1974	24,260	11.6	19,440	10.2	4,820	25.5

Source: "Current Population Reports," series P-60, U.S. Department of Commerce, Bureau of the Census, various issues.

Note: The low-income (poverty) classification is described as follows in "Current Population Report," P-60, No. 99, p. 3: Families and unrelated individuals are classified as being above or below the low-income level using the poverty index adopted by a Federal Interagency Committee in 1969. This index is based on the Department of Agriculture's 1961 economy food plan and reflects the different consumption requirements of families based on their size and composition, sex and age of the family head, and farm-nonfarm residence. It was determined from the Department of Agriculture's 1955 survey of food consumption that families of 3 or more persons spend approximately one-third of their income on food; the poverty level for these families was, therefore, set at 3 times the cost of the economy food plan. For smaller families and persons living alone, the cost of the economy food plan was multiplied by factors that were slightly higher in order to compensate for the relatively larger fixed expenses of these smaller households. The poverty thresholds are updated every year to reflect changes in the Consumer Price Index (CPI). Thus, the poverty threshold for a nonfarm family of 4 was $5,038 in 1974, about 11 percent higher than the comparable 1973 cutoff of $4,540.

The CHAIRMAN. There is another subject which bothers me, Mr. Secretary—I will discuss that further with Mr. Baker when his turn comes—and that is that, this Nation continues to publish these so-called Good News Announcements.

It was said on television last night that we had a favorable balance of $11 billion in trade last year. If that is the truth, then we shouldn't be doing any of these things we are doing to expand exports, we ought to try to help the other fellow to ship us something, because we will soon have all the chips and the other fellow won't be able to play the game with us. If that situation did prevail, we would give the other nations all sorts of advantages over us that the facts do not presently justify.

Now, Mr. Baker testified in his statement that of the $11 billion profit that we were supposed to have made in that situation, $1.9 billion is in the form of aid. By the time we get through it the way we look at it, and the way the other nations keep their books, that $11 billion profit gets down to about $1.9 billion.

I hope we can come to terms and work something out in Geneva, but those people have ambassadors, and good ones, and they pick up these American "Good News Announcements" and say, "You people made an $11 billion profit, and you are going to impoverish the rest of the world, in your insistence on taking enormous profits", but actually what we had was a small profit of about $1.9 billion, if you take out the foreign aid program, only taking into account Public Law 480, and include only what you are being paid for.

Now, Mr. Secretary, can we expect some help from you, try putting this thing into context so that everybody, including our own people will know what the score is?

Mr. SIMON. I remember some three and-a-half years ago as Deputy Secretary of the Treasury I was making my courtesy calls, and I called on you, Mr. Chairman, and you told me about the problem you had for many years with CIF/FOB and I had not the foggiest notion what you were talking about.

We went back and finally succeeded in including CIF into the FOB statistics, so, we have accomplished that much.

The disagreement, as I understand it, is that U.S. importers pay U.S. freighters, and therefore it doesn't belong in the BOP statistics because it just represents two domestic entities and it's not a transaction between the U.S. and a foreigner, if you will. That's why it didn't belong. Isn't that one of the reasons?

The CHAIRMAN. Mr. Secretary, the way these trade figures are presented to the American people is the way I saw it on television last night or so: "We made $11 billion profit."

It's just like my pilot friend that I helped work his way through school by teaching people how to fly airplanes. I owned a few dollars, and he paid it down on a small airplane. This fellow made a profit every month in doing business, in one pocket and out the other—every month he made a profit. And after about 3 years he was broke and out of business. The reason was he didn't know about depreciation. When the plane wore out, he had no money to buy a new plane and he was out of business.

[Laughter.]

The CHAIRMAN. So, I feel our trade figures operate the same way. If we operate on these kinds of trade figures, we will be just like my friend with the airplane who finally went out of business because he didn't figure depreciation.

Now, we are working with a bunch of figures that reflect us as getting rich, when we very well might be going broke. I recall a period of time when the figures looked as though over a 5-year period we had made about $15 billion. We hadn't made $15 billion, we had lost $20 billion. And I just hope one of these days we will tell everybody, including our own people, the truth about this.

Mr. SIMON. Fred Dent would like to comment on this, Mr. Chairman, and also, I will be having a new Deputy Secretary come up for confirmation, and I will warn him in advance about this.

[Laughter.]

Mr. DENT. Mr. Chairman, I would like to report substantial progress in that the Government is now reporting on FT 900, the foreign trade results monthly, and they show both FAS and CIF figures, so that the CIF figures are available. The press takes them and leads with the

FAS, or FOB basis, which are the figures to which you referred. So, we are creeping up slowly, this has detailed figures on a CIF basis.

The CHAIRMAN. I once knew a politician, and he abided by his own code of ethics, and he had a very good code of ethics. One of his principles was that a politician would never lie unless it was absolutely necessary.

[Laughter.]

The CHAIRMAN. I think we should look at how the situation really is.

Now, Mr. Secretary, the East-West Trade Board was established to monitor the flow of U.S. technology to Communist countries. As Chairman of that Board, can you tell us what the major technological transfers in the last year have been?

Mr. SIMON. Let me list for the record what they were. We used the mechanism that was already in place in the Commerce Department to monitor transfer of technology to the eastern block, and I can list our decisions for the past year; and also the ones we have turned down.

The CHAIRMAN. Can you provide that for the record?

Mr. SIMON. Yes; I will.

The CHAIRMAN. All right.

Mr. SIMON. They are submitted, on a regular basis, to the Congress.

The CHAIRMAN. I think it would be helpful to have a summary for the record.

Mr. SIMON. Yes, sir.

The CHAIRMAN. I don't want to burden the record, but I would like to have it.

[The following was subsequently supplied for the record:]

The following lists reflect export licenses granted and denied for the export of technology to nonmarket economy countries during calendar year 1975,[1] as well as the period December 18, 1975–March 1, 1976.

CALENDAR YEAR 1975

APPROVALS

Bulgaria

Manufacture of card reader mechanisms; production of polypropylene; architectural plans for a hotel; polypropylene; protein from manure; detergent alkylate; line printers; polyester yarn; dental equipment; polypropylene; linear alkyl benzene; isobutylene; acrylic fiber; industrial control instruments; heater for ammonia plant; heat exchangers for benzene plant; removal of carbon dioxide from gas.

Czechoslovakia

Formulation of herbicides; removal of carbon dioxide from ammonia synthesis gas; cyclohexanone; glass tubing end formers for fluorescent lamps; memory system for minicomputer; manfacture of pumps and motors; isobutane; equipment for making cigarette filters; high octane gasoline (alkylation process).

German Democratic Republic

Recovery of carbon monoxide gas; removal of magnesium from aluminum; removal of carbon dioxide from gas; pharmaceuticals.

Hungary

Manufacture of magnetic recording equipment; manufacture of FM radio and TV band antennas; production of polypropylene; manufacture of laminated products for packaging; laundry equipment; anticoagulant drug; memory system for computer; parts for line printers; slidable gates for steel industry; glass making equipment; materials handling equipment; polyvinyl chloride film and

[1] In previous years, as high as 70 percent of the technology licensed for export has been left unshipped.

sheet; character drum assemblies; auditor oriented computer system; assembly of integrated circuits; dice for integrated circuits.

People's Republic of China

Anticoagulant drugs; ethyl alcohol; styrene-butadiene rubber; removal of acidic gases from natural gas; natural gas desulfurization and dehydration; natural gas liquefaction; quotation for aircraft engines (3); sulfuric acid.

Poland

Manufacture of disk recorders; manufacture of security apparatus for storage containers; manufacture of paper equipment; production of methylamines; manufacture of paper and pulp equipment; manufacture of rubber V-belts; manufacture of internal combustion aircraft engines; manufacture of steam turbines; treatment of tire cord fabric; specifications for turboshaft aircraft engine; manufacture of circuit breakers; motors for water pumps; glass making equipment; veterinary medicine; polyester fiber; petroleum refinery project; penicillins; removal of carbon dioxide from gas; construction and operation of gasholders; petroleum refining and petrochemical processes; anticoagulant drug; building materials; hydrogen peroxide; vitamin C; sewing machines; vinyl chloride; pumps and motors; landing gear for light aircraft; instruments for measuring radiation; machine tools; residue disposal system; fluorocarbons; carbon black; aircraft engines; water gel explosives; color TV receivers; rubber antioxidants; copying machines; chlorine-caustic soda; vegetable protein; aircraft doors; computer software; antibiotic.

Romania

Sulfur recovery; industrial process instruments; pharmaceutical for treatment of ulcers; production of benzene; manufacture of hydraulic turbine blades; computer software for a chemical plant; refining stainless steel; tractor transmissions and torque converters; polypropylene; acetic acid; petroleum refining and petrochemical processes; locomotive parts; building materials; polyethylene; linear alkyl benzene; polypropylene; benzene; butadiene; gas storage facility; manufacture of bearings; gas processing plant.

U.S.S.R.

Transfer handling machines; software for air traffic control systems; training and support services for air traffic control systems; siliconized resin coatings for metals; electrical insulators; glues and adhesives; diesel starter drives; production of caffeine; ethylene oxide and glycol; subsonic wind tunnel; color TV glass funnel/neck assemblies; liquid crystal displays for wrist watches; production of normal paraffin hydrocarbons and adsorbents; heat exchangers for gas compressors; aromatic hydrocarbons; computer software for control of aircraft spare parts; trimellitic anhydride and wire enamel; terephthalic acid; petroleum reforming and separation of eylenes; desulfurization of fuel oil; acrolein and acrylic acid; polypropylene; drying of whey; silicon thyristors; painting and phosphotizing solutions; hand held electronic calculators; removal of carbon dioxide from gas; semisubmersible drilling vessel; steam condensers; superconducing electrical generator; gust probe for aircraft; cutter manufacturing facility; steam condensers (2); structural metal parts by powder metallurgy; titanium trichloride; aluminum trichloride; nonstick cookware; sulfur; magnets; natural gas plants; electro-hydraulic servo valves; copper clad glass epoxy laminates; plant for making dyestuffs; anticoagulant drugs; desulfurization of fuel oil; hydrofinishing of lube oils (2); aluminum cans; quartz flash tubes; quotation for digital computer; alpha olefins; quotation for programmable terminal systems hardware; lenses for making TV tubes; heaters for natural gas plant; butadiene; computure software.

Country Group QWY

Heat exchangers and heaters; building materials; printed circuit boards (Groups W and Y).

DENIALS

Cuba

Ammonia plant; removal of carbon dioxide from ammonia synthesis gas; detergent alkylate; vinyle chloride; polymerization process for making gasoline; electrolytic tinning line (2).

U.S.S.R.

Video head technology.

DECEMBER 18, 1975–MARCH 1, 1976

APPROVALS

Bulgaria

Heat exchangers; bacillus thuringiensis (used to prepare an insecticide use for killing worms that attack vegetable crops); manufacture of filter cigarettes; quotation to supply heat transfer equipment.

Czechoslovakia

Quotation to supply heat transfer equipment; additional technical data for a patent application for a pharmaceutical.

German Democratic Republic

Miniature tow processing unit for making cigarette filters; petroleum refining processes; petrochemical process; quotation to supply heat transfer equipment.

Hungary

Additional technical data for patent applications (2) (relating to prostaglandins and saccharide polydensation); line printer parts; quotation to supply heat transfer equipment.

Poland

Plant for producing carbon black; mineral fiber acoustical ceilings and mineral wool; quotation to supply heat transfer equipment.

PRC

Sulfating and sulfonating of organic compounds which are used in detergents; quotation to supply heat transfer equipment.

Romania

Quotation to supply heat transfer equipment.

U.S.S.R.

Technical data relating to schematics for five-functional electronic calculator; proposal for an airplane auxiliary power unit, airconditioning, and pneumatic system (2); acrylic sheet; air cooler to be used in petroleum refinery, dyestuffs facilities, 4 ammonia plants; plant to manuafcture carbon bisulfide, electrically-heated rear automotive glass; hydrogen production plant; chemical refinery complex; butadiene plant; quotation to supply heat transfer equipment; ethylene oxide and glycols; production of fungicide; photoflash cubes; two ammonia plants.

DENIALS

U.S.S.R.

Variable capacitors; manufature of single crystals of gadolinum gallium garnet (GGG) and growth of epitaxial magnetic garnet film on GGG.

The CHAIRMAN. Just to be specific, are U.S. technological export controls effective?

Mr. SIMON. Yes; we believe they are. We have an extensive reporting mechanism on the technology, and we think they are extremely effective.

Why don't you add to that, as the former chairman of that control board?

Mr. DENT. Senator, they are effective as far as they go. But we must recognize that the control of technology, ideas and the rest, are extremely difficult to be 100 percent sure about. We benefited in this country through the transfer of technology from England in our early days through the heads of immigrants. So, it is effective as far as it can go, but it is not airtight.

The CHAIRMAN. I would like to know, Mr. Secretary, with regard to the countervailing suit filed by United States Steel, did the Treasury make a negative determination on that suit, or what was the determination?

Mr. McDONALD. Yes; the determination was a negative one.

The CHAIRMAN. Would you give us some understanding on what is involved in this, and how it appears to you, our principal fiscal officer of the government?

Mr. SIMON. I would like Dave to explain the investigation. He was the Assistant Secretary that conducted it and presented the findings to me, Mr. Chairman.

Mr. McDONALD. Well, the question was posed to us by United States Steel in the form of a complaint, whether the remission of the value added tax in the European Community constituted a bounty or grant. This is the remission of an indirect excise tax, very similar to our sales tax, except that it is not assessed all at the retail level, it is assessed progressively as it goes through commerce.

The same kind of tax, of course, we have in this country in the retail sales area, and also in a manufacturer's excise tax for alcohol and tobacco. The Treasury Department, for 70 years, has taken the position that the remission of an indirect tax does not constitute a bounty or grant. The overrebate of that tax we do countervail. We follow that precedent with a qualification that the precedents have gone in two areas, on a direct tax, if you remit a direct tax we countervail against it; if you remit an indirect tax, we don't countervail against it. It has long been known in Congress that this is the law, or the Treasury practice.

There is disagreement as to the economic distinction between the two, but we felt that at this time to overturn perhaps a dozen cases where we had already gone in this direction, unilaterally, was simply something that we could not legally do, and we don't think the law really reflected that result.

We would hope, and we have advised the multilateral trade negotiations that we are going to take this matter up for negotiation, and we have a group working on it now, sir.

The CHAIRMAN. Now, it has been my understanding of the general picture that by remitting these taxes in one respect or the other, these governments are able to sell products produced in their nations at somewhere between 10 and 30 percent of what the price is for that product sold to their own people, within those nations.

Now, generally speaking—and it seems to me this is an area where we would negotiate with the other fellow—we should look at this again. We are doing very, very little of that. Perhaps Secretary Dent ought to comment.

Mr. DENT. Yes, Senator, the United States also remits indirect taxes on our exports in the form of retail sales, or in the form, as the Secretary has mentioned, of alcohol and tobacco taxes.

Now, when these products come into this country, we levy those taxes on them. If we are unable to levy indirect taxes, products coming into Washington, say a shirt from Great Britain, it might not be able to bear the domestic retail sales tax, comparable to what domestic products do. So, that is a very thorny economic problem. We are working diligently on it. We have begun talks in Geneva on it. Last week I spoke to the leaders of the European Common Market on this subject in Brussels. So, that is one of the great concerns that we must reach an equitable solution of; that is in our own domestic interest, as well as those who sell to us.

Other countries, in addition to the Common Market, do remit indirect taxes elsewhere in the world. So, it's not just a bilateral problem.

The CHAIRMAN. Thank you.

Well, my time has expired. There is a vote going on, and we will have to go over and vote in a few minutes. I know Senator Ribicoff has some more questions.

Senator RIBICOFF. I have some, but I will save them for Secretary Kissinger tomorrow. But, one question to Secretary Simon.

You complained about lost business with the Soviet Union because of credits and replaced MFN problems. Now, it seems to me our banks are doing a lot of business in this field, are they not?

Mr. SIMON. They have done business, yes, Senator Ribicoff; the exact dollar amounts I don't have.

Senator RIBICOFF. This is very interesting. The Chairman and I took a trip last August in the trade field and visited several countries. We got to Germany, Senator Long went to Munich, and I went to Bonn. I had a very interesting discussion with the West Germans; and the West Germans explained to me that under no circumstances do they give a credit break, or subsidize any interest rate or credit to the Soviet Union. They are very successful in doing business with the Soviet Union. But the Soviet Union knows right from the start that West Germany will not subsidize any purchases; that West Germany will not give a break on interest on the governmental level.

This has to be done completely, the West Germans tell me, as far as they are concerned, between the commercial bank and the seller of the product.

Now, they were very frank and said the Russians hate to pay large interest rates, they don't like high interest rates, it is against their political philosophy. But as a consequence, from a pragmatic point of view, what the manufacturer does, he jacks up the price to absorb the high interest rate.

Now, if the West Germans can do business that way, why does the American taxpayer have to be in a position of subsidizing the Soviets with low-interest rates, when our interest rates are high?

Mr. SIMON. We have been trying, Senator Ribicoff, for a couple of years, and we are fortunately now very, very close to what we call a general agreement on export credits.

Now, there have been concessionary credits given. Our interest rates by the Exim Bank have been higher than the rest of the world; this agreement is going to be very beneficial.

The ability to provide these credits—and they are slightly below the open market rate—enables the European Community in particular to have done over $10 billion in business by credits we have been prohibited from providing. And we have heard not only from the U.S.S.R., but also from our business here in the United States that significant amounts of money in the form of contracts have indeed been lost.

Senator RIBICOFF. But I still don't get it, the West Germans can do business with the Soviet Union without subsidizing interest, why can't we?

Mr. SIMON. Well, when you say "subsidizing", we are subsidizing when we compare it to an open market rate, if you will. What they

might mean, maybe they don't go as low as some other countries in the world might. But that, again, depends on a case-by-case basis. There are certain areas where West Germany may be more competitive than other countries; and there are a lot of areas where the United States wouldn't have significant contributions, and we shouldn't provide Exim credits at all, and those are instances where we are going to get the business anyway. That has been our policy.

With an interest-rate war, competition going on, I don't think that benefits anybody; and I think the other countries in the world finally recognize this, and now we are going to get agreements that have a floor on rates, and cover the terms given, and that is going to be healthy. But it certainly is not going to help us until we are going to be able to fix up the Trade Act as far as being able to give credits.

Senator RIBICOFF. Well, as far as I'm concerned, I see no improvement from either the administration or the Soviet Union to solve that problem.

Mr. SIMON. We have seen some improvement. I can't say it is a trend because it has been too brief, Senator Ribicoff. We have seen an immigration increase from 1,100 last September to about 1,500 in October, and down to 1,200-plus in November and 1,200 in December. Hopefully it is going to continue to increase.

Senator RIBICOFF. Did I understand you to say that the Russians are trying to work out a new trade agreement?

Mr. SIMON. No, sir.

Senator RIBICOFF. Didn't I understand you to say that?

Mr. SIMON. No; this is the gentleman's agreement with the European Community and Japan that will end the interest-rate war on government credits.

Senator RIBICOFF. But the Russians are not talking about the possibility of a trade agreement.

Mr. SIMON. No; we deal with the Russians on a case-by-case basis. We are prohibited, as you know, from any export credits.

The CHAIRMAN. Senator Hartke.

Senator HARTKE. Thank you very much. There are two questions I would like to ask. What is the administration going to do on the question of specialty steel, where there has been a sharp increase in unemployment due to specialty steel rate on the American market?

Mr. SIMON. I am a member of the committee that is studying the ITC report right now. The President must, by law, Senator Hartke, come to a decision on that within 60 days. I will be making my recommendations then.

Senator HARTKE. If a quota is imposed, required by law, do you think there will be any reaction from other countries, and what type?

Mr. SIMON. I think that is hard to tell, it would depend on the quotas. Every action usually causes a reaction, whether or not it would be serious, I think, it's too early to tell, Senator Hartke.

Senator HARTKE. I will submit this to you. This is a report on the question on how these people are attempting to avoid the steel decision by entering into bilateral agreements. But, the administration just has no policy on it.

Another question I would like to submit to you is a question concerning the International Monetary Fund. Is it not true that the Jamaica agreement really takes us toward it again?

Mr. SIMON. It sure does not, Senator Hartke; I would never have been a party to it.

Senator HARTKE. I don't have time, I have to go vote. If you could respond to that for the record.

Mr. SIMON. I sure will, I will respond to that in great detail. But, flexible, floating exchange rates have served this country well, just take a look at our position. We have not only legitimized in the Jamaica agreement the existence of floating as a system, but, more importantly, it takes 85 percent to go back to a fixed rate system, and we have a 20-percent blocking veto.

Senator HARTKE. Well, let me say to you that I think the removal from fixed rates to flexible rates was a contributing factor to the recession. So, I'm not so sure that you and I are going to agree.

[The following response was subsequently received for the record:]

RELATIONSHIP OF THE JAMAICA MONETARY AGREEMENT TO FIXED EXCHANGE RATES

The Jamaica Agreement does not move away from the float and back toward fixed exchange rates. The agreed new provisions on amendments to the IMF Articles dealing with exchange rates represent a sharp contrast with the Bretton Woods system of fixed exchange rates, which sought stability by mandating adherence to a specific exchange rate regime—par values. The new provisions focus on the need for countries to follow policies designed to achieve the underlying economic stability that is a prerequisite to exchange rate stability, rather than on action to manage or fix the exchange rate; they effectively legalize current exchange rate practices, including floating, and provide wide latitude for individual countries to adopt specific arrangements of their own choosing in the future, so long as they fulfill certain general obligations. Under the new provisions, the U.S. will have a controlling voice both in the adoption of any new general exchange arrangements for the system as a whole and in the selection of exchange arrangements to be applied by the U.S. individually, and we do not envisage the adoption of fixed rates for the foreseeable future.

Senator HARTKE. The second item is. I find a complete absence from your statement, or Secretary Dent's, or Mr. Baker's, or anyone else's of any concern whatsoever about the severe problem that is being presented by the multinational corporation in trade; and the lack of any comment about this indicates to me that we are still dealing with an about 1901 economic theory.

Mr. SIMON. You know, what I am trying to do——

Senator HARTKE [continuing]. We should, in the last third of this 20th century start thinking about their effect upon international policy and international trade.

Mr. SIMON. What I tried to do, Senator, was to respond to questions that Senator Long asked me in the letter, in concert with Ambassador Dent, Secretary Kissinger, Butz, Jim Baker, and everybody else who will be testifying, I think that the subject of multinational corporations, on which we had hearings on in Congress last year, or the year before, I would like to come up and talk about.

Senator HARTKE. Don't worry, I'll be here.

Mr. SIMON. That's a subject in itself.

Senator HARTKE. I'll be here. I understand they are collecting a nice little fund to beat me in this election; so, I will be looking forward to it. Thank you.

[The prepared statement of Secretary Simon follows:]

STATEMENT OF HON. WILLIAM E. SIMON, SECRETARY OF THE TREASURY

Mr. Chairman, Members of the Committee: I welcome the opportunity to join in this review of the administration of the Trade Act of 1974 and U.S. international trade policy, with special emphasis on the Multilateral Trade Negotiations.

During this period of continuing worldwide economic difficulty and change, world trade has taken on even greater importance as a central ingredient in our economic relations with foreign countries. Maintaining and improving an open trade environment is crucial to our efforts to prevent widespread restrictive trade actions that could seriously harm world economic stability and cooperation.

Before turning to a discussion of our trade policy, I would like to say a few words about the world economic outlook, which will play a major role in determining the world trade climate in the months to come.

INTERNATIONAL ECONOMIC OUTLOOK

The world is now recovering from the most severe economic recession since the 1930's. The recession saw real output in the industrial countries fall sharply and suddenly, a decline of 5 percent in the first half of last year. It saw the first reduction of 6 percent in 1975. And it was associated with the most violent inventory adjustment in more than fifty years.

The outlook for recovery from the worldwide recession of 1974–75 is now good. Solid progress toward recovery has been made particularly here and in Japan and Germany. The outlook for real growth in the major industries countries is on the order of 5 percent during 1976. During 1976, the United States is expected to experience a rate of real growth in the 6 to 6½ percent range, which is above the average of the last decade. Upturn in the smaller industrial countries, whose economies turned down some six months later than the larger countries, will occur more slowly.

At the same time that economies have turned around, progress has been made in curbing inflation. Inflation rates in the industrial countries are forecast to average about 8 percent during 1976. This is too high—but the trend is welcome.

Unemployment levels at the end of 1975 remain too high. The absolute number of workers unemployed is at or near post-war record levels in most of the industrial countries. The relatively modest recovery foreseen during 1976 in some countries will not significantly reduce unemployment rates during 1976—given normal work force growth—although progress is likely during the latter part of the year.

Most LDCs experienced reduced growth rates later than industrial countries, and, while growth rates for non-oil LDCs as a group will probably be lower than in 1975, their balance of payments position will improve in 1976. For many of these poor countries economic growth will not keep up with population growth in 1976.

The pattern of international payments last year was determined by two major factors—the continued massive surpluses of the oil exporting nations, and the widespread economic recession. A clear pattern of payments balances among three major country groups can be distinguished: For the oil exporters, the OPEC countries, large *surpluses* of about $40 billion on current account; for the developed world, the OECD countries, approximate *balance*, with roughly offsetting surpluses and deficits within the group; and for the rest of the world, large *deficits*, particularly on the part of the less-developed countries.

The centrally-planned economies of East Europe and Asia also experienced deficits.

As a result of the firmly-based recovery now underway in the industrial world, the pattern of payments imbalances will shift importantly this year toward more balance.

The collective current account deficit of the oil importing countries should be more evenly distributed between developed and developing countries during 1976, representing a partial reversal of the 1975 patterns of current balances which were highly skewed against the non-oil developing countries. The dramatic im-

provements in the external positions of major industrial countries in 1975 were to a large extent the result of inventory adjustments and recession-induced reductions in import demand. With recovery, the external positions of the industrial countries will adjust accordingly, and this should prove to be an important factor in reducing the external deficits of non-oil LDCs.

During 1975, the recession reduced demands for commodity imports as a result of both inventory adjustments and lower production levels in the industrial countries. Commodity prices declined in the presence of slack demand. The non-oil developing countries faced reductions in both the volume and price of their primary product exports during 1975. This process will be reversed during 1976, with resumption of recovery in the industrial countries. Unfortunately, a sizeable portion of this improvement in the non-oil producing developing countries, positions will be eroded by the higher crude oil prices announced in October.

The continuation of the current solid recovery will depend on continued sound economic policies by all countries. For the industrial countries, sound policies mean policies to assure a continued strong non-inflationary recovery in world demand; they mean the avoidance of measures which would frustrate an adjustment in their payments positions, particularly the avoidance of beggar-thy-neighbor trade actions. For the LDC's, sound policies mean realistic investment growth and development programs. For the OPEC, sound policies mean reasonable investment policies, without excessive liquidity preference, increased aid to LDCs, and restraint in oil pricing.

But the industrial countries do bear a special responsibility. Simultaneous reflationary measures in 1972–73 led to worldwide inflation. Simultaneous deflationary policies in 1973–74 led to cumulative recession. The major countries must become more aware of the cumulative effects of their policies; economic policy cooperation among them must be improved. Rambouillet made progress toward that goal, particularly in the trade area.

The worldwide recovery, the commitment at Rambouillet to sound economic policies, the comprehensive monetary agreements of Jamaica, all create a positive environment for the Multilateral Trade Negotiations.

PRINCIPLES OF U.S. INTERNATIONAL ECONOMIC POLICY

In approaching the problems of the world economy, the United States has formulated a consistent international economic policy. No nation is more intimately involved in shaping a cooperative international economic system. The core of our international economic policy is dedication to certain fundamental principles, the most important of which is our commitment to a free and open environment for world trade and investment. Within this context it is essentail that we seek to achieve certain basic objectives. We must: Maintain a sound U.S. economy; eliminate or reduce barriers to and distortions of trade on a reciprocal basis; establish fair trade rules and improve the structure of the General Agreement on Tariffs and Trade; permit the free flow of capital in order to allow its most productive use; assist the developing world to grow and become economically self-sufficient through fair and reasonable access to developed nations' markets; and cooperate with other nations in resolving problems and responding to change in the international economy on a mutually beneficial basis.

COORDINATION OF U.S. POLICY

The policy guidelines and decisions to implement these principles are coordinated through the Economic Policy Board (EPB) and the Council on International Economic Policy (CIEP).

The President established the Economic Policy Board by Executive Order in September, 1974. This Board consists of the Secretary of the Treasury, who is Chairman, and twelve other members. The Executive Order provides that the Economic Policy Board "shall provide advice to the President concerning all aspects of national and international economic policy, while overseeing the formulation, coordination and implementation of all economic policy of the United States, and all serve as the focal point for economic policy decision making.

The Executive Order also provided that the Assistant to the President for Economic Affairs should be a member of the Eocnomic Policy Board and its Executive Director. The Secretary of the Treasury was designated Chairman of the Council on International Economic Policy and the Assistant to the President for Economic Affairs became a member of the Council and its Deputy Chairman.

The membership of the EPB and CIEP differ somewhat. The EPB includes the Secretary of the Interior, the Secretary of Health, Education and Welfare, the Secretary of Housing and Urban Development and the Executive Director of the CIEP. EPB does not include the Secretary of Defense who is a member of the CIEP.

This organisational structure reflects the increasingly close intertwining of domestic and international economic policies which led first to the appointment of the Cabinet Officer most intimately concerned with these issues, the Secretary of the Treasury, to chair the Council and second, following the establishment of the Economic Policy Board, led to a very close and intimate relationship between the EPB and the Council.

This relationship is focused in the Executive Committee of the EPB, of which the Executive Director of CIEP is a member, which was established to meet daily to consider issues relating to international and domestic economic policy. The fact that there is a Cabinet-level meeting daily considering these issues is tremendously important. It has given the Executive Branch the capability to respond rapidly to changing conditions, and it has provided an institutional focus for decisionmaking on matters relating to economic policy. Participation in the Executive Committee has not been limited just to the designated members. Other agencies and departments have participated on a regular basis in areas where it is felt they could contribute to economic policy decisions.

In the international trade area, the Trade Act of 1974 provides the legislative framework for the development and implementation of policy. Responsibility for the Mutilateral Trade Negotiations rests with the Special Trade Representative, Ambassador Dent, who is a member of CIEP, and is Chairman of the Cabinet-level Trade Policy Committee (TCP). The Special Trade Representative joins the deliberations of the EPB on matters of interest to him and is able to bring to the EPB matters for attention or decision.

nI addition to these formal mechanisms, Secretary Kissinger and I meet frequently on an informal basis to discuss economic and foreign policy issues to assure coordination in our approach.

PURSUING OUR INTERNATIONAL ECONOMIC OBJECTIVES

The principles of our international trade policy are embodied in the Trade Act of 1974 and we are actively pursuing them in the Multilateral Trade Negotiations. Our success in these negotiations will in large measure determine the future of our international trading system. Progress is therefore essential. We are encouraged by the strong impetus which the MTN received from the agreement at Rambouillet in November to accelerate the pace of the negotiations, with the goal of completing them in 1977. Specifically, the Rambouillet Declaration affirmed that we "should aim at achieving substantial tariff cuts, even eliminating tariffs in some areas, at significantly expanding agricultural trade and at reducing non-tariff measures" in order to achieve the maximum possible level of trade liberalization.

A healthy international economic and financial system is, of course, an essential underpinning for trade relations.

Recognizing the close interrelationship between international trade and economic policies, the six participants at Rambouillet agreed to work in the monetary area to create greater stability in the economic and financial conditions underlying the world economy. They also made the fundamental decision to reach specific agreements in the IMF relating to exchange rates. This commitment was implemented in the recent agreements achieved at the Interim Committee meeting in Jamaica. Because these understandings are so important to the future of our international monetary system, and, thereby, to the environment in which international trade will take place, I would like to comment briefly on the Jamaica accords.

THE JAMAICA AGREEMENTS

The Jamaica meeting marked the successful conclusion of several years of negotiations, resulting in the first general revision of our international monetary arrangements since the basic framework for the post-war economic system was established at the 1944 Bretton Woods Conference. The package that has been developed combines longer-term structural reforms with measures to meet current financing needs. They consist of four major elements: new provisions gov-

erning exchange rate practices which nations can follow in the future; measures to phase gold out of the monetary system; steps to increase the resources of the IMF and to strengthen the Fund's ability to meet the balance of payments financing problems of member countries; and proposals to amend the IMF Articles, the "constitution" of the monetary system, so as to streamline its operation, and to conform the institution to the different world which has developed since the 1940's and which will evolve in the 1970's and beyond. Together, these agreements lay a foundation of impressive strength on which we may base our efforts in the Multilateral Trade Negotiations.

The agreement to reduce the role of gold in the monetary system removes an important disruptive factor from the system. Its private uses conflict with its monetary uses. Its extreme price volatility can be very destabilizing to a monetary asset. Its relatively fixed supply means that new output cannot be expanded or contracted in line with requirements for more, or less, international liquidity.

Action to update and streamline the IMF Articles, relating to the operations of the General Account and the SDR account, provides a flexible basis for future evolution of the rules of the system.

In the third area, steps are being taken to enhance the IMF's capacity to provide its members medium term financing for balance of payments problems while adjustment measures become effective. These actions include an increase in IMF quotas, an immediate increase in members' potential access to IMF credit, the establishment of a Trust Fund to assist the poorest countries, and a major liberalization of the IMF's Compensatory Finance facility to assist primary producers. All of these actions demonstrate a commitment to maintaining a payments system which supports the free flow of trade and capital.

A final area where agreement was reached involves exchange rate practices. In sharp contrast to the rigid system of exchange rates established at Bretton Woods, which sought stability by requiring adherence to a specific exchange rate regime—par values—the new provisions focus on achieving the underlying economic stability that is a prerequisite for exchange rate stability. The provisions legalize the various exchange arrangements presently applied by countries; provide a flexible framework for future adaptation of the exchange rate system; and provide wide latitude for countries to adopt specific exchange arrangements of their own choosing so long as they fulfill certain general obligations relating to the maintenance of internationally appropriate economic policies. Of particular importance in this respect for the trade negotiations is the obligation to avoid manipulating exchange rates to gain an unfair competitive advantage.

Those who criticize the present system of semi-floating exchange rates state their case in terms of the volatility of the system and the impact exchange rate variability has on international merchants. Such arguments are just not supportable. The floating exchange rate system did not produce exchange rate variability. The variability that characterized the past several years is the result of the violent financial pressures generated by boom and recession, by the sharp rise in inflation rates and by the increase in the price of oil. Central to the agreement reached in Jamaica was the recognition that instability was not caused by the exchange rate regime but rather by underlying economic and financial conditions.

The agreed new provisions relating to exchange rates provide for a floating system and, upon an 85 percent majority vote, a par value system. In either case case, the exchange rate system is not viewed as producing stability. Rather, underlying factors, relative rates of economic expansion, congruent rates of price increases are recognized as the true source of stability. This means that the exchange rate system can facilitate stability but that the basic impetus has to come from domestic economic and financial policies.

TREASURY RESPONSIBILITY UNDER THE TRADE ACT

Let me now turn to the Multilateral Trade Negotiations, where we are attempting to implement our important commitment to an open international trading system under the mandate of the 1974 Trade Act. I would like to devote particular attention to two areas where the Treasury Department has special responsibilities: the enforcement of our antidumping and countervailing duty legislation and our trade relations with nonmarket economy countries. I would then like to discuss an area of special importance: our commodity policy and our efforts to actively involve the developing nations in the MTN.

As you know, the Trade Act of 1974 made significant changes in both the Countervailing Duty and Antidumping statutes. The Act and the Congressional hearings which preceded its passage made clear that it was the intent of the Congress that these remedies be vigorously but fairly applied so that international trade could flourish in a freer but fairer environment. At the time of my confirmation as Secretary of the Treasury, I pledged to you that these laws would be efficiently and effectively administered. In the year since passage of the Act, the Treasury has carried out that pledge.

ANTIDUMPING ACT

The Act did not substantially amend the Antidumping Act, but for the most part codified various Treasury practices and policies previously established by administrative action. During 1975, 25 cases were initiated, preliminary actions were taken on 13 cases, and final decisions including referrals to the ITC were made on 12 cases. (I have attached to my statement a summary of all these actions.) The cases initiated include the initiation of an investigation of all imported automobiles from eight foreign countries, the largest industry in terms of trade volume ever undertaken by Treasury.

Under new Trade Act procedures, Treasury on three occasions referred Antidumping petitions to the International Trade Commission at the outset of investigations when it was determined that there was substantial doubt as to the existence of injury. The Commission determined in each instance that it was unable to find "no reasonable indication of injury," and therefore full investigations were or are being conducted in these cases.

I believe the Department has continued to demonstrate its determination to administer effectively, the Antidumping Act, and this Committee can be assured that these high standards will be maintained.

COUNTERVAILING DUTY LAW

The Trade Act of 1974 made significant changes in the Countervailing Duty Law with the additional of time limits for completion of investigations and the inclusion of a provision for the temporary waiver of countervailing duties to aid the Multilateral Trade Negotiations. You will recall that Section 331 of the Act authorizes the Secretary of the Treasury to waive the assessment of countervailing duties otherwise assessable until January 3, 1979, if *all* of the following three conditions have been met:

(1) Adequate steps have been taken to reduce substantially or eliminate the adverse effect of the bounty or grant;

(2) There is a reasonable prospect that successful trade agreements will be entered into reducing or eliminating distortions of international trade; and,

(3) The imposition of additional duties would be likely to seriously jeopardize those negotiations.

Either house of Congress may override a waiver, and the Secretary may revoke it at any time.

There was a dramatic increase in our countervailing duty caseload during 1975 as a result of our stepped up efforts to resolve all pending and legitimate complaints expeditiously. All the cases outstanding at the time of the passage of the Trade Act have now been resolved. The eight cases still pending were all initiated in 1975. During the year Treasury initiated 38 countervailing duty investigations, a record number. This included those cases outstanding as of the date of enactment of the Trade Act. Thirteen investigations were terminated at the request of petitioners, 25 preliminary determinations were reached, and 20 final determinations were made, of which 9 were affirmative and 10 were negative. A temporary waiver of countervailing duties as provided in the Act was granted in 6 of those cases. Summaries of those cases are appended to my testimony.

These figures alone do not tell the full story concerning the effectiveness of our efforts to protect U.S. markets. In several of the cases which resulted in negative findings, subgstantial "countervailable" programs existed at the time the inquiries began. Discussions with Treasury officials during the course of the proceedings or the mere pendency of the actions themselves convinced the responsible officials of the governments concerned to eliminate the subsidies. Furthermore, in each of the six cases where duties were waived the exporting country had taken significant action which in our judgment eliminated or substantially reduced any

threat posed by the subsidy programs. In four of the six cases this action involved the elimination of substantial portions of the subsidies. In the other two cases, we believed that while potential existed for adversely affecting the domestic industry concerned, that potential was removed by other price or export policy guarantees obtained from the exporting countries.

As I have indicated, Treasury exercised its authority to waive the imposition of countervailing duties in six instances during 1975. In all cases of substantial subsidization, Treasury worked closely with interested Members of Congress, representatives of the concerned domestic industry, and appropriate Executive Branch agencies, in reaching decisions concerning the exercise of the temporary waiver authority. This process led to decisions reflecting the variety of concerns that must be considered in determining whether the criteria established by the Trade Act have been met. This provision was not designed to be used loosely or indiscriminately, but in limited instances where circumstances warrant it. In my opinion, we have by our actions thus far, fulfilled the basic purpose for which the waiver provision was added to the law. We have avoided unnecessary friction with our trading partners while negotiations continue in Geneva, while at the same time, protecting the interests of our farms, factories and workers.

Let me now turn to the need for those negotiations to arrive at a new set of international guidelines to limit the use of subsidies in international trade.

SUBSIDIES AND COUNTERVAILING

Section 331 of the Trade Act provides a specific mandate to negotiate on subsidies and countervailing:

"It is the sense of Congress that the President, to the extent practicable and consistent with United States interest, seek through negotiations the establishment of internationally agreed rules and procedures governing the use of subsidies (and other export incentives) and the application of countervailing duties."

Mr. Chairman, as you know, the Special Trade Representative is charged with negotiating a subsidy/countervailing duty code within the Multilateral Trade Negotiations. I am certain Ambasador Dent will wish to address this issue. Treasury has worked very closely with STR and other agencies in carrying out the mandate of the Trade Act in this area. As a result, the U.S. Government has proposed a framework for negotiation of international rules on subsidies and countervailing. We submitted a concepts paper on the elements that should be included in a subsidies and countervailing code. Our proposal is on the negotiating table along with proposals of other countries. Our proposal would establish three categories encompassing all subsidies, and would establish treatment for subsidies in each category. The "prohibited" category would include all blatant export subsidy practices including direct export subsidies and domestic subsidies expressly intended to promote export performance. These would be subject to countervailing without any conditions. The "conditional" category would generally cover programs, the intent and effect of which are to accomplish a country's domestic policy objectives, but which may also affect international trade. These would be subject to countervailing duties only when certain conditions of injury are met. The "permitted" category would consist of practices agreed to have a minimal impact on international trade, such as overseas trade fairs. These would be exempt from countervailing action.

The Trade Negotiations Committee meeting in December decided that one of the MTN goals for 1976 would be to reach agreement on an approach to negotiations on subsidies and countervailing.

Effective international rules are needed in this area both to deal with the widespread use of subsidies and to cover the application of countervailing duties against subsidies.

Present GATT rules do not now provide adequate controls on the use of subsidies that distort international trade. The Multilateral Trade Negotiations provide the opportunity for developing clear and effective controls on subsidies and linking subsidy controls with rules on countervailing action.

The thrust of the U.S. approach is to obtain, for the first time, a change in existing international practices which clearly commits both the U.S. and our trading partners to refrain from the use of export subsidies in international trade, whether or not injury has or will occur. The framework we have proposed for such an agreement provides the possibility for negotiating separate protocols for special problems when we find it necessary and desirable to do so.

In view of the fact that such an agreement will be extremely difficult to negotiate, some might ask why we need it. After all, we can unilaterally offset subsidies in the U.S. market by countervailing action. There are several reasons.

First, we need to prevent subsidized exports from capturing the third country markets for American exports.

Secondly, subsidized products moving in international trade cause diversion of goods produced in third countries, and further, they distort investment decisions.

Finally, the use of unilateral remedies, inevitably cause friction between trading partners, and are therefore subject to appeals on political and other nongermane grounds.

Our objective, then, is to gain agreement on the prohibition of subsidies, the prohibition of subsidies, the intention and effect of which is to promote exports, whether to the United States or to third countries. To gain this objective we must realistically be willing to accept some limitations on our unilateral use for countervailing duties. What we have proposed is that where the programs complained of are purely domestic in nature—that is, where they apply equally to domestically consumed products and from the evidence available have neither the intent nor effect of stimulating exports—countervailing action by the importing country (i.e., the United States) would be conditioned upon a showing that the imports in question are actually of potentially injurious to domestic industry. I would point out that all countries, including our own, maintain an array of programs for legitimate domestic purposes, which can be judged to be boundaries or grants under broadest interpretation of those words. A typical example is the investment incentive programs maintained by the individual States to attract new industries. Some of those industries inevitably export some of their production.

Our experience has been that programs such as these, maintained for legitmate domestic purposes, generally have only an incidental effect on trade. We need to establish better guidelines for determining when the impact of these programs on trade is significant enough to warrant offsetting action.

This area is one which is in great need of a negotiated solution, and we have accordingly given it high priority in the Geneva negotiations.

I would like to turn now to the second area of special Treasury responsibility under the Trade Act: the operation of the East-West Foreign Trade Board.

THE EAST-WEST FOREIGN TRADE BOARD

In accordance with Section 411 of the Trade Act of 1974, President Ford established the East-West Foreign Trade Board by Executive Order on March 27, 1975. The organization of the Board follows the organization of its predecessor—the President's Committee on East-West Trade Policy.

The President designated me as Chairman of the Board; the Assistant to the President for Economic Affairs, William Seidman, was named Vice Chairman. Other members are the Secretaries of State, Agriculture, and Commerce, the Special Representative for Trade Negotiations, the Director of the Office of Management and Budget, the Executive Director of the Council on International Economic Policy, and the President of the Export-Import Bank. Treasury Assistant Secretary Parsky is Executive Secretary.

In addition, in response to a suggestion by the distinguished Chairman of this Committee, and recognizing the important role of the Department of Defense in the national security aspects of trade with the Communist countries, the Board unanimously recommended to the President that the Secretary of Defense be added to the Board's membership. On January 3rd, President Ford, by Executive Order, amended the membership of the Board to include the Secretary of Defense.

Among its statutory functions, the East-West Foreign Trade Board is directed in the Trade Act to:

(1) Monitor trade between persons and agencies of the U.S. Government and nonmarket economy countries to insure that such trade will be in the national interest of the U.S.

(2) Receive reports on the nature and terms of transaction from (a) any person who exports technology to a nonmarket country which is vital to the U.S. national interest, and (b) any U.S. Government agency which provides credits, guarantees or insurance to a nonmarket country in excess of $5 million during any calendar year.

(8) Submit to Congress quarterly reports in trade between the U.S. and nonmarket countries.

Since its establishment, the Board has functioned as a policy formulating and coordinating body. Its Working Group, consisting of representatives of the member agencies, usually meet twice monthly to coordinate the development and implementation of East-West trade policies and to refer issues to the Board for decision.

With regard to the Board's responsibility to monitor credits, guarantees, and insurance provided under government programs, the Working Group is carrying out its responsibilities through oral and written reports from Eximbank, the Commodity Credit Corporation, and the Overseas Private Investment Corporation on such extensions to the nonmarket economy countries. There is also coordination between the Working Group and the National Advisory Council (NAC). Data from these agencies are summarized in the Board's quarterly reports.

Control of exports of technology to nonmarket economy countries is maintained by the Commerce Department under the authority of the Export Administration Act. To fulfill the requirement that persons who export technology to nonmarket economy countries report to the Board, the Board decided to use the export control mechanism maintained by the Commerce Department. Notice was given in the Federal Register of July 14, 1975, that the Board had promulgated a regulation concerning the exporting requirements of Section 411 relating to the export of technology to a nonmarket economy country. Exporters of such technology will have complied with these requirements by complying with the applicable provisions of the export control regulations of the Department of Commerce.

The Board decided to use Commerce's well-established administrative mechanism, rather than establish a new one, because it did not wish to create yet another bureaucracy to levy additional requirements on businessmen. In order to do this, the Board has interpreted Section 411(b) to require that licenses for export of technical data applied for and granted, be reported to the Board by the Commerce Department. In addition, the Board and Working Group have continued the practice of the predecessor Committee by reviewing export license cases of major policy significance.

To date, the Board has submitted to Congress a Quarterly Report for each of the first three quarters of 1975. The fourth quarterly report will be submitted in February, when detailed 1975 statistics are available.

Notwithstanding the importance of the Trade Act in creating the East-West Foreign Trade Board, this Administration has consistently established its objection to the provisions of this Act which adversely affect our trade with the Soviet Union and other nonmarket economy countries, and which do not serve our political and humanitarian interest. My contacts with Soviet leaders and with American businessmen during the past year have firmly convinced me that it is in our interest to find a way to unblock these impediments to increased trade.

In consultations with Congressional leaders, I have been encouraged by a common appreciation that we must move ahead. Last summer, I met with the members of the Senate delegation to the U.S.-U.S.S.R. Parliamentary Conference before and after their visit to Moscow. The Senators had an extremely frank exchange of views with top Soviet officials on the impact of the Trade Act on U.S.-Soviet relations. I believe their visit was extremely useful as was the visit of the House delegation which took place in August.

The normalization and improvement of our commercial relations with the U.S.S.R. and other nonmarket economy countries is a necessary element in the improvement of our overall relations with these countries. We believe strong economic ties tend to create a foundation of mutual interest which in turn can improve the environment for progress in the relaxation of political tensions.

A solution to the legislative impasse we now face would materially enhance our business community's efforts to expand trade with the East. We have had many indications that the lack of official credits from the U.S. is causing the U.S.S.R. and some of the Eastern European countries to direct their purchases elsewhere. The major European countries and Japan have agreements with the U.S.S.R. under which $10 billion of government-backed credits will be available to finance export sales to the Soviet Union. This total is in sharp contrast to the $469 million in credits extended by the Eximbank before lending to the U.S.S.R. was suspended in May, 1974.

At Treasury request, the Commerce Department is now conducting an inquiry to determine how much business this country has in fact lost. The Soviets have given us their estimate that for January through October 1975, as much as $1.6 billion in contracts which the Soviets were ready to sign with U.S. firms have gone to Western Europe and Japan because of the U.S. restrictions on Eximbank credits. Many of these contracts are being negotiated as part of the Soviet 1976–1980 plan and therefore represent business opportunities that are not likely to appear again until the next five-year plan period.

I expect that much of the competition among Western industrial nations for exports through government-subsidized credits will soon be constrained through the establishment of guidelines on credit terms to be followed by the larger industrial conutries. However, such arrangements will not mean that other countries will not continue to provide large amounts of credit to the East. Our firms will continue to be seriously disadvantaged by not having access to Eximbank credits in trading with these countries.

THE DEVELOPING COUNTRIES AND U.S. COMMODITY POLICY

I would also like to discuss the related issues of commodity policy, U.S. relations with the developing countries, and the MTN. Commodity policy is a major element of our relationships with the non-oil producing LDCs. For the foreseeable future many of these countries will largely depend upon commodity trade for their economic well being and for their hard currency earnings. Our commodity policy decisions are therefore crucial to the ongoing dialogue with the developing nations. Moreover, our actions now in setting forth clearly and forcefully our views will play a pivotal role in the evolution of the world's system of commodity trade.

As you are well aware, the worldwide economic boom of two years ago created concern in developed countries about the long-range availability and dependability of supplies of raw materials, particularly those from developing countries. At the same time, worldwide inflation and high oil prices played havoc with developing country economies. The success of OPEC led many of these countries to believe that they could resolve their economic problems by emulating OPEC. Several producer associations for other commodities were created in an attempt to raise export prices and export earnings.

These efforts have not been successful. Responding to market signals, prices for most commodities, particularly minerals, have fallen dramatically from the 1974 highs. Yet many developing country spokesmen still pin their hopes for improving their economic lot on mechanisms which would artificially maintain or raise the prices of their commodities. This distracts them from increasing output which could more quickly and surely advance their economies.

Over the next few months the U.S. will be involved in discussions in several international forums of a variety of such proposals involving export controls, widespread commodity agreements, price indexation, and new international financial institutions.

I believe more fruitful approaches are envisioned in the Trade Act of 1974. I would argue that both our own economic interests and those of the developing countries can best be served, not by putting new controls on the free market for raw materials and their products, but by working to dismantle those that exist.

The United States has put forth its own set of proposals on commodity policy which we believe would constructively and positively come to grips with the basic economic problems faced by the developing countries within the context of our fundamental commitments to free markets. I would like to summarize these proposals for you briefly and then discuss more fully those particular proposals which relate closely to the Trade Act.

The United States has important interests in the raw materials field. As an importer of raw materials, the U.S. seeks assured supplies at reasonable prices. This will require adequate investment in raw materials production, and supply commitments from exporting countries. As a major exporter of raw materials, we wish to improve our access to other countries' markets for our exports and convince other countries that we are a dependable supplier. Excessively volatile price fluctuations are a matter of concern both to developing and developed countries. They can distort investment patterns and contribute to inflationary pressure. We also recognize the significant dependence of many developing countries on earnings from raw materials exports, and we wish to help increase the security and stability of those earnings.

To accomplish those goals, we have put forward specific proposals.

To help assure adequate investment, we have proposed that the World Bank Group, especially the IFC, take the lead in bringing together private and public capital as well as technical, managerial and financial expertise to finance new minerals development.

To assure our access to supplies at reasonable prices, and to convince other countries of our dependability as a supplier of raw materials, we are seeking supply access commitments in the Multilateral Trade Negotiations.

Because no one approach can apply to all commodities, we propose to discuss new arrangements for individual commodities on a case-by-case approach. We have participated actively in negotiations for new commodity arrangements in tin, cocoa and coffee, and will participate in talks on sugar this fall. We will sign the new Tin Agreement, which will be submitted to the Senate for advice and consent, because it operates with a minimum of market interference and permits full latitude for the operation of our own tin stockpile.

However, we do not propose to sign the new International Cocoa Agreement in its present form because it sets rigid price ranges, does not adequately protect consumers, and relies excessively on export quotas as a central operational feature. We have suggested that the agreement be renegotiated and are awaiting the reactions of other countries.

We are currently reviewing the new International Coffee Agreement, which contains substantial improvements. Our review is focusing on the adequacy of the consumer safeguards and the possible future price impacts of the new agreement.

To help primary producing countries stabilize earnings from commodity trade, the United States proposed a substantial improvement in the IMF's compensatory finance facility. The IMF has now agreed that such countries could draw more freely on the IMF to offset export earnings shortfalls. Under the new rules, members can draw up to 75 percent of quota, and up to 50 percent in any one year.

We are also supporting an improvement of the IMF's arrangements for national financing of buffer stocks, by amending the Articles of Agreement to remove any effect of buffer stock drawings on member-country access to other IMF resources. We have determined that we will support financing for national contributions to buffer stocks from only one of the international financial institutions—the IMF.

To provide even longer run stability and security of export earnings for the LDC's, we have urged that in the MTN particular attention be paid to the issue of tariff escalation. If LDCs are given improved access to developed country markets for processed forms of their raw materials, they will be able to diversify their economies and decrease dependence on exports of raw materials.

As this enumeration of measures demonstrates, there is no single approach to commodity trade problems. We reject price fixing arrangements that distort the market, restrict production and waste resources, and we have made clear we will not join such agreements. On the other hand, we are prepared to consider measures that will improve the functioning of markets and will directly meet the problems of raw material producers and consumers. In this regard, we seek the establishment of consumer-producer forums for each key commodity to promote efficiency, growth and stability of particular markets.

Two of these issues are particularly related to the Trade Act—supply access and tariff escalation.

Section 108 of the Trade Act specifically directs the U.S. negotiators to work toward agreements which "assure the United States of fair and equitable access at reasonable prices to supplies." Countries may wish to offer or request specific supply access commitments in exchange for similar supply commitments or improved market access for processed products. The feasibility and desirability of such commitments need to be examined. The idea of a general code of conduct on export restraints also would seem to hold promise, in which countries might agree to general principles governing the circumstances and methods under which export restraints would be justified. Finally, we believe that this field offers one area in which developing countries might make some commitments in the MTN in exchange for the benefits they have requested.

The U.S. has also stated that we wish to examine carefully the issue of tariff escalation and possible remedies. Most countries, including the U.S., have tariff systems which favor the imports of raw materials over processed goods. Raw

materials producers argue that this is uneconomic and provides them with justification for export restraints on their raw materials in order to protect and stimulate their own processing industries. Thus there is clearly a link between the issues of supply access and tariff escalation.

In general, this Administration has consistently argued that we believe all countries benefit from freer trade. We must work to decrease the insecurity caused by unpredictable government intervention in raw materials markets. If countries can be assured that governments will only limit exports of raw materials under clearly defined emergency circumstances, and will not attempt to set prices arbitrarily, importing countries will be less hesitant to become more dependent on imports of those materials and will be more likely to reduce their own barriers to those products. In turn, if importers reduce the levels of tariff escalation so that processing can take place where it is most economical to do so, raw materials producers will be able to increase the value added to products in their countries, further industrialize their economies, and enhance their export earnings without tampering with raw material prices.

I would thus suggest that by using the mandate and authority in the Trade Act of 1974, we can improve our access to needed raw material imports, increase other countries' confidence in us as a supplier of raw materials which we export, and assist the developing countries in their drive to improve export earnings and develop their economies. This can best be done by reducing and restricting government interference in the free market for raw materials and their products, rather than adding new mechanisms and controls.

BORDER TAX ADJUSTMENTS

I would now like to turn to another section of the Trade Act which raises a subject of immediate interest to the Treasury—tax adjustments made at the border on imports and exports.

The Trade Act directs the President to revise the present GATT rules on border tax adjustments. The rules of the GATT provide, generally, for the adjustment on traded goods of internal indirect taxes—those bearing on consumption, such as sales taxes and value added taxes. Adjustment means the relief of such taxes on exports and their assessment on imports. The GATT does not provide for any such adjustment at the border of direct taxes—those bearing on factor earnings, such as corporation and personal income taxes.

The Administration is now hard at work on this problem. We are examining how the present rules actually affect trade today. Economic opinion on this point is divided. Some believe that U.S. exports are hurt by the current rules while the exports of others obtain an advantage. On the other hand, it is argued that, taking into account all factors, such as more flexible exchange rates, border tax rules have little, if any, lasting effect on trade. We are coming to grips with these separate views and are considering the basic options for improving the current rules. Our work is still in progress but it is becoming very apparent that there are no easy answers.

We are very aware of the concern of Congress, U.S. businessmen, and labor about this issue, which we will address in the Multilateral Trade Negotiations. I hope the Special Representative for Trade Negotiations will be able to report more progress on this to you soon.

CONCLUSION

It is my firm belief that progress in negotiating a more open and equitable world trading environment is essential to a world beset with economic difficulty and unprecedented change. The need for meaningful progress in the Geneva negotiations was clearly recognized by the major industrialized nations at Rambouillet. Our agreement there to aim for completion of the MTN during 1977 has won the support of the Trade Negotiations Committee in Geneva, which has set specific concrete tasks for the negotiations this year to enable us to meet that deadline.

In carrying out the mandate of the Trade Act of 1974, our efforts in the Multilateral Trade Negotiations will:

(1) Help move us toward our fundamental goals of freer markets, improved rules and regulations governing the conduct of trade, and a more efficient allocation of world resources for the benefit of producers and consumers alike;

(2) Provide a positive counter to the threat of a potentially hazardous slide into world protectionism; and

(3) Enable us to better meet the justifiable needs of the developing countries, while providing that they gradually assume equivalent responsibilities as their economic situation improves.

The negotiations are a vital element of our international economic policy. Upon the success of our efforts rests in large measure the nature of our future world trading system. I am confident that if we approach these negotiations with the aim of preserving and broadening the freedom of the private sector to conduct international transactions, with a minimum of government intervention, the future economic system will be one with which we can all live and from which we will all benefit. The freedom of the private sector to conduct international transactions, with a minimum of government intervention. The future economic system will be one with which we can all live and from which we will all benefit.

ANTIDUMPING AND COUNTERVAILING DUTY ACTIONS CALENDAR YEAR 1973-76

	1973	1974	1975
Antidumping:			
Petitions received	20	10	25
Negative decisions	9	2	4
Affirmative decisions	25	5	8
Injury or likelihood of injury	13	3	2
Discontinuances	5	3	0
Countervailing duty:			
Proceedings initiated	1	5	[1] 38
Negative decisions	0	1	[1] 10
Affirmative decisions	0	4	[1] 10
Terminations	0	0	[1] 15
Waivers	NA	NA	[1] 6

[1] 1975 figures include 1st week 1976.

Senator HARTKE. These hearings are recessed until 1:30.

[Whereupon, at 11:30 a.m. the committee adjourned, to reconvene at 1:30 p.m. on the same day.]

AFTERNOON SESSION

The CHAIRMAN. This hearing will come to order.

We are pleased to have with us Hon. Frederick Dent, Special Representative for Trade Negotiations and Hon James Baker, Under Secretary of Commerce. I suggest that each of them summarize their statement, and after that we will have some questions of the panel.

Mr. Secretary, you are sort of ex officio member of this committee by now. I am happy to see you back with us.

STATEMENT OF HON. FREDERICK DENT, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. DENT. Thank you, Mr. Chairman. It is a great pleasure to be here, and I certainly appreciate your warm welcome.

I welcome this first congressional inquiry, a year after enactment of the Trade Act of 1974, into its implementation.

This law has charted a new course for our Nation in the international trade field. Its sound composition has enabled us to get through a most challenging year successfully.

In response to your mandate we have created new advisory structures, reshaped bureaucratic procedures and practices, and successfully initiated the Geneva negotiations. I consider it to be a good start which we will be striving to perfect in the days ahead.

It is critically important that we arrive at sound decisions which for years to come will affect such vital factors as: The job security,

earnings, and economic well-being of millions of Americans, and the 4 billion other people around the globe; the competitive position of the United States in rapidly changing international markets; our access to supplies of essential commodities; and relationships among nations in an increasingly interdependent world.

In the Trade Act, the Congress directed that this important governmental decisionmaking process include the diverse interests which make up our economy, and thus be worthy of their support. In sum, this must be a process by which we can develop a truly national foreign trade policy, and a strong, coherent international negotiating position. These in turn, can gain us substantially equivalent competitive opportunities in a world market governed by fair rules of trade.

I wish to report that the administration has made substantial progress this past year in carrying out the intent of Congress expressed in the Trade Act. I also recognize that we are exploring new territory, and that we have a long way to go to fully achieve all its purposes. We are headed in the right direction, and I intend to share candidly with you both our progress and our challenges.

First, we have made a good beginning in the effort to broaden and make more representative our consultation process with the private sector, the Congress, and the public at large. We have actively functioning 46 advisory groups on which 764 individuals serve, representing all segments of the national economic interest, industry, agriculture, and labor at both the policy and sectoral levels.

We have met many times with our designated congressional advisers and staff on a regular as well as as-needed basis, both here and in Geneva, and also with other interested congressional members and staff. We have tried to keep them fully informed through both oral briefings and a sharing of pertinent documents. We are listening to their views and advice.

We have held extensive public hearings in Washington and throughout the country on many issues involved in the negotiations, and will be planning others.

We not only are considering carefully the advice we have received, but also are developing a system to assure that it will be readily at hand for use by our negotiators through the MTN.

Notwithstanding this successful launching of our advisory-consultation program, I am aware that some of our private sector advisers think that we are listening without giving any solid response. To overcome this, I have taken concrete steps to assure that our private advisers will get "feedback" from their advisory committee reports shortly.

We must also strive to perfect our communication and liaison with our congressional advisers and staff. We welcome your suggestions.

Second, we in the Office of the STR have made a vigorous effort to strengthen interagency trade policy coordination. At the Cabinet, sub-Cabinet, and senior professional staff levels, we have reorganized and revitalized interagency groups to balance and blend the views of interested departments—including the Departments of State, Treasury, Defense, Interior, Agriculture, Commerce and Labor. We also work closely with the President's Council on International Economic Policy and the East-West Foreign Trade Board, the Economic Policy Board, and the U.S. International Trade Commission.

Third, we have supported, through our trade policies, the growing competitiveness of our industrial as well as agricultural output, both at home and abroad. We recognize that the Trade Act maintains our commitment to open markets and expanded trade on the premise that the international trading system must be made fairer as well as freer.

Our trade policy has been reflected in the record of handling antidumping and countervailing duty investigations, escape clause and antidumping injury determinations, investigations of unfair trade practice claims under section 301 of the act, and worker and firm adjustment assistance determinations. We have tried to be even-handed, restrained but strong, in judging each case on its merits and balancing international considerations with our support of appropriate redress of justified grievances.

Wherever possible, we have attempted to negotiate mutually satisfactory resolution of these problems with our trading partners. A negotiated removal of the cause of the problem is infinitely preferable to dispute settlement in more abrasive ways. This approach helps the aggrieved party, without subjecting other U.S. domestic manufacturers to compensatory import concessions, and U.S. exports to new retaliatory barriers.

I believe the United States has been able to exercise the kind of leadership Congress envisioned in our international trade relations. President Ford, who actively supported passage of the Trade Act despite his reservations over several provisions, issued a strong Executive order to put its policies into practice, and has continued to play a key role in its implementation.

The President has used Trade Act authority to implement a practical, safeguarded generalized system of preferences for selected imports from eligible developing countries. This fulfills a pledge made by the past three Administrations to join the 22 other nations which have previously extended comparable treatment to LDC exports. Its purpose is to strengthen these nations' participation in the world trading system so that they may earn their way toward self-support.

At the economic summit at Rambouillet, President Ford led a reaffirmation by six leading industrial nations of their commitment to resist protectionist pressures. He also has raised our trade concerns with foreign heads of government in bilateral consultations.

We have been able to dispel widespread foreign suspicions of the American commitment to trade expansion, by effectively explaining and justifying to our trading partners the import relief and unfair trade practice safeguard provisions of the Trade Act, and by our fair application of these provisions to the numerous petitions and cases which have been filed under them.

We also have been able to effectively influence moderation on the part of other nations. Few new trade restrictions have been imposed abroad despite the impact of recession, unemployment and energy-related inflation.

As a result of these efforts, the trade relationships with our trading partners are on a sound footing. We have concerns of varying degree with some of them, but the trade discussions we have with them bilaterally as well as multilaterally are cordial, and marketed by mutual respect.

Let me turn now to where we are in the multilateral trade negotiations in Geneva.

We have made significant headway in the technical and analytical preparation for a number of nontariff barrier agreements, as well as tariff reductions. Other issues on the table are newer or more contentious and thus more difficult. Therefore, we are at different stages of progress in the resolution of different issues.

A few key issues should be highlighted:

One is the question of how to bring the developing countries more usefully, productively, and responsibly into the world trading system. To do this, we must not abandon GATT and start from scratch. We do need to find ways of making it for the benefit of developed, as well as less-developed world trade.

In the MTN, we have been forthcoming in exploring ways and means of according the developing countries treatment consonant with their development requirements. We are giving priority consideration to offers on tropical products of export interest to them and intend to discuss with them concessions in the nature of improvements in their import systems. This cooperative action has led to a constructive dialog because the developing countries recognize that their interests are being given meaningful consideration.

But we have yet to find a way to successfully negotiate a meshing of the aspirations of the developing nations with their trade responsibilities. This also involves the key issues of access to supplies as well as markets—in which the Congress expressed special interest in the Trade Act—but which is new to international negotiation and which we have not yet fully addressed.

One of the most important issues in the MTN is that of trade in agricultural products. We have been able to break a procedural impasse with the European Community, and have successfully established the work program for the year ahead. Basic differences remain, however, to be resolved. The Trade Act mandates that agricultural and industrial trade should be negotiated "in conjunction" with each other, and that tariff and nontariff agreement should apply to both, taking into account the "special characteristics" of agriculture noted in the 1973 Declaration of Tokyo.

The EC, on the other hand, holds that the expansion of agricultural trade should be negotiated separately.

We have yet to find the negotiating key to a better coordination of agricultural production and trade policies, worldwide, in the interests of consumers as well as producers. We are not trying to negotiate others' domestic policies; only the trade effects of those policies which unfairly disadvantage our domestic or export sales, or world food security. This, we recognize, is an evolutionary process.

In the area of East-West trade, we have yet to find a way to maximize our commercial opportunities, while at the same time preserving our humanitarian principles. The existing provisions of the Trade Act do not accomplish these objectives.

The MTN is at a preliminary stage in the consideration of some issues. These include, in addition to supply access, the question of the trade effects of indirect tax practices, the role of services in international trade, and the need for international rules to combat effectively unethical business practices which distort trade. All of these issues are of importance to the Congress.

Last month, the 90-nation plenary session of the MTN Trade Negotiations Committee in Geneva ratified a reasonable and at the same time expedited program of technical work involving many of our recommendations for the remainder of this year. The TNC also endorsed the target date of 1977 for completion of the negotiation of tariff and nontariff barrier agreements, including a number of proposed codes for the improvement of the international trading system.

Some have criticized the negotiations as moving too slowly. Others have questioned the need for any progress at all during the current world economic climate. Both of these extreme views are fallacious. Without faster progress on the vast amount of technical work which must be accomplished before we can get to the tough bargaining decisions, we would jeopardize the success of the MTN in reaching its ambitious and worthy objectives. On the other hand, it must be recognized that we could get these talks underway to a meaningful degree only last February, immediately following enactment of our trade law. Veterans of previous rounds of trade talks have privately expressed to me their surprise that we have been able to come as far as we have, compared to the pace of previous rounds.

Much remains to be done. For the rest of this year, we urge the following goals at the December TNC meeting:

(1) Agreements on tropical products in which developing countries have a priority interest; (2) Agreement on a formula for achieving a substantial reduction in tariffs; (3) A framework for dealing with the critically important issues of guidelines for the use of export subsidies and countervailing duties; (4) A draft product standards code to govern the procedures by which nations and groups for achieving meaningful liberalization of quantitative import restrictions; (6) Agreement on the basic concepts that should be covered by improved safeguard provisions; (7) A review and selection of sectors where complementary negotiations are feasible and will contribute to the goal of maximum achievable liberalization; (8) Parallel progress in achieving special and differential treatment for the developing countries in the various elements of the negotiations; and (9) Negotiating approaches to a number of issues which have not yet received adequate attention in our deliberations.

For example: Restraints affecting exports; a Government procurement code, currently being explored in the OECD; dispute settlement procedures, relevant to a number of negotiating issues before us; treatment of tax practices affecting trade flows; and development of a code of conduct to eliminate unethical practices that threaten distortion of trade.

Many of these suggestions were included in the chairman's summary, giving them endorsement in principle as a consensus of the TNC.

The U.S. statement before the December TNC meeting closed with a point which I think is equally pertinent to these hearings:

> Our challenge is to show our people that we can join together in a constructive and effective manner to deal with both the problems and the opportunities of international trade. We must convince our people that their best interests are served by a renewed liberalization and expansion of trade. When we win that public support, we also will have won greater productivity, better employment opportunities, and higher living standards for our people, in a more secure and peaceful world.

Thank you, Mr. Chairman. I would like to submit for the record a paper which elaborates in more detail on the STR responsibilities and activities referred to in my statement. Following Secretary Baker's statement, I will be pleased in joining him in responding to your questions.

The CHAIRMAN. Thank you very much, Mr. Secretary. I will ask that the paper be printed in the record.*

Now we will hear from Secretary Baker.

STATEMENT OF HON. JAMES A. BAKER, UNDER SECRETARY OF COMMERCE

Mr. BAKER. Thank you, Mr. Chairman. I welcome the opportunity to provide this statement to the committee in these oversight hearings. I plan to touch briefly on those aspects of the trade policy and the Trade Act of 1974 for which the Department of Commerce has special responsibility.

I might mention parenthetically that this oral statement is a summary of a more detailed, written statement, which we have submitted.

I think it might be useful at the outset to mention the principal export and import developments last year. Our trade position improved substantially in 1975. Exports continued to increase, while imports declined in value for the first time in 14 years. As a result we achieved a trade surplus in 1975 of $3.8 billion, based on imports valued CIF, compared to a $10.1 billion deficit in 1974.

Information about our trade performance and the underlying conditions which helped us achieve it are presented in more detail in the written statement which we have submitted.

I would like to turn now to those Commerce programs directly related to the topics being covered by these hearings. Commerce's export promotion activities are directly linked to our Government's efforts to obtain the removal or lowering of foreign trade barriers. Experience has shown that many U.S. firms are not aware of, and therefore do not take full advantage of new market potentials abroad, unless encouraged and assisted to do so. Very often this failure to exploit overseas market opportunities stems from a lack of knowledge as to why export business is worth pursuing, how to go about pursuing it, and where the opportunities are.

Commerce's export promotion programs are designed precisely to overcome these gaps in the exporter's knowledge and performance, and thereby to help translate export potentials and opportunities into hard export sales.

Another very important program which the Department of Commerce, jointly with the Office of the Special Trade Representative, carries out is the industry consultations program which was begun in mid-1973, a year and a half prior to the passage of the Trade Act. A series of meetings were held at that time with some 600 key business and industry leaders to discuss with them the Government's need for an input into the multilateral trade negotiations.

These meetings led to the establishment of 27 industry sector advisory committees, and one overall industry policy advisory committee. During 1975, there were around 100 ISAC meetings. In the first

*See p. 96.

2 months of this year some 30 committee meetings have been or will be held.

A work program was developed which resulted in the preparation by each committee of a comprehensive report for the guidance of U.S. negotiators. Since receipt of the reports, Commerce and STR have been studying, evaluating and cataloguing the wealth of information and advice they contain. Another full round of meetings with the sector advisory committees is scheduled for February 17 and 23 and with the policy advisory committee on February 25. The purpose of these meetings is to provide the committees with our preliminary reactions to the information and advice in their reports.

Let me turn now to the new program of trade adjustment assistance, authorized under title II of the Trade Act. This program, of course, makes it easier than under prior legislation for firms to qualify for financial and technical assistance, and also provides for the first time aid to trade-impacted communities.

Since the new program became operative in April of last year, responses have been made to more than 500 inquiries about trade adjustment assistance. Of the 35 petitions filed and accepted, 24 firms have been certified eligible to apply for adjustment assistance; one petition was denied; 5 were withdrawn before final determination; and 5 are currently under investigation.

The industries represented by petitioning firms include footwear, apparel and textiles, mushrooms, electronics, granite and marble, slide fasteners, leather, chemicals, textile machine parts, cutting dies, handbags, and livestock.

The Department to date has authorized adjustment assistance for four certified firms totaling $3.5 million. Several trade-impacted communities have expressed an interest in the program, but none have filed petitions for certification.

Given the increasing importance of our trade with the Socialist countries, a brief discussion of the make-up and work of the Joint Commercial Commissions that have been established with these countries might prove useful to the committee. These bilateral intergovernmental commissions at the Cabinet/Ministerial level serve as the primary vehicles for resolution of bilateral trade and economic issues which require governmental action between the United States and the U.S.S.R., Poland and Romania. The Secretary of Commerce currently chairs the commissions with Poland and Romania; and the Secretary of the Treasury chairs the commission with the U.S.S.R.

Currently, the principal unresolved problems in our commercial relations with U.S.S.R. center around U.S. legislative restrictions on extension of MNF treatment and on the availability of Eximbank facilities. These restrictions prevent bringing the 1972 trade agreement into force; they adversely affect the rate of growth of U.S.-U.S.S.R. trade in industrial goods, and hamper the rate of improvement in trade relations with the U.S.S.R. and some Eastern European countries.

The Department's long-standing responsibilities in the area of export controls also warrant mention. As you know, exports of most commercial goods and technology from the United States to other countries of the world are regulated by the Department of Commerce

under the authority of the Export Administration Act of 1969, as amended.

The United States has for many years participated with our NATO allies and Japan in an embargo on the export to the Soviet Union and other Communist countries of potentially strategic materials and goods, as well as unpublished technical data related to those commodities. Furthemore, the United States maintains some unilateral export controls over other commodities and technical data in the interest of meeting the national security objectives of the Export Administration Act. Exports are authorized only if the Department has determined that the proposed export would not be detrimental to our national security.

The Department of Commerce regularly consults with the Department of State, the Department of Defense, the Energy Research and Development Administration, and the CIA for information and advice on export control matters. Interagency policy differences that cannot be resolved by lower-level groups are referred to an Export Administration Review Board, which the Secretary of Commerce chairs and which includes the Secretaries of State and Defense.

In fulfilling its legislative mandate, the Department also controls quantitatively the export of commodities in short supply. Currently, the only commodities under short supply licensing are petroleum and petroleum energy products. However, we are currently monitoring exports of nitrogenous and phosphatic fertilizers and related chemicals.

The periodic recurrence of worldwide commodity shortages has added special significance to our short supply operations. I am confident that we can implement the necessary policies objectively, flexibly, and with the general national interest in mind, which of course includes our reliability as a stable source of supplies.

Under the Trade Act of 1974, the Department of Commerce plays an active role in the interagency process by which the U.S. International Trade Commission findings on import relief cases are reviewed and recommendations to the President are formulated. We are now involved in two such cases, fresh asparagus and specialty steels. Commerce has a like role in cases concerned with relief from unfair trade practices which have been the subject of complaints under section 301 of the act.

Mr. Chairman, I have two brief points, not covered in my written submission, that I believe are worth mention.

First: Trade is playing an increasingly important role in the U.S. economy. As recently as 1972, U.S. exports represented only 4.2 percent of the GNP. In the last 3 years exports as a share of GNP have grown to 7.1 percent. And when we look more narrowly at our exports as a share of our production of goods per se, we find that 14.5 percent of the goods produced in this country were exported in 1974, the latest year for which statistics are available. This, of course, translates into jobs for Americans and production for U.S. companies.

At the same time it is clear that we cannot rest on our laurels. The figures also show that in recent years U.S. productivity growth has lagged behind that of most other industrialized countries. If we want to maintain our favorable trade position, we must intensify and in-

crease our research and development efforts and productivity. This is essential, particularly as our economy becomes increasingly more dependent on our need to compete in the international marketplace.

My second point involves our political and economic relations with developing countries which have received quite a bit of press attention in recent weeks. From the standpoint of our trading relations, I find it interesting to note that $8.9 billion of last year's $11 billion surplus, on an FAS basis, resulted from our trade with non-oil-exporting developing countries. I don't have the figures on that translated into CIF, Mr. Chairman, but I am sure that it would be proportionally the same.

While this surplus was offset by an $8.8 billion trade deficit with the oil-exporting developing countries, our deficit with the latter countries was considerably greater, $12.4 billion, the year before.

In toto, our trade with both the oil and non-oil-exporting developing countries showed a net increase of $7 billion in 1975, over 1974. These are important markets to the United States now, but their potential will be even greater in the future. The internal markets of the developing countries should increase at a greater rate than those of the developed countries; this means that they will need capital goods from the developed countries.

To the extent that the United States can fill this need with American goods and services, it again means more American jobs and more American production. It is therefore important to assist these countries' orderly development from an economic, as well as a political, point of view.

During this morning's session Secretary Simon was asked about the procedures for technical data licensing to Eastern European countries and to the people of the Republic of China. Over the noon break we compiled a summary of these, and I would like to furnish this for the record, as was promised this morning.

For the period April 1 through September 30, 1975, the Department of Commerce approved 100 applications for export of unpublished and unclassified technical data to Eastern Europe and to the people of the Republic of China. This compares with 72 approvals in the previous 6-month period, and 82 in the second and third quarters of 1974. No applications were denied during this reporting period.

In addition, the Department approved seven licenses for the export of technical data to permit the filing of foreign patent applications, one for Czechoslovakia, three for Hungary, and three for the U.S.S.R.

Mr. Chairman, this concludes my statement, and I will be happy to answer such questions as the chairman might have.

The CHAIRMAN. Thank you very much. If you will accept my apologies, this is an afternoon session; the Senate is in session; and we don't have the attendance I would like to have. We will do better tomorrow morning. As you know, we have several Finance Committee bills on the Senate floor at the same time as we are conducting these hearings, that makes it difficult for all the members to hear your testimony, but I am sure they will all be made aware of the points you make.

First, let me ask you a question, Mr. Dent. I understand the important negotiations in Geneva this year will be in bilateral meetings

between the United States and individual countries. Will congressional delegates, designated committee staff have access to all these bilateral meetings?

Mr. DENT. Mr. Chairman, the regular negotiating sessions are going forward, and there will be, as necessary, bilateral discussions within the context of the MTN; there will also be bilateral discussions not related to the MTN, but to other trade matters. But, of course, on all matters that are dealt with, in the context of the MTN, we intend to consult with the appropriate staff members and committee members.

The CHAIRMAN. You know, of course the Trade Act, and the legislative history, the commitments by your predecessor, Mr. Eberle, made it clear that this oversight function will be honored by the executive.

Mr. DENT. We are certainly aware of it, and we believe have carried out not only the letter, but the spirit of it.

The CHAIRMAN. Mr. Secretary, I want to say, I appreciate your willingness to inform me and the committee regarding the problems that are developing, what has been happening, and also what seems to be in the prospect for the negotiations.

I really feel that there has been better communication on this trade effort than we have ever had—regardless of what the outcome is in other respects—than in any trade negotiations that have occurred while I have been a Member of the Senate, looking back for a period of 28 years. And I think that a lot of that is due, in large measure, to you personally, Mr. Dent, that you are devoting yourself to the job and your very dedicated assistants.

Mr. DENT. Well, Mr. Chairman, I might observe that the law is abundantly clear, what the Senate and the House wish in this area, and we intend to carry it out.

The CHAIRMAN. It seems the law contemplates cooperation, but it doesn't always seem to work out that way.

Now, we want our trade policy to put American traders on an equal opportunity basis with foreign traders; and your office is expected to do that.

I'm not questioning Secretary Kissinger going before the United Nations and making speeches committing this country to specific trade objectives for foreign policy reasons. Did, and does your office participate fully in the formulation of those objectives, and if so, why did you not check with our committee, and the Committee on Ways and Means before those statements were made?

Mr. DENT. Mr. Chairman, we do have an opportunity to consult on these. The U.N. speech was somewhat unique in that, first of all, it was moved up because of the religious holidays of some of the nations. Normally that would have been held late in September. It was moved up to September 1 rather late. And, of course, we were confronted with the problem of the August holiday.

I think that the concern that has been expressed has been given to us by way of a lesson, and we intend to be sure that despite these problems, in the future there is better communication.

The CHAIRMAN. Well, that speech was made by Mr. Moynihan on behalf of Secretary Kissinger. Senator Ribicoff and I were in Europe at that time, talking to some of our trading partners. And we had been

talking to your representative, Mr. Walker, and Mr. Walker was in a very difficult position. Right there in Geneva I was talking to people charged with setting up these negotiations and pursuing them, and it was clear to us—and I'm not seeking to put him on the spot, I'm reporting what I know—from what I observed it was clear to us that that speech had not been cleared with him. And yet, there is a man who is one of the key persons to implement these suggestions in that speech.

It has been my experience as chairman of this committee, that if I can make a fellow think something was his idea he will vote for it, and if that can be done, we have a lot better chance to move it along than if it looks like it is always the chairman's idea. It is my impression it is very ineffective to say, 'that is all my idea,' and I think the same thing would apply to anybody else.

If we are going to erect a monument on some of these ideas in the negotiations that they are American ideas, or name them after some American statesman, it generally cost us something.

We need to approach these things as a team. I, for one, have no complaint about your doing your job in that direction. Again, I really think you are giving us a fine example of leadership, cooperation, and teamwork.

Now, what is the relation between these negotiations and those in the United Nations, the OECD, and the UNCTAD, and the other multilateral forums where trade issues are discussed?

Mr. DENT. Our participation in interagency policy development in the U.N. trade matters is clear. The lead for the delegations, of course, belongs to the State Department, we do participate in the development of decisions.

As far as the OECD is concerned, there is a trade subcommittee. We jointly chair that with the State Department. When ad hoc committees are established relating to trade matters, we jointly chair that with them as well. We developed trade policy matters within our committee structure, as far as the OECD is concerned. With respect to UNCTAD, the same as the U.N. applies, we participate in policy development, and the lead is taken by the State Department.

The CHAIRMAN. Now, Mr. Secretary, I believe that some of the progress that we have made in trade negotiations has been an unqualified success. We have not had many. We started with what appeared to be controversial measures, and I hope we can continue to have that kind of success, working together, where we fully understand one another, and where the Congress supports the executive branch in achieving something that is good for the world, and also good for America.

Now, we on the Finance Committee, probably more than others insist that you look at economics, to determine if something is a good deal. I am sure you, as a businessman, know how frustrated a businessman can feel when someone reports to them that politically we had to do something, but from the economics point of view it wasn't a good deal. I am sure you are familiar with their frustration.

Mr. DENT. Very familiar.

The CHAIRMAN. Now, with regard to the subsidy code which the United States has proposed in Geneva, is it true that the DISC would

be a prohibited subsidy under your proposal, and what would be the treatment of the added tax rebate and restitution payments?

Mr. DENT. Well, first of all, what we have submitted in Geneva is a concept out of which we hope, through consultations with our trading partners, to develop a specific code under which certain procedures would be prohibited, others would be subject to circumstances, and third, a category that would be totally unrestricted.

Now, as far as the remission of taxes are concerned, that is an issue that we have notified them we wish to discuss. We will try to determine under which of these categories, and the forum in which this issue should be resolved.

As far as DISC is concerned, of course we do not intend to give this away. If we can get in return equal, or perhaps a little more payment than it is worth to us, we will consult with you about it; but there is no idea of eliminating this straight out.

The CHAIRMAN. I detect a rising sentiment in favor of the DISC here in Congress. The business community is making greater efforts to inform legislators, particularly Senators, what the DISC is all about and how it is affecting their business. When we first started, it was not understood in many cases, even by those who were the prospective beneficiaries. But I find there is rising support among business people who put it in operation, and they find it helps them to expand trade.

I hope we won't give this advantage away without getting a quid pro quo which justifies it.

Now, it surprised me, to learn how much corporation income tax was actually paid by the companies, and how much, in the last analysis, is being passed on to the consumer of the product. More than half of that corporation income tax was being paid by the consumer, by any standard. Now, everybody I talked to seemed to think at least 50 percent of corporation income tax was being paid by consumers, rather than by the company; and some thought it ought to be 75 percent.

It seems to me so much of our taxes are being paid without any remission, we ought to try to find some way that puts our people on the same basis as all the others. Wherever they get full credit for the taxes they are paying, if the other fellow gets a remission of his taxes.

I would just hope, Mr. Secretary, that you people would start finding a way to work for equality in tax treatment among nations; anything short of that works out to a distortion of the trade pattern, does it not?

Mr. DENT. Yes, and we certainly are working on it. You mention the DISC being an advantage. I don't know whether it is an advantage, or somewhat of an equalizer. As I indicated, remissions go as high as 33 percent. The effect of DISC is woefully inadequate when compared to a remission of that sort. We have a task force working on this diligently, and we have discussed it with our trading partners; and we are going to do our very best to get this straightened out in an equitable way.

The CHAIRMAN. Can you give us some idea of what kind of an injury test you are proposing to include in the countervailing duty code?

Mr. DENT. We don't have any injury test developed, or put on the table, even. We would not put forward an injury test. That is something we would expect our negotiating partners to insist upon because

that is why they are currently so antagonistic toward our countervailing duty law. So, we will not propose, we will listen and consult if we hear anything.

The CHAIRMAN. Well, we hope you will profit by the experience—sad though it may have been for some of your predecessors with the international antidumping code. We sent somebody over to find out what they were doing, and told them we were going to turn it down. And then they proceeded to stake this Nation's good faith on delivering something that the Congress had committed itself on, I know this committee committed itself, to defeating. The result is that we still have people complaining that the United States through our Executive made a commitment that was not fulfilled.

Now, are they still embarrassing you about that, saying they have a right to expect us to deliver on the antidumping code?

Mr. DENT. I think the complaint that I have heard is that the United States takes advantage of the grandfather clause, and when this was put in they didn't think grandfather would live this long; and they hope to get it resolved.

Our standard view is as long as subsidies are not used, there is no need to depend on grandfather. And, if we can resolve both sides of this issue, that is the equitable way to deal with it.

The CHAIRMAN. Now, on January 1 the United States granted duty-free treatment to certain products of less developed countries. What U.S. trade effects do you expect, and what has been the reaction of the less developed countries?

Mr. DENT. As far as the less developed countries are concerned, in Geneva, at the Trade Negotiating Committee meeting in December, there were a number of favorable comments made concerning the U.S. program.

There were, however, at the same time some criticisms leveled on the basis of it being discriminatory that we did not grant it to OPEC nations; and that is what they referred to.

As far as the effect on our trade is concerned, the coverage of the 2,734 items from these developed countries last year totaled $2.6 billion. In those items of trade, however, there was $25 billion of imports from all countries. We see increasing export to our country from the developing countries, which would give them an opportunity to put themselves on a self-sustaining basis. The last year they suffered about a $30 billion trade deficit, and in effect, they are going to be on welfare, or they are going to have to learn to earn their way. This system will encourage them.

The CHAIRMAN. Now, in light of the recession of the United States and other major trading partners, do you believe that the 1977 goals for interim concrete results in Geneva were realistic?

Mr. DENT. Yes, sir. I think it's not only realistic, but essential, when you look at it from two viewpoints. First of all, the world today, no nation excluded, is under tremendous protectionist pressures due to inflation and unemployment. There are grievances being brought to bear as to our trade complaint system in this country, and one way to assure these people of equity is to point out that there are negotiations under way to perfect a system under which we operate, to resolve their problems.

On the other hand, from the positive viewpoint, these talks which started in 1973 have to come to a fruition within a reasonable time in order to prove their validity. So, I think that 1977 is realistic. With the political commitment of all concerned we can come to a successful negotiation conclusion by the end of that year.

The CHAIRMAN. In light of the administration's opposition to recent protectionist measures taken by the United Kingdom and other European countries, how do you believe the President should act where the U.S. domestic industry, such as specialty steel, is injured?

Mr. DENT. I think that the President must review the U.S. law and determine how it applies in each one of these cases, and evaulate that in the light of our international obligations to see that the two actions are consonant. And, of course, we have an obligation to consult with our trading partners so that there is a full understanding of what we are doing and why.

At Rambouillet he indicated opposition to protectionist actions except in unique and acute situations. I think that is his basic thrust. But all of these must be evaluated in the light of domestic law and current circumstances.

The CHAIRMAN. The Tokyo Declaration called for a sectoral negotiation as a "complementary negotiating technique". However, the executive branch's policy seemed to be less favorable to such negotiations. In your view, what is the nature of a sector negotiation?

Mr. DENT. The nature of a sector negotiation is to isolate the specific industrial sectors in particular, to be negotiated separately from a broad tariff formula. Foreigners look upon it as a way of expanding the liberal approach in that particular area of trade. We have tried to initiate and move these forward, and have been successful in getting coverage for the specific sectors delineated in the Trade Act. We are finding resistence on the part of trading partners because they wish to address the broad negotiating approach first, and as we identify unique opportunities, then to move forward on a sectoral basis in that area.

The CHAIRMAN. Now I would like to ask Mr. Baker of the Commerce Department some questions. We are told, one day that we have an $11.1 billion trade surplus: and then you tell us here in the Finance Committee it is only $3.8 billion.

As I explained this morning, it is my judgment and I think the judgment of the others that even that figure is not correct. There is only a surplus of $1.9 billion if you leave off the foreign aid program in the exports.

Now, the Trade Act calls for use of the CIF data in these trade negotiations. It took us years to get the Department to even collect these CIF statistics.

Now, I would like to ask, why does the Department continue to emphasize the FOB approach to the public and the trade advisory body?

Mr. BAKER. Mr. Chairman, since I have been with the Department, it has been my experience that we have been emphasizing the CIF. Let me assure you that we are sold on the CIF approach. As you point out, we only have figures on a CIF basis going back to 1974. On the other hand, I don't think that the press is sold on the CIF basis, and that is why we see FAS figures reported in the press.

You may be suggesting that we should not report at all on FAS figures. Our problem with that is that we think we have to have a period of time to build up a body of data on the CIF before we can make the necessary comparisons. We would further, I am told, have to change the whole basis for our statistical analysis of the balance of payments data if we totally discarded FAS. But we are, I hope, trying to highlight the CIF figures.

The CHAIRMAN: What that makes me think of is the difference between football and baseball. Baseball is about to go broke, while football keeps generating bigger crowds every year and making more money. I think the principal difference between football and baseball is, every year in football they change their rules to make a better game; and in baseball they say, "Well, if we change the rules, we mess up the record book. We won't have a valid way to compare Babe Ruth's hitting record to somebody else's record." But they have changed the rules anyhow, they increased the size of the strike zone, and they have made only a few changes. Frankly, it's a miracle they haven't gone broke, making so few changes. Now-a-days professional baseball is not a game being played for the enjoyment of the players, it is being played as a sacrifice for money, and for the entertainment of the spectators.

Now, the analogy here, it seems to me, is, we have a whole system of collecting tariffs—founded upon an obscure part of the constitutional law—that we will not discriminate between ports. If you are not going to discriminate, then you are going to have to have some way of collecting your tariffs, and the tariff will be the same, regardless of what port.

Now, from that, as I understand it, came our system for collecting our tariffs; and the easiest way to get the figures is to see how much was paid in tariffs, and that is how much these tariffs are worth in foreign values.

But, that is not what we paid for. Any businessman knows what you paid for something includes the freight.

Mr. BAKER. Yes, sir.

The CHAIRMAN. And if you are a businessman and you are not taking the freight into consideration in the price of your product, you are going to go broke just like my friend went out of the airplane business because he never heard about depreciation.

Now, it seems to me we should not have our Secretary over there—I call him Secretary because I want to make his job Secretary of Trade, rather than Special Representative for Trade Negotiations. I want to make sure we weren't demoting him when he moved from Secretary of Commerce to be Special Trade Representative. We gave him a very important job. And we wouldn't have the former Secretary of Commerce, and now Special Trade Representative being confronted by these foreign diplomats with these good news announcements who think America is making all this money and has a tremendous surplus and say "Why do you people want a big cut from us and refuse to make this concession. If you keep this up, you will have a monopoly in the world."

I just think it's not good for the country to give that misleading impression of an $11 billion trade surplus. And that is what your Department is doing, Mr. Baker.

Mr. BAKER. That's right.

The CHAIRMAN. It seems to me that if you publish statistics in such a way, you confuse things.

Mr. BAKER. I think we agree generally with you, Mr. Chairman. It's a question of how quickly we can phase it in. I certainly agree with regard to Fred Dent's selling job if he has to start with the claim of an $11 billion trade surplus.

The CHAIRMAN. And you can't blame the other fellow for using everything he has available to him, trying to win his case. And that is the case when he says, "Well, here is what the United States is telling their own people, don't listen to what they tell you. They are telling their own people they had an $11 billion trade surplus this year." I think they can make our life difficult for us.

Now, the Commerce Department has the responsibility for issuing licenses for the export of technology to Communist countries. How is that decision to grant a license made, and are the U.S. technology export controls effective?

Mr. BAKER. Yes, sir, we think they are. Decisions to grant licenses are made according to established policy guidelines or after interagency consultation. We have a committee at the Assistant Secretary level. When a particular question is examined by the staff and a disagreement develops, it then comes up to a committee at the Assistant Secretary level. Represented on that committee are the Departments of Commerce, State, and Defense and other concerned agencies.

If the matter cannot be resolved at that level, then it is moved up to the Export Administration Review Board, which is chaired by the Secretary of Commerce, and on which sit the Secretaries of State and Defense. Other concerned agencies are invited to participate.

It is our feeling that these procedures are adequate, that they take into consideration national security. They also take into consideration our foreign policy objectives, and our short supply obligations under the Export Administration Act.

The CHAIRMAN. Now, the United States has shown itself vulnerable to unilateral oil pricing. Is there a possibility for a similar occurrence in a commodity that the U.S. defense relies on heavily; for example, is it likely the same thing might happen to us on chromium next?

Mr. BAKER. I think it is entirely possible, Mr. Chairman, that it might happen to us on a commodity like chromium. I can't right offhand think of anything else.

The CHAIRMAN. Well, thank you very much, Mr. Baker.

Secretary Dent, I have some questions here by Senator Dole, and if I may, I will supply these to you for the record, you might be able to answer these questions for us before you leave here today; otherwise, we would like to have them within the next 24 hours, if you could.

I would like to reserve the right for Senators that could not be with us today for the afternoon session to submit questions to you for the record, and I will ask the record include your answers, as well as the questions.*

Thank you very much.

Mr. DENT. Thank you, Mr. Chairman.

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* See appendix B.

Mr. BAKER. Thank you very much.

The CHAIRMAN. The meeting is adjourned until 9:30, again, tomorrow.

[The prepared statement of Mr. Baker and a report submitted by Mr. Dent follow:]

STATEMENT OF THE UNDER SECRETARY OF COMMERCE, JAMES A. BAKER III

Mr. Chairman and Members of the Committee: I welcome the opportunity to provide this Statement to the Committee in connection with its oversight hearings on U.S. foreign trade policies, the administration of the Trade Act of 1974, and the progress of the multilateral trade negotiations in Geneva. My testimony is limited, for the most part, to those aspects of trade policy and the Trade Act for which Commerce has special responsibilities. However, before going into those specific areas. I think it may be useful at the outset of these hearings to summarize for you the principal export and import developments last year which resulted in a significant turnaround in the U.S. trade account.

U.S. FOREIGN TRADE DEVELOPMENTS IN 1975

The year 1975 was one of substantial improvement in the U.S. trade position. Exports continued to increase, while imports declined in value for the first time in fourteen years. These diverse movements produced a dramatic shift to a large trade surplus from the deficit recorded in 1974 and earlier years. The trade surplus in 1975 was $3.8 billion, based on imports valued c.i.f., compared to a $10.1 billion deficit in the preceding year. Moreover, it marked the first time since 1967 that exports exceeded c.i.f. imports by a sizable margin. When imports like exports are measured on an f.a.s. basis, last year's surplus amounts to $11.1 billion, the highest positive trade balance in our history.

While exports, excluding military grant-aid, totaled $107.2 billion in 1975, a 9.5% increase over the previous year's level, this expansion represented a considerable slowdown from the 41% average annual growth in 1973 and 1974. Included in these exports were an estimated $1.9 billion in shipments of U.S. merchandise financed by Agency for International Development and Public Law 480 grants or concessional loans. Imports, valued c.i.f., fell by 4.2% from their 1974 level to $103.4 billion. On an f.a.s. value basis, the import total was $96.1 billion.

The slower rate of export growth last year and the decline in imports were consequences of the severe worldwide recession which began about mid-1974. The recession depressed foreign demand for U.S. products and sharply curtailed our purchases from other countries. Because the recession in this country was more severe than the business downturn in most other major industrial countries, imports fell more than exports. This reduction in imports was the principal reason for the large improvement in the U.S. trade position last year.

The prevailing economic climate abroad generally depressed our exports. Nevertheless, several positive factors helped produce a continuing growth in exports.

U.S. exports normally include a high proportion of machinery and other capital goods. These goods are somewhat less responsive than our major imports to business cycle fluctuations as they often require a long-lead time between the placement of orders and actual delivery. Since domestic demand for these goods was sluggish last year, U.S. manufacturers were able to reduce backlogs on foreign orders which had built up when economic conditions were more favorable abroad.

Sales to the oil-producing countries also climbed steeply. The enormous increase in these countries' oil revenues has enabled them to step up rapidly their purchases of U.S. products in connection with expanding programs for economic and social development. While these countries as a group accounted for only 12% of total U.S. exports last year, they accounted for one-half of the overall increase in exports. Finally, exports continue to benefit from the depreciation since 1971 of the U.S. dollar in relation to most other industrial countries' currencies. Even though the dollar strengthened gradually throughout 1975, U.S. goods remained more price competitive in world markets than they were prior to the currency shifts.

The sharp drop in U.S. economic activity in the first half of 1975 was reflected particularly in reduced demand throughout the year for imported consumer goods and industrial supplies. Imports of many of these products are particularly sensitive to cyclical declines and inventory decumulation. Since the two types of goods constitute the major share of our foreign purchases, imports respond more closely to business downturns than exports. Imports were also held down to some extent by the higher prices on foreign products which stemmed from currency appreciations and high rates of inflation abroad.

The effects of the worldwide recession on our foreign trade are more apparent when exports and imports are measured in constant (1967) dollars. In quantity terms, exports declined in 1975 compared with 1974 by an estimated 3%, while the import drop was 12%. Although prices of both exports and imports continued to rise last year, the increases were much less steep than in 1974.

All of the U.S. export growth in 1975 stemmed from nonagricultural products, mainly manufactured goods, which climbed by 12%. Machinery sales were in the forefront of the expansion despite the unfavorable investment climate abroad. Deliveries of machinery to the OPEC and other oil-producing countries were particularly buoyant, with gains noted in oil-drilling, construction, and materials handling equipment.

Exports of motor vehicles and parts continued to expand last year. The gradual improvement in the North American auto market boosted our exports to U.S. subsidiaries in Canada, and demand remained strong in other countries, particularly for trucks. Civilian aircraft sales, on the other hand, which had contributed heavily to the growth of U.S. exports in prior years, showed little change in 1975.

As a result of the foreign business slump, exports of a number of industrial materials leveled off or declined. Among these were chemicals, nonferrous metals, paper, and steel. Coal exports were an exception as the value of these shipments climbed steeply, primarily because of higher prices.

After expanding strongly since 1971, exports of agricultural products leveled off last year because of weaker foreign demand for soybeans, oilcake, and cotton. This offset increases in grain sales.

On the import side, petroleum purchases edged up in value, but all other broad categories of imports declined. The increase in petroleum arrivals was only marginal, however, in contrast to the huge jump in 1974. The slightly higher value reflected a small increase in the average price, while the quantity of petroleum imports fell for the second consecutive year. Imports of industrial supplies other than petroleum declined substantially as the slump in economic activity curtailed U.S. demand for nonferrous metals, steel, textiles, lumber, and chemicals.

The sluggishness in U.S. consumer spending, particularly for durables, was clearly reflected in the sharp drop in consumer goods imports. Autos received from Western Europe and Japan, and home electrical products, such as radios and TV sets, showed the biggest declines. Almost all of the major food import products also fell in value, particularly meat, fish, and sugar.

I would like to turn now to those Commerce programs directly related to the topics being covered by these hearings.

EXPORT PROMOTION

Commerce's export promotion efforts are inextricably linked to the removal or lowering of foreign trade barriers which improve U.S. access to foreign markets and provide new export opportunities for U.S. producers. Experience has shown that many U.S. firms are not aware of, and therefore do not exploit, new market potentials abroad unless encouraged and assisted to do so. This is the case even when they have competitive products to offer. Very often, this failure to exploit overseas market opportunities stems from a lack of knowledge about it, where the opportunities are, and what types of promotional assistance and services are available for use.

Commerce's export promotion programs are designed precisely to overcome these gaps in exporter knowledge and performance, and thereby to help translate export potentials and opportunities into hard export sales. They do so by:

Stimulating a greater awareness of the benefits of exporting;

Providing counseling and information on how and where to export;

Alerting U.S. firms to specific trade leads abroad;

Assisting U.S. firms to identify and contact potential overseas agents, distributors and buyers and to establish effective representation in foreign markets;

Providing ad hoc assistance to U.S. firms requesting help in competing for specific contracts; and

Stimulating foreign awareness of the range of competitive products available from the United States, and assisting foreign buyers and distributors to identify and contact prospective U.S. suppliers.

Continuation of these programs, together with the DISC incentive, adequate export financing, and the maintenance of a realistic exchange rate for the dollar, help ensure that new export opportunities resulting from trade negotiations will be taken advantage of by American firms rather than foreign suppliers.

INDUSTRY ADVISORY COMMITTEE PROGRAM

Another very important program which the Department of Commerce, jointly with the Office of the Special Trade Representative, carries out is the Industry Consultations Program which was begun in mid-1973, a year and a half prior to passage of the Trade Act. A series of meetings were held at that time with some 600 key business and industry leaders to discuss with them the Government's need for an effective advisory mechanism to obtain industry's input into the multilateral trade negotiations. Their views were solicited on how best to structure a mechanism, what its functions should be, and who should participate.

These meetings led to the establishment of 27 Industry Sector Advisory Committees (ISACs) and one overall Industry Policy Advisory Committee (IPAC). All but one of these committees was established and chartered in early 1974. Their membership totals over 500, averaging about 18 per committee. During 1975, there were around 100 ISAC meetings; each committee met at least 3 times and some as often as 6 times. The IPAC met three times during this period. In the first two months of this year, some 30 committee meetings have been or will be held.

In consultation with the committees a work program was developed which resulted in the preparation by each committee of a comprehensive report for the guidance of U.S. negotiators. These reports are intended to provide U.S. negotiators basic background data relating to each industry, an analysis of their trade related problems, and detailed advice on how the negotiators should deal with the various issues being negotiated, such as U.S. and foreign tariff and nontariff barriers.

Since receipt last summer and fall of the reports, which total about 4500 pages of material, Commerce and STR have been studying, evaluating and cataloguing the wealth of information and advice they contain in order to: (1) maximize their usefulness to the process of formulating U.S. negotiating positions and strategies, and (2) provide the committees our preliminary reaction to their reports with a view to obtaining additional information and advice that would make the reports more useful to U.S. negotiators.

The reports were also reviewed and discussed in October by the Industry Policy Advisory Committee. A summary of the recommendations of each report was presented to the Policy Advisory Committee by the Sector Advisory Committee Chairmen or their alternates. The presentations and the questions and answers which followed provided U.S. officials with an overview of industry's views and objectives in the negotiations.

The Industry Sector Advisory Committees have been briefed at each meeting on the progress of negotiations in Geneva. Special meetings have also been convened to discuss specific issues such as draft codes on subsidies and standards, and sector studies prepared by the GATT Secretariat. This informational flow to the committee has been supplemented by monthly mailouts of Commerce's MTN News, and STR's advisory reports, which provide a continuous flow of information as to what is going on in the Geneva negotiations. Classified reports on the results of Geneva meetings and other matters such as the texts of draft codes under discussion are also available to committee members.

Another full round of meetings with the Sector Advisory Committees is scheduled for February 17 through 23, 1976, and with the Policy Advisory Committee on February 25, to provide them, *inter alia*, our preliminary reaction to the information and advice in their reports. We intend also at this series of meetings to begin the process of "fine tuning" the reports by asking the committees to clarify and refine them. Additionally, we will be discussing with them specific

upcoming issues such as possible tariff-cutting formulas and the tropical products negotiations. We will also outline our ideas and solicit theirs on how best to factor their inputs into the 1976 MTN work program.

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS AND COMMUNITIES

I would like to turn next to the new program of trade adjustment assistance authorized under Title II of the Trade Act of 1974 which became effective on April 3, 1975. As you know, the program makes it easier than under previous legislation for firms to qualify for financial and technical assistance, and it also provides aid for the first time to trade-impacted communities. The new program is now being administered by Commerce's Economic Development Administration.

Since the new program became operative, responses have been made to more than 500 inquiries about trade adjustment assistance from individuals interested either in the firm or community programs. Under the firm program, 50 petitions have been received, of which 35 were complete enough to be accepted for investigation and processing and 15 were returned with explanations as to the deficiencies which should be corrected before they could be accepted. Of the 35 petitions filed, and accepted, 24 firms have been certified eligible to apply for adjustment assistance, one petition was denied, five were withdrawn before final determination, and five are currently under investigation. The industries represented by petitioning firms include footwear, apparel and textiles, mushrooms, electronics, granite and marble, slide fasteners, leather, chemicals, textile machine parts, cutting dies, handbags and cattle.

The Department to date has authorized adjustment assistance for four certified firms totaling $3.5 million, including $3,050,000 in direct loans and $450,000 in guaranteed loans. Employment in the four companies whose proposals were approved currently amounts to approximately 630 persons and is projected to increase by 225 additional jobs when the recovery plans of the firms are fully implemented.

In addition, the Department is reviewing the tentative economic recovery plans and negotiating the terms for providing adjustment assistance for six additional firms which had been certified eligible to apply for assistance, including three footwear firms, a producer of children's sweaters, a maker of men's apparel, and a producer of consumer electronic products.

For communities, the Trade Act authorizes both financial and technical assistance essentially similar to that available under the public works, business development and economic adjustment, and technical assistance programs administered by the Economic Development Administration pursuant to the Public Works and Economic Development Act of 1965, as amended. Several trade-impacted communities expressed an interest in the program authorized by the Trade Act, but none filed petitions for certification, possibly because the requirements for establishing eligibility for assistance are easier under the Public Works and Economic Development Act.

JOINT COMMERCIAL COMMISSIONS WITH SOCIALIST COUNTRIES

Given the increasing importance of our trade with the Socialist countries, a brief discussion of the make-up and work of the Joint Commercial Commissions that have been established with these countries may be useful to the Committee. These bilateral intergovernmental commissions at the Cabinet/Ministerial level serve as the primary vehicles for resolution of bilateral trade and economic issues which require governmental action between the U.S. and the U.S.S.R., Poland and Romania. The commissions with the Soviet Union and Poland were established during President Nixon's visits to these countries in May and June 1972; the Romanian during President Ceausescu's visit to the U.S. in December 1973.

The chairman of the U.S. side for each commission is designated by the President. The Secretary of Commerce currently chairs the commissions with Poland and Romania. The Secretary of the Treasury currently chairs the Soviet Commission. The Secretary of Commerce is Vice-Chairman. Commerce, State and Treasury provide the principal staff support for these commissions. All three commissions have played a useful role in the resolution of bilateral trade and economic issues and in improving many promotional aspects of trading arrangements.

The commissions meet annually, alternatively in Washington and the other capitals. Last sessions held are as follows:

Joint commission	Last session	Next session
Joint United States-U.S.S.R.	Apr. 10–11, 1975, 5th sess., Moscow	1976 (spring) 6th sess., Washington.
Joint American-Romanian Economic Commission.	Nov. 3–4, 1975, 2d sess., Moscow	1976 (spring-summer) 3d sess., Bucharest.
Joint American-Polish Trade Commission	Oct. 6–8, 1975, 5th sess., Warsaw	1976 (summer-fall) 6th sess., Washington.

Specific dates for the next sessions of these Commissions have not yet been set.

Working groups have met between commission sessions as necessary to consider particular problems, such as business facilitation or dumping problems.

Currently, the principal unresolved problems in our commercial relations with the U.S.S.R. center around U.S. legislative restrictions on extension of MFN treatment and on the availability of Eximbank facilities. These restrictions prevent bringing the 1972 Trade Agreement into force, adversely affect the rate of U.S.-U.S.S.R. trade growth in industrial goods, and hamper the rate of improvement in trade relations with the U.S.S.R. and some Eastern European countries. Joint ventures and continuing efforts on business facilitation are prime topics for further exploration with Poland and Romania. With each of these countries there is the need for constant oversight of trading developments and implementation of past agreements as well as resolution of new issues as they arise.

EXPORT CONTROL

Finally, the Department's long standing responsibilities in the area of export controls warrant mention. As you know, exports of most commercial goods and technology from the U.S. to other countries of the world are regulated by the Department of Commerce under the authority of the Export Administration Act of 1969, as amended. The act authorizes the imposition of restrictions on exports to the extent necessary to carry out three basic purposes:

a. the protection of the domestic economy from the excessive drain of scarce materials and the reduction of the serious inflationary impact of foreign demand;

b. the furtherance of U.S. foreign policy;

c. the exercise of the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

In accordance with this mandate, the Department, through its Office of Export Administration, administers a set of regulations that provide for control over goods and unpublished technical data and the use of U.S.-origin parts and components in the production of foreign end products intended for export to the socialist countries. The regulations specify licensing requirements for the commodities under the jurisdiction of the Department according to the various countries of destination.

The United States has for many years participated with our NATO allies and Japan in an embargo on the export to the Soviet Union and other Communist countries of potentially strategic materials and goods, as well as unpublished technical data related to those commodities. Furthermore, the U.S. maintains some unilateral export controls over other commodities and technical data in the interest of meeting the national security objectives of the Export Administration Act. Exports are authorized only if the Department has determined that the proposed export would not be detrimental to our national security. The Department is obliged by the Export Administration Act to consult broadly on such matters and also specifically to give the Secretary of Defense an opportunity to review any proposed export of goods or technology to the Soviet Union and other Communist countries. He is specifically charged with determining whether such exports will significantly increase the military capability of the country in question. If his determination is affirmative, he is obliged to recommend to the President that such export be disapproved.

In addition to these consultations with the Department of Defense, the Department of Commerce regularly consults with the Department of State, the Energy Research and Development Administration, and the CIA for information and advice on export control matters. Interagency policy differences that cannot be resolved by lower level groups are referred to an Export Administration Review

Board, which the Secretary of Commerce chairs and which includes the Secretaries of State and Defense. Other cabinet members may be included in the deliberations as appropriate.

SHORT SUPPLY CONTROLS

In fulfilling its legislative mandate, the Department also controls quantitatively the export of commodities in short supply. These controls generally apply to all countries, including Canada, and the quantity available for export is distributed as equitably as possible among exporters and countries of destination, primarily according to their participation during a specified past period of normal trade. Under a recent amendment to the Act, a portion of each quota is reserved for exporters without a past history. Currently, the only commodities under short supply licensing are petroleum and petroleum energy products. However, we are currently monitoring exports of nitrogenous and phosphatic fertilizers and related chemicals.

We also review export trend and price developments for a number of other commodities in relatively tight supply to determine whether the volume of exports in relation to domestic supply is such as to contribute to a potential shortage or price increase.

The continuing development of worldwide commodity shortages has added special significance to our short supply operations. I am confident that we can implement the necessary policies objectively, flexibly and with the general national interest as our principal guideline.

Mr. Chairman, this concludes my prepared statement. If you or any member of the Committee would like additional information on these or other matters relating to these hearings, I will be happy to provide it for the record.

REPORT ON STR STEWARDSHIP OF RESPONSIBILITIES AND ACTIVITIES UNDER THE TRADE ACT OF 1974

INTRODUCTION

STR has been assigned a key role in the implementation of the Trade Act of 1974, a major concern of the Senate Finance Committee in its trade oversight hearings, January 29–February 6, 1976. STR's responsibilities are spelled out both in the Act, (Section 141 and elsewhere), and in Executive Order #11846, of March 27, 1975.

This report was prepared for the Finance Committee hearings. It is not intended to duplicate or substitute for the several regular Congressional reporting requirements of STR under the Act, the Executive Order or other undertakings by STR to keep designated Congressional advisers to the Multilateral Trade Negotiations (MTN) fully informed.

PUBLIC, PRIVATE AND CONGRESSIONAL ADVICE, COMMUNICATION AND LIAISON

One of STR's key responsibilities under the Act is the initiation and management of a broad program designed to involve the private sectors and the Congress directly and meaningfully into the process of developing trade policy, trade decisions and actions, and trade negotiating positions.

Apart from USITC hearings, an interagency panel, the Trade Policy Staff Committee (TPSC) chaired by STR, held public hearings from June 3 through August 8, 1975, on all matters relevant to the MTN, including tariff and non-tariff barrier concessions the U.S. should seek as well as those it might offer, and also on the Generalized System of Preferences (GSP).

Public hearings were held in Washington by the TPSC on September 16 and 17, 1975, on export subsidies and countervailing duties; quotas and import licensing schemes; standards; and customs matters.

Further public hearings on these and other issues are contemplated, as required under Section 133 of the Act and as otherwise found necessary or desirable.

Finally, the President's Advisory Committee on Trade Negotiations, (ACTN), established under Section 135 of the Act, is the part of the private sector advisory process aimed at developing a broad policy overview in the overall national interest. Its 45 members are representative of the totality of American interests

which make up the "public interest"—for example, producers, consumers, workers, retailers, service industries and academicians.

Forty-three of the ACTN members have been appointed by the President and at an initial meeting on January 8, 1976, Vice-President Rockefeller administered their oath of office and President Ford met with them to outline his views of the group's critical task.

At the next meeting scheduled for March 3, the ACTN will be getting into such substantive MTN issues as a tariff reduction formula, tropical product negotiations, trade effects of border taxes, and special treatment for developing countries.

In addition to public hearings and the ACTN, STR maintains an "open door" policy of responsiveness to the views and concerns of any citizen with an interest in the MTN or the management of domestic regulation of foreign trade. The STR's Office publishes press releases, notices of actions, and responds to a very large volume of mail, telephone and personal inquiries from interested parties.

Jointly with the Secretary of Commerce, STR began the organization of industry consultations in mid-1973. An overall Industry Policy Advisory Committee (IPAC), and 27 Industry Sector Advisory Committees (ISACs) were set up. All but one (Retail ISAC) of these committees were established and chartered in early 1974. Their membership totals more than 500, averaging about 18 per panel. During 1975, the ISACs met 76 times; each committee at least three times, and some as frequently as six. The IPAC met three times during this period. In the first two months of this year, 30 committee meetings have been held or are scheduled.

In consultation with the committees, a work program was developed which resulted in the preparation by each committee of a comprehensive report for the guidance of U.S. negotiators. These reports are intended to provide basic background data relating to each industry sector, an analysis of trade-related problems and detailed advice on how to deal with the various issues being negotiated, including both U.S. and foreign tariff and non-tariff barriers.

Since receipt last summer and fall of these reports, which total about 4,500 pages of material and charts, STR and the Commerce Department have been studying, evaluating and cataloging the information and advice, they contain in order to: (1) maximize their usefulness in the formulation of U.S. negotiating positions and strategies; and (2) provide the committees with preliminary reactions to their reports, with a view toward developing additional information and advice which would increase the usefulness of the reports to the U.S. negotiators.

The reports were also reviewed and discussed in October by the IPAC, which provided U.S. officials with an overview of industry's objectives in the MTN.

In addition to preparation of these reports, at each meeting the panels have been briefed on the progress of the MTN. Special meetings also have been convened to discuss specific negotiating issues, such as draft proposals for codes on product standards and export subsidies, and sector studies prepared by the GATT secretariat. This informational flow to the committees has been supplemented by monthly mailings of STR's Advisory Reports, and Commerce's MTN News, which provide information on the MTN and related developments. Classified reports on the Geneva meetings of the MTN are also available to advisory committee members.

Another round of meetings with the ISACs is scheduled for February 17 through 23, and the IPAC on February 25, to provide preliminary reactions to their information and advice, to clarify and refine it for use by U.S. negotiators, and to discuss specific upcoming issues such as tariff-cutting formulae and tropical product negotiations.

The establishment of the Agricultural Policy Advisory Committee (APAC) and Agricultural Technical Advisory Committees (ATACs) for cotton, dairy, fruits and vegetables, grain and feed, livestock and livestock products, oilseeds and products, poultry and eggs, and tobacco, were announced jointly by the STR and the Secretary of Agriculture on April 8, 1975. Approximately 150 members serve on these panels. The 25-member APAC met four times during 1975, and will meet again on February 24. Each ATAC met at least twice, some as many as four times last year. All eight submitted reports and recommendations on MTN offers and requests in their commodity areas last fall.

Membership on these committees represents a broad spectrum of agricultural producers, processors and traders. In recommending members, USDA attempted to seek wide representaion from national and commodity organizations. The

APAC has advised on a broad range of issues, including subsidies and countervailing duties, standards, problems of supply access and export restraints, quotas, safeguards, and import documentation. The work program will continue this year with briefings and discussions on tariff reduction formulae and tropical product negotiations, scheduled for a meeting in the latter part of February.

The ATACS were asked to provide specific recommendations as to what offers the U.S. might make in their commodity areas and what requests for concessions for particular products from individual countries would be beneficial to U.S. exports. They forwarded their recommendations on requests and offers to STR and the Agriculture Department by the end of September, 1975, and presented their positions orally to the APAC on October 2.

Their work will continue this year to provide detailed technical advice and information regarding trade issues which affect both domestic and foreign production and trade in their respective commodities.

A Labor Policy Advisory Committee (LPAC) and six Labor Sector Advisory Committees (LSACs) were announced—by the STR and the Secretary of Labor. The policy committee is composed of 57 union presidents from AFL–CIO affiliates, the United Auto Workers, United Mine Workers, Teamsters, Longshoremen, the National Federation of Independent Unions and representatives of the AFL–CIO staff. In addition, all of the above unions are represented on at least one LSAC.

Unions on the sector committees represent workers employed over the full range of U.S. industrial activity, including agricultural and service industries. Some unions participate on more than one LSAC because they represent workers employed in different industrial sectors.

Since May, 1975, union representatives have been consulting regularly with Labor Department officials and U.S. MTN negotiators on trade issues and developments, both in Washington and Geneva.

Negotiating issues, including tariffs and non-tariff measures, on which the U.S. Government will require advice, were outlined at a June 18 combined meeting of the policy and sector advisory groups. Individual union submissions were consolidated into draft reports by the Labor Department and reviewed at LSAC meetings during September.

A second combined meeting of the LPAC and LSACs were held on September 19, to discuss proposals for international codes on product standards and subsidies and countervailing duties.

A day-long seminar was held on December 18, to discuss tariff reduction formulae, border taxes and safeguards.

The labor advisory groups are expected to provide advice on all aspects of the MTN. The first LSAC reports, which deal with possible U.S. foreign tariff concessions, were transmitted to STR in mid-December. Some unions also submitted advice on proposed codes covering standards and subsidies/countervailing duties.

The Trade Act outlines a new cooperative relationship between the Executive Branch and the Congress in the formulation of foreign trade policy and the negotiation of international trade agreements.

The post of STR, created in the Trade Expansion Act of 1962 was raised to Cabinet status by the 1974 law, and required to report directly to both the President and the Congress.

The new act sets out procedures for Congressional participation in, as well as oversight of, trade negotiations conducted by STR. Five members each representing the House Ways and Means and Senate Finance Committees, are appointed at the beginning of each session of Congress by the Speaker of the House and the President of the Senate as official advisers to the U.S. Delegation to the Multilateral Trade Negotiations (MTN). Each committee has established a Trade Subcommittee and designated staff advisers.

Further, the Act requires Congressional approval for all trade agreements dealing with the reduction or elimination of non-tariff barriers to trade, and spells out special procedures under which such agreements are to be considered on an expedited legislative "fast track" which bars amendments and parliamentary delays.

During 1975, a number of Congressional advisers and staff attended and participated in sessions of the 90-nation Trade Negotiations Committee (TNC) in Geneva. Among these were the Chairmen and ranking minority members of the Ways and Means and Finance Committees and Trade Subcommittees.

The STR, deputy STRs, and other senior STR officials met regularly with the designated staffs, committees and subcommittees, and with other interested

committees, members and staffs as well, to keep them informed of the progress of the negotiations and to receive, consider and act upon their advice and counsel.

The STR also issues monthly reports to the Congressional advisers on the status of the negotiations and related trade developments.

This process of Congessional liaison has proved useful and productive.

INTERAGENCY COORDINATION OF TRADE POLICY AND TRADE ACTION DECISIONS

One of STR's most important assignments under the Trade Act and Executive Order #11846 is the coordination of interagency positions and recommendations with respect to U.S. foreign trade policy and trade policy decisions and actions, as well as negotiation of multilateral and bilateral trade agreements.

The STR is chairman of the Cabinet-level Trade Policy Committee (TPC). Under this structure, a sub-Cabinet Trade Policy Review Group (TPRG) is chaired by a Deputy STR. An Assistant STR heads the interagency Trade Policy Staff Committee (TPSC), which is made up of representaives of the Departments of State, Treasury, Defense, Interior, Agriculture, Commerce, Labor, the White House Council on International Economic Policy (CIEP), and the U.S. International Trade Commission.

In addition, STR is an active working member of the CIEP and the East-West Foreign Trade Board, both chaired by the Secretary of the Treasury, and works closely with the President's Economic Policy Board (EPB), and Assistant to the President for Economic Affairs Dr. William Seidman.

This role has proved an effective and useful one. Through it, the inputs of all interested and concerned elements of the Executive Branch are channeled, via the STR, directly to the President.

This mechanism has been used on numerous occasions, including in the development of Executive Branch action with respect to GSP. It will shortly be used again to consolidate advice to the President on action on the USITC findings and recommendations with respect to imports of specialty steel products and asparagus. This procedure has proved its worth, and will be used increasingly in the future.

PROGRESS AND STATUS OF THE MULTILATERAL TRADE NEGOTIATIONS (MTN)

At the Trade Negotiations Committee (TNC) meeting last December 9–11, it was agreed that delegations should strive to conclude the Multilateral Trade Negotiations (MTN) in 1977. Following substantial preparatory and technical progress in 1975 on a wide range of issues, the pace of the work must now be accelerated in 1976. This will require major negotiating efforts on a number of subjects, some of which remain contentious.

In particular, the issue of agriculture and how it is to be dealt with in the MTN remains difficult. Fortunately, the United States and the European Community (EC) were able to reach a procedural compromise in December regarding the next step to be taken on agricultural products other than meat, grains, or dairy, which are being treated in separate working subgroups. This agreement sets the stage for a series of bilateral and plurilateral notifications and consultations on the products in question. It does not resolve the substantive dispute between the United States and the EC as to which negotiating group has ultimate responsibility for the final decisions to be made on agricultural in the MTN.

As noted above, there are individual subgroups to handle the work being done on meat, dairy, and grains. Each of these subgroups established a work program in 1975. The meat and dairy subgroups devoted their 1975 meetings to a thorough analysis of the structure and characteristics of world trade in these products, including the measures countries use that affect international trade in these items. This year they will engage in discussions on appropriate multilateral solutions for trade problems encountered in these areas. The grains subgroup focused its work in 1975 on how best to achieve stabilization, liberalization, and special treatment for LDCs in world grains trade. The EC emphasized the need to negotiate a commodity agreement for grains, and tabled a proposal for such an agreement. The United States, on the other hand, stressed the need to seek greater liberalization in grains trade and tabled a proposal calling for countries having definite negotiating interests in grains to notify their trading interests, problems they encounter, and proposed solutions to those problems.

Negotiations on non-tariff measures have thus far included discussions on subsidies and countervailing duties, standards, quantitative restrictions, and cus-

toms matters. The work on subsidies and countervailing duties has proceeded to the point where a number of written proposals are now on the table in Geneva. The U.S. "concepts paper" sets forth a negotiating framework that deals with the problems of subsidies in international trade and how to respond to them. The EC proposal focuses exclusively on the use of countervailing duties. Other proposals, notably those of Japan, Canada, Brazil, and India, also stress the need for countries to find injury before imposing countervailing duties but, unlike the EC proposal, address the subsidies issue. A number of fundamental differences exist in this area but efforts will be made to reach an agreed approach to negotiating solutions for subsidies and countervailing duties in 1976.

A product standards code continues to be the most likely candidate for early conclusion in the MTN field. If substantive negotiating work on this code can be completed in 1976, efforts may then be focused on the best manner to implement the code in the United States in order to ensure maximum benefits from it.

Bilateral consultations on quantitative restrictions continue, and should be completed before the subgroup's next meeting in March. At that time the subgroup, with the results of these bilateral consultations in hand, will be better able to determine how to proceed.

With respect to customs matters, an area being given more priority by other delegations than by the United States, the subgroup is now concentrating its work on customs valuation.

Various countries have proposed that other MTNs also be negotiated in some context in the MTN. These MTNs include government procurement, antidumping practices, variable levies and minimum import prices, and prior import deposits.

Regarding possible sector negotiations, the United States continues to maintain that work in the sectors group should run parallel to the work in other groups and subgroups. Therefore, the United States proposed at the last sectors meeting that the GATT Secretariat undertake studies for the chemicals, electronics, and heavy electrical machinery sectors (an initial study had already been made on the metals sector). Other countries contend that work on general solutions in tariffs and MTNs should be well advanced before detailed work is done on sectors. As a compromise, the group decided at the last meeting that the GATT Secretariat should begin collecting readily available data for sectors not covered by the metals study. In addition, the metals study will be improved and updated.

Work on safeguards in 1975 focused on the deficiencies of the present multilateral safeguard system and the need for new rules. Future work will be devoted to the elements that should be included in a new system. In this regard, the United States intends to table a proposal sometime later this year. At the group's next meeting in April, studies being prepared by the Secretariat on multilateral surveillance systems and approaches to dispute settlement will be discussed, along with various delegations' expected submissions.

Concerning tariffs, it is expected that agreement on a basic tariff-cutting formula can be reached by the early fall. The United States intends to table its preference for a formula at the upcoming March meeting of the Tariffs group. Intensive work is being done within the U.S. Government and consultations planned with the private sector and the Congress to determine the tariff-cuting formula that would be most advantageous to U.S. interests.

In tropical products, the United States has been engaged in extensive bilateral consultations with many LDCs which have made tariff requests of the United States on tropical products. After private sector and Congressional consultations, the United States intends to table its initial offers on tropical products by March 1, 1976 in accordance with an agreement reached in the Tropical Products group last October.

Finally, it is important to recognize that some issues (e.g., supply access, decision-making, safeguards, subsidies, dispute settlement, revision of the GATT, etc.) are intimately related to the ongoing work of many of the negotiating groups already established: others are being addressed in related fora (e.g., government procurement, balance of payments, improved consultative procedures); and still others have been highlighted in U.S. statements, both at the MTN and elsewhere, as requiring further consideration in the MTN (e.g., border taxes, fair labor standards, unethical business practices).

As partially noted above in this report on the progress and status of the MTN, bilateral as well as multilateral discussions are frequently involved. There is a general consensus among many of the MTN participating nations that these two-

way and three-or-more-way discussions among key developed and developing country delegations must be increased, not only in Geneva, but in the various capitals.

A good example of this development is the consultation just held by the STR and the Geneva Deputy with top officials of the EC in Brussels, to discuss the management of the work program for the MTN in the years ahead.

Similar discussions are being worked out between STR and representatives of the governments of the UK, France, Canada, Japan, Mexico, Brazil and others.

The purpose of such informal meetings is to expedite the work and consensus of the 90-nation TNC and its six working groups and seven sub-groups.

In addition, there are meetings of a group of 14 developed and developing countries in Geneva (the so-called "Seven Plus Seven Committee"), and of the new 18-member GATT Consultative Group ("G-18").

STR PARTICIPATION IN MTN-RELATED ACTIVITIES

While STR's principal preoccupation during the MTN currently in progress is with the discharge of its responsibilities as chief trade agreement negotiator for the United States Government, this does not mean that the Office and the STR do not participate actively in a variety of MTN-related trade matters.

For example, STR is leading U.S. participation in the OECD Trade Committee Working Party on Government Procurement. In the GATT, STR is engaged in negotiation involving EC-EFTA "rules of origin" affecting imports. In the International Customs Cooperation Council, STR is working on customs valuation and nomenclature.

Perhaps the best example is the role STR played in developing the trade policy recommendations and staffing the trade aspects of President Ford's recent economic summit meeting with heads of government at Rambouillet, France. The Joint Declaration issued following that meeting had a strong positive influence on the December meeting of the TNC in Geneva.

One of the most important functions STR performs is to advise foreign countries well in advance of U.S. concerns regarding trade actions which they may take, and discussing with them possible U.S. responses. An example of this is the recent case of British import restrictions.

Also through similar discussions with our trading partners, we were able to defuse much misunderstanding and hostility abroad surrounding the pending automobile dumping case, the countervailing duty case on steel, and pending escape clause actions, such as one on footwear. This eleminated confusión and mistaken impressions, and limited their concerns. We were able in large measure to explain that the U.S. is not undergoing a wave of protectionism, but is responding in a legitimate manner to domestic complaints against unfair trade practices abroad. We assured our trading partners that these complaints are being investigated in a fair and equitable manner, and that any actions taken in response would be justified and consonant with our trade policy and international obligations.

STR has been directly involved for the past seven months in the U.S. textile import program. In June, 1975, President Ford reconstituted a previous Special Working Group on Textiles under CIEP as a new Textile Trade Policy Group, chaired by the STR. This group has since met to consider several major international textile trade developments and issues, and will meet again early in February. In August, 1975, the STR appointed a new chief textile negotiator, reporting directly to him, who was confirmed with the rank of Minister by the Senate last month, upon the unanimous recommendation of this Committee.

Last September and October the existing U.S.-Japanese bilateral textile agreement was renegotiated to more accurately reflect current textile trends. In October and November we successfully negotiated bilateral agreements with Thailand and Haiti, thus essentially completing our bilateral arrangements under the international Multifiber Arrangement (MFA). All told in 18 months we have negotiated 25 new bilateral textile agreements under the MFA. Consultations have been held on textile trade matters with Korea, Taiwan, Hong Kong and El Salvador, and an imporant new understanding has been reached with India.

In December informal consultations were begun with other textile trading nations on the renewal of the MFA, which we intend to pursue through 1976. The MFA remains the essential element in our textile import program. We have made

clear that we do not intend for it, and bilateral agreements under it, to be subject to negotiation in the MTN.

STR participated centrally in interagency preparaion of the draft of a new U.S.-Romanian Trade Agreement, and took an active role in its negotiation in Bucharest in January, 1975. STR took part in consultations with the Finance and Ways and Means Committees at various stages during the drafting, negotiation and submission of the Agreement. The STR was the lead Administration witness at Finance and Ways and Means consideration of the Agreement.

On December 24, 1975 the Japanese Government announced that electronic computers and peripherals have been removed from that nation's import quota list. This action fulfilled a previous commitment made as a result of intensive discussions with the Japanese, which STR led.

As a result of a series of bilateral consultations involving STR, State and USDA, the Canadian Government removed its quotas on the importation of U.S. live cattle in August, 1975, simultaneously with the removal of U.S. import quotas on Canadian live cattle and hogs, and pork. Both governments followed up by removing quotas on fresh and frozen beef and veal on January 1 of this year, thus restoring an open border in the trade of these items.

Another key STR function is the management of Section 301 of the Trade Act, dealing with illegal and unfair foreign trade practices. During 1975, six cases were instituted under this provision. The status and progress of these has been reported to the Congress.

STR's management of the implementation of the U.S. Generalized System of Preferences (GSP) is well known to the Congress and to this Committee.

This program opens a $25 billion segment of the U.S. market—some 2,700 items—to developing countries duty-free up to competitive need limitations. It is one element in a coordinated and concerted effort by the world's industrialized trading nations to bring developing countries more fully into the international trading system. Along with 22 other developed countries, U.S. policy is to encourage developing countries to diversify their production and exports, in order to earn their own way more competitively in world trade, thus decreasing their need for external assistance over the long run.

This should contribute to expanded market opportunities for all nations, including the United States and help to assure U.S. access to vital supplies. Generalized tariff preferences are one way of implementing that policy. Other ways are being sought in the MTN.

Beginning early last year, in preparation for the initial Presidential Executive Order designating eligible beneficiary countries, STR has consulted closely with designated Congressional advisers and staff. Extensive public hearings were conducted throughout the country by the STR-chaired TPSC, as well as the USITC, last summer to develop information and views on eligible products. The timing of the implementation of this program also has been the subject of close coordination and cooperation between STR and the Congress. Just this month, STR has published regulations governing petitions for review and changes in the eligible product list. Currently, we are conferring with Congressional staff on procedures under which Executive Branch reviews are conducted regarding beneficiary country eligibility status.

CONCLUSION

This report, submitted as a supplement to testimony by the STR, Ambassador Frederick B. Dent, at the Senate Finance Committee trade oversight hearings, is intended to outline and highlight the areas and functions of STR's responsibilities in the implementation of the Trade Act of 1974.

These responsibilities include, but are not necessarily limited to, the topics covered by it—i.e., communication and liaison with Congress, the private sector and the public; interagency coordination of trade policy and trade action decisions; the conduct of the MTN; and substantial participation in MTN-related and other trade-related negotiations and policy development and implementation.

Under Section 141 of the Trade Act, and its implementing Presidential Executive Order (No. 11846), STR's role and functions have been significantly expanded.

As defined in the Executive Order, the trade agreements program with which STR is charged includes:

". . . all activities consisting of, or related to, the negotiation or administration of trade agreements which primarily concern trade and are concluded pursuant

to the authority vested in the President by the Constitution, Section 350 of the Tariff Act of 1930, as amended, the Trade Expansion Act of 1962, as amended, or the (Trade Act of 1974)."

The Executive Order also expressly provides that the STR is responsible as chief U.S. representative in all negotiations under the trade agreements program, and chairman of the Cabinet-level Trade Policy Committee responsible for coordinating interagency trade policy views and advising the President on basic policy issues arising under the trade agreements program.

As noted in this report, the system is working.

There are, however areas in which STR believes improvements can be made.

In Ambassador Dent's oral statement at these hearings, he pointed out that some private sector advisers have expressed a concern that the Government has listened but not yet reacted to some of their advice and counsel. The STR has taken steps to expedite "feedback" to the advisory groups, and will continue to seek to improve the reverse flow of information and official reaction.

Also as noted in STR testimony, there is a real need in the MTN to pursue agreements which will better rationalize world production and trade in agriculture, so that surplusses and shortages can be leveled off to the benefit of both growers and consumers, worldwide.

Trade between industrialized and developing countries must be improved on a number of fronts. We must try through the MTN to find a way of enabling the LDCs to better earn their way in world trade, increasing their participating in both the benefits and responsibilities of an improved trading system. Still unresolved is the issue of extending the benefits of GSP to members of OPEC who did not embargo oil supplies.

The Trade Act calls for services as well as goods in world trade to be included in the MTN. We must find appropriate mechanisms and strategies to accomplish this objective.

We are looking to a more thorough and meaningful public discussion on the question of extending non-discriminatory tariff treatment to trade with communist countries. This should involve a re-examination of Title IV of the Act on its merits, revealing the need for changes which will permit an expansion of mutually beneficial East-West trade while at the same time not compromising our humanitarian objectives. This reconsideration also should take note of the fact that emigration from the Soviet Union, contrary to the intent of Title IV, is decreasing.

Finally, the MTN must deal with the fact that government involvement in private trade (and investment) has increased markedly around the world. Government trade controls and regulation should be held to a necessary minimum.

As Ambassador Dent stated in his testimony, there is much work yet to be done to improve the world trading system and U.S. trade policy mechanism in accordance with the intent of Congress in the Trade Act.

We believe a good start has been made, and that we are on the right track. The closer new relationship between Executive Branch trade policy makers and the Congress, the private sector and the American public should provide effective guidance along that path. We all must continue our best efforts to make it work.

[Whereupon, at 2:45 p.m. the committee adjourned, to reconvene at 9:30 a.m., Friday, January 30, 1976.]

OVERSIGHT HEARINGS ON U.S. FOREIGN TRADE POLICY

FRIDAY, JANUARY 30, 1976

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

The committee met at 9:45 a.m., pursuant to recess, in room 2221, Dirksen Senate Office Building, Senator Russell B. Long (chairman of the commitee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Jr., of Virginia, Hartke, Fannin, Hansen, and Packwood.

The CHAIRMAN. The committee will come to order.

This morning, we will hear the statements of Hon. Henry Kissinger, Secretary of State; Hon. Frederick B. Dent, Secretary of Commerce; and Hon. Richard E. Bell, Assistant Secretary for International Affairs and Commodity Programs, Department of Agriculture.

Mr. Secretary, we want to extend you a warm welcome. We don't see you very often, except on television. But we want you to know that we follow your exploits closely, wherever they may be.

Your testimony today will cover a range of international economic issues which affect the lives and pocketbooks of millions of Americans, as well as our foreign policy. No democratic nation can conduct a vigorous foreign policy with a sick domestic economy—the people will not support it.

If we drive a hard bargain on trade and other economic issues and achieve equity and reciprocity for our industrial and agricultural sectors, we will be building a base of support for an open world economy. But if we trade away American jobs and farmers' incomes for some vague concept of a "new international order," the American people will demand from their elected representatives a new order of their own, which puts their jobs, their security, and their incomes above the priorities of those who dealt them a bad deal.

Senator Fannin, would you like to make some opening remarks?

Senator FANNIN. Thank you, Mr. Chairman. I would just like to welcome the Secretary to the meeting this morning. We are honored to have you with us.

STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE; ACCOMPANIED BY HON. FREDERICK B. DENT, SECRETARY OF COMMERCE, AND HON. RICHARD E. BELL, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

Secretary KISSINGER. Mr. Chairman, I have submitted a statement to the committee. With your permission, I will read parts of it, but I will stand by the whole statement. I would like to make sure that

the press understands that my not reading a paragraph does not mean that I don't attach importance to it. It is done for the convenience of the committee, if that is agreeable with you, Mr. Chairman.

The CHAIRMAN. Without objection, it is so ordered.

Secretary KISSINGER. I welcome this opportunity to testify before this distinguished committee which plays such a critical role in a wide range of international issues.

Continuing exchange between this committee and the State Department is essential if our policy is to reflect the totality of our national interest.

I hope my testimony today will signal the beginning of a process of more active collaboration.

Our foreign economic policies affect vitally every American: The farmer, the workingman, the entrepreneur, and the consumer. They affect our economic prosperity and our security as a nation.

Our economic policies are a critical element in the construction of a stable world order. The maintenance of peace, historically a function of our military strength, is increasingly dependent as well on our economic strength.

The 20th century revolution in technology, transportation, communication, and world economic development has multiplied the pressure points among nations and the potential for conflict.

It has stirred a groundswell of demands from those nations and peoples that have not shared fully in the world's economic progress.

It has inspired growing concern about access to the world's natural resources and disputes over the distribution of the economic benefits that come from these resources. Our economies, institutions, and daily lives are vulnerable to the economic policies of others.

At the same time, the United States is the world's most powerful economy. Together with our allies among the industrial democracies, we are the engine of global prosperity, technological innovation, and the best hope for widening economic opportunity to millions around the globe.

We could withstand an era of international economic welfare better than any. But the heritage and our aspirations demand more of us than the mere search for survival in a world of resentment and despair.

Indeed, such a world could not but ultimately undermine the stability and peace upon which all else we seek to do in the world is based. The prospect of our children's well-being and for the future of the values we cherish will be dim unless we take the lead in seeking a new era of international economic cooperation.

Foreign economic policy is thus a critical element in our overall foreign policy and in the pursuit of our broadest national objectives.

At the present time we face a series of economic challenges that must be met if we are to have a stable world order:

One. Inflation and recession have spread throughout the world, threatening the world's trading and financial system and the health of our social institutions. Recovery is now underway in much of the industrial world.

Two. The stunning increase in the price of oil has transferred massive wealth to a small group of producer countries. It has intensified world recession, exacerbated world inflation, and created serious problems of debt, financing, and balance-of-payments adjustment.

Three. The premises of the postwar economic system are being challenged by the nations of the third world in a variety of international bodies. Their rhetoric is often bitter and accusatory, their tactics confrontational.

We must respond to these challenges firmly and constructively. The United States must play a leading role if our basic national interests are to be protected. If we fail to take the lead, our destiny may be determined more by the drift of events than by conscious design.

Along with pursuit of our broadest foreign policy goals, we have very important economic interests of individual Americans to protect:

One. Our international energy policies determine whether Americans will have regular supplies and stable prices for energy resources so vital for our continued economic prosperity.

Two. Our relations abroad can provide the American farmer with stable and growing export markets and the American consumer with more stability in food prices.

Three. Our commodity policy can assure us of a regular supply and reasonable prices for the critical raw materials that we import, and stable and expanding markets for those that we export.

Four. Our foreign policies in money, trade, and investment can give growing opportunities for Americans whose livelihood depends on expanding export markets for manufactured and technology-intensive items.

Our policies can provide the American consumer a wide range of goods and services from which to choose and protection against high prices and the monopolistic practices of special-interest groups.

There may be occasions, however, when specific economic interests are in opposition to our larger foreign policy goals and economic disputes with a particular country are in conflict with our larger foreign policy interests in that particular country.

This points up the need for effective coordination within our Government of our specific and larger policy goals.

It is not surprising that the positions of departments and agencies may clash. Indeed, it would be strange if they did not.

Each department looks at issues from the perspective of its interests and goals. What is necessary is to bring these conflicts to a resolution.

We have various formal and informal mechanisms for resolution of differences. The formal mechanisms include the Council on International Economic Policy, the Economic Policy Board, the National Security Council, and the Trade Policy Committee.

In fact, interagency consultation takes place on a continuing basis and at all levels. The agencies try to reach agreement without burdening the President needlessly. But when serious conflicts cannot be resolved, the President makes the decision. He does so on the basis of our total national interest and objectives.

It has been my experience that the coordination of foreign economic policy in this administration has been outstanding, and it is a misreading of the situation to believe that occasional differences mean disarray.

Differences lead to compromise and decision. The end result of the process is a coherent foreign economic policy.

Our approach to foreign economic policy has three basic elements:

One. The building of stronger economic ties with our industrial allies;

Two. The construction of a stable and mutually beneficial economic relationship with the Communist nations; and

Three. Providing opportunities for the less developed nations to share in both the benefits and the responsibilities of the world economic system.

The meeting of the leaders of six major industrialized democracies in Rambouillet, France, last November was a significant foreign policy event. They agreed to coordinate their economic policies more closely to assure a stable and durable recovery.

They confirmed their commitment to the OECD trade pledge, and they concurred in the basic elements of an agreement on monetary reform that was accepted by the IMF Interim Committee in Jamaica on January 9.

Our relations with the Communist nations can be stabilized and more prudent behavior on the part of the Soviet Union and its allies can be encouraged by closer economic ties.

The grain agreement that we negotiated with the Soviet Union was a major step in building a better relationship. It provides an assured export market for our farmers. Yet, by putting our grain trade with the Soviet Union on a more regular basis, it protects our consumers from the wild swings in grain prices caused by large and erratic Soviet purchases.

It puts the Soviet Union on notice that the economic benefits of our relationship require an atmosphere of accommodation and understanding between East and West.

Unfortunately, the ability of this country to use the process of normalizing trade with the Communist countries as a flexible and constructive element in East-West relationships is reduced by the provisions of title IV of the Trade Act.

These provisions, in establishing a single issue in East-West relations as the governing condition for normalizing trade, close the door on the use of the trade relationship over a wider range of issues and interests.

The relations of the industrialized with the developing world is a problem of particular concern at the moment and our policy deserves a fuller elaboration to this committee.

Over the last few years the industrial countries have been the object of mounting criticism by much of the developing world, which believes that the international economic system and the policies of the industrial nations have denied them opportunities for advancement.

The hostility of some third world spokesmen and bloc voting have made constructive discussion in U.N. forums between the industrial and developing worlds almost impossible.

The developing countries are not a natural bloc. They comprise more than 100 countries which differ widely in income, economic structure, and level of development.

In recent years they have not pursued their real and varied interests in U.N. forums. They have combined instead to confront and accuse the developed world of exploiting them.

The radicalization of the third world and its consolidation into an antagonistic bloc is neither in our political nor our economic interest.

A world of hostile blocs is a world of tension and disorder. Developing countries can play a spoiler's role in the world economy, attempting to restrict the supply of critical materials, subjecting foreign

investment to harassment and confiscation, thwarting our efforts to restructure the world trade and monetary system.

Clearly, it is in our national interest, and in the world interest, that economic relations between the developed and developing nations be conducted in a cooperative way, and that each have a realistic appreciation of what can be done to advance their mutual interests.

In addressing this problem, our objectives have been fourfold: To change the atmosphere in which discussions between the developed and developing countries are held from confrontation to cooperation; to change the substance of the discussions from ideology to consideration of practical actions; to encourage the developing countries to pursue their real and varied interests in a realistic way; and to shift the locus of discussions and actions insofar as possible to forums in which participants can be expected to act responsibly.

At the U.N. Special Session, we set an agenda for future discussions between the rich and the poor countries with a broad range of practical proposals that serve the mutual interests of both.

Our proposals were developed in consultation with Members of Congress who met with me during the summer months preceding the special session.

But I would like to take this occasion to point out that while members of this committee were invited on a number of occasions to meetings at the Department of State, of interdepartmental groups, we neglected, partly because the Congress was in recess, to consult with the committee as a group. I consider this a mistake which will not happen again.

I am aware of your concern, Mr. Chairman, that we did not at that time consult directly with your committee, and I regret that we did not do so.

Our initiatives were addressed to five areas: (1) To moderate the instability in the world economy that impedes the development of the poor countries; (2) to accelerate their economic growth by providing improved access to capital and technology, and improvement in the conditions of private foreign investment; (3) to make the world trading system better serve the needs of development; (4) to improve the conditions of trade and investment in key commodities; (5) to address the special needs of the poorest countries.

In each of these areas, we offered concrete solutions to developing country problems that are consistent with our own economic philosophy and our own economic interests.

We tried to make the developing countries aware that the existing economic system can further their welfare and that they have a stake in its effectiveness.

We were, I believe, constructive and forthcoming as is fitting for a great nation and as is necessary if we are to encourage the developing countries to look to the real, not the rhetorical, world. In my view, we achieved our objectives at the U.N. Special Session.

The special session was an important event in the slow process of encouraging the developing countries to pursue their varied interests in a realistic way, but it was only a beginning.

We need to move ahead to give effect to our initiatives, and we need to maintain a continuing dialog with the developing world. We have begun a new dialog with these countries and with the oil exporting

countries in the Conference on International Economic Cooperation which met in Paris last December.

We look to the Conference, with its four commissions on energy, raw materials, development, and related financial issues, to consider seriously many of our U.N. proposals that have not yet been implemented.

Unlike the broad U.N. forums in which developing nations vastly outnumber the industrial democracies and vie with each other to escalate their demands, the commissions will be small—15 members in each—and focused on specific issues.

We think the discussions will be more balanced as a result. The CIEC and its commissions are a 1-year experiment. The success of the experiment will depend on the willingness of member governments to use the commissions for discussions of practical solutions to concrete problems, solutions that take due account of the interests of all the countries concerned.

We are pursuing our special session initiatives and dialog in many other appropriate forums—among them the International Monetary Fund, the Multilateral Trade Negotiations, the World Bank, and producer/consumer commodity groups—with some success.

Thus, the IMF, with the support of its developing as well as industrialized members, has already acted favorably on several of our key initiatives, notably: (1) The establishment of a trust fund to provide concessional balance of payments assistance to the poorest countries; (2) the substantial liberalization of arrangements to stabilize the export earnings of developing countries; and (3) increased access to IMF credit, from 100 to 145 percent of quota.

I would like to put some of our other initiatives, especially those in the trade, commodity, investment, and energy areas, in proper context by outlining the general policies that guide us in these areas.

Trade: The multilateral trade negotiations represent a major foreign policy initiative. Their results will affect our relations with all our trading partners. They will affect our domestic and international prosperity.

My colleagues have already discussed problems and progress in these negotiations. I would like to talk about the developing countries. The developing countries have been playing an increasingly important role in our trade, a fact which I believe we tend to overlook.

They now account for about one-third of our total trade and, more importantly, for 90 percent of our total trade surpluses in recent years. While recession has been depressing our export of manufactures to developed countries, our exports of these items to developing countries have been increasing, supporting employment and income in the United States.

Central to the development objectives of the developing countries is expanding markets for their exports. Without these opportunities to earn foreign exchange, they will not be able to continue taking an increasing share of our exports.

Trade, therefore, forms a vital and two-way link in our relations with these countries. The committee, I believe, fully appreciates this point and adopted section 106 of the Trade Act to stress the interest we have in mutually beneficial trade agreements with developing countries.

To make this a reality, however, we must also recognize that the needs of the developing countries are different, requiring transitional

special and differential treatment which accords with their individual development status.

This is the principle underlying the Congress' action in extending temporary generalized tariff preferences to these countries.

It is the principle I stated in the U.N. Special Session. In both cases, account is taken of the fact that our goal is the development of these countries to the point where they can participate more fully in the world trading system, sharing both its rights and obligations.

Some are already nearer this point than others. The different levels of development among these countries were taken into account by Congress in our generalized system of preferences. In that system, developing countries cease to enjoy preferential treatment for products they can sell in our market in substantial volume, as defined in the competitive need provisions of the Trade Act, indicating that they have become competitive as exporters of these products.

We intend to see that similar provisions are made in other forms of special and differential treatment which may be agreed to.

With regard to our system of generalized preferences, we continue to support amendatory legislation, such as that which has been introduced by Senator Bentsen, which would waive the OPEC exclusion provision of title V of the Trade Act for those OPEC members that did not participate in the 1973 oil embargo.

The blanket exclusion of OPEC countries has had a noticeable adverse effect on our relations with important countries such as Indonesia, Venezuela, and Ecuador—countries that did not participate in the 1973 embargo, and has diminished the overall favorable impact of GSP on our relations with developing countries.

The GSP denial has become a major issue between the United States and practically all of Latin America, and is by all odds the most divisive factor in the hemisphere in the trade field; it has also affected U.S. relations with members of ASEAN.

Furthermore, it casts a shadow on the North-South dialog that is just beginning in the Conference on International Economic Cooperation.

The present provision has led to support and sympathy among other LDC's for the OPEC countries. Amendment of the OPEC exclusion provision is the U.S. national interest, commodities.

The United States has assumed the leadership role in the area of international commodity policy. The reason is clear: We are the world's largest producer, consumer, and trader of commodities.

We are importing an increasing amount of our raw material consumption each year. It is thus in our interest to insure that commodity markets function efficiently, that they offer incentives to plan and invest for the future and not result in shortages and inflationary prices tomorrow.

We have several specific concerns for which we are continuing to develop policies.

First, as a major consumer we are concerned with security of supply at reasonable prices. While we are not generally concerned with the possibility of successful OPEC-type action in raw materials, we cannot ignore the possibility that unilateral attempts to leverage industrial consumers are a possibility and could, in a few cases, be economically disruptive.

We intend to address this issue through supply access negotiations in the MTN, as the Congress has clearly legislated.

Second, we are concerned that an uncertain investment climate in the developing world, as well as the increasing cost of mineral exploration and exploitation, will undermine adequate private investment flows for mineral development.

Our response has been on two levels. We have expressed a willingness to improve the investment climate in the developing world by discussing guidelines for the behavior of both multinationals and governments, by calling for a multilateral investment insurance agency, and by using what leverage we have to settle investment disputes by third-party arbitration.

We have also proposed that the World Bank—both the IBRD and the IFC—become more involved in mineral financing in the LDC's. These institutions would mobilize private resources, acting where necessary as the middleman between foreign countries and U.S. companies.

Third, we must direct attention to those commodities whose prices fluctuate excessively, with severe inflationary effects on our economy.

We are prepared to give consideration to means of moderating fluctuations, ranging from a better exchange of information between producers and consumers to formal arrangements in specific commodities where appropriate.

Fourth, we recognize that for many commodities the dominant problem may not be volatile prices but competition from synthetics, declining or sluggish secular demand, or overproduction as new suppliers come on the market.

The remedies in such cases would be measures such as diversification, improved productivity, or better marketing practices, each commodity has its particular characteristics and problems peculiar to it and must be considered individually.

We have, therefore, proposed that there be a producer-consumer forum for each key commodity to consider what can be done to promote the efficiency, growth, and stability of its market.

Negotiations have been completed on a new coffee agreement which contains substantial improvements from both consumer and producer viewpoints. We will submit this shortly to the President for decision.

The new cocoa agreement contains insufficient protection for consumers and its price provisions are too rigid. We are asking for renegotiation. We will shortly submit the tin agreement, which is a treaty, for advice and consent by the Senate.

We now turn to international investment.

Transnational enterprises have been important instruments for growth in both the industrial and developing countries.

They contribute not only scarce capital but also scarce technology, management, and marketing skills. In recognition of these benefits, the industrial countries, including the United States, have maintained an open policy on international investment.

The developing countries are ambivalent about private foreign investment. They want it for the benefits it brings, but they are uneasy about it, and in particular about the transnational company which is the major instrument for international investment, because of its power and global outlook.

Many of the most successful developing countries have taken advantage of foreign private investment. In general the results have been more rapid modernization and a strengthened private sector.

We remain convinced that developing countries would be well served by offering a secure climate for foreign investment but the choice remains theirs, as do the costs of foregoing investment.

The benefits deriving from transnational enterprises make it important that governments deal with legitimate concerns about these companies.

One major concern is that these enterprises may deviate from proper standards of business behavior. There have also been instances of apparent disregard for national law with respect in particular to illicit payments.

I am aware of the keen interest of members of this committee on this issue as reflected in Senate Resolution 265.

The United States has taken the lead in dealing with these concerns because of our commitment to an open international system for investment and trade.

We are active in efforts within the OECD to work out guidelines defining reasonable standards of business practices for transnational enterprises.

Our delegation to the multilateral trade negotiations has also raised this issue in that forum. Such guidelines can provide the basis for better understanding between governments and enterprises and thus assist in preserving a favorable climate for international investment. In my address to the U.N. Special Session, I said that the United States is willing to pursue discussion of international guidelines for transnational enterprises within the United Nations. We are willing to address the concerns of developing countries, in particular that transnational enterprises contribute to the development process.

At the same time, we believe that any U.N. guidelines should be balanced. In particular they should include not only the obligations of enterprises, but also those of governments to treat the enterprises equitably and in accordance with international law; they should apply equally to domestic and international enterprises, and to private and public firms, wherever appropriate; they should stress the obligation of all parties to carry through on undertakings freely entered upon.

ENERGY

Two years have passed since the oil exporting countries sent shock waves through the world economy by the abrupt and enormous increase in the price of oil. In those 2 years, we have: 1. Created the International Energy Agency, a potentially dynamic center for energy cooperation; 2. Established a comprehensive emergency program to increase the ability of IEA members to withstand the economic impact of another embargo: 3. Negotiated a financial support fund to meet problems posed by the huge financial accumulations of the oil producing countries; 4. Established the long-term IEA program to accelerate the shift in supply and demand for world energy that will eventually end our vulnerability to arbitrary OPEC control over world prices.

The 18 countries of the International Energy Agency are meeting

today in Paris on the establishment of a program for long-term cooperation in the field of energy.

This long-term program will tie together and reinforce our respective national efforts to reduce our excessive dependence on imported oil.

The adoption of this long-term program will complete the basic design for consumer country cooperation in energy, which is a central pillar of U.S. international energy policy.

Having completed this framework for cooperation among the industrial democracies, we are now ready to begin a dialog with the oil producers and the nonoil producing developing countries.

On February 11, the Energy Commission of the Conference on International Economic Cooperation will meet in Paris under the cochairmanship of Saudi Arabia and the United States. We approach this dialog in a spirit of constructive cooperation, aware of our own vital interests, but convinced that our interests and those of the oil producers can be harmonized.

The attainment of our objective of substituting cooperation for North/South confrontation will depend importantly on the ability of the administration and the Congress, working together, to translate our proposals into concrete policies and action.

We will need authority from the Congress to replenish the resources of the regional lending institutions and to subscribe new capital to the International Finance Corporation.

In the commodity area, we will be seeking the advice and consent of the Senate to U.S. membership in the International Tin Agreement and in other international commodity agreements that we determine are consistent with our interests.

We will be coming to this committee for implementing legislation where such legislation is required.

In the trade area we are acting in full compliance with the letter and spirit of the Trade Act of 1974 and our proposals will come to the Congress in accordance with the terms of that legislation. We will be consulting with the Congress and this committee on a continuing basis.

Clearly, the success of our efforts in North/South diplomacy depends on partnership between the administration and the Congress. The role of this important committee is critical.

The success of our efforts in North/South diplomacy depends also on more systematic efforts by us to insure that each developing country understands that our bilateral relations with it include that country's behavior toward us in international meetings, and in particular, its votes there on issues of highest importance to us.

I have asked each of our embassies overseas to make clear to its host government that one of the factors by which we will measure the value which the government attaches to its relations with us will be its statements and votes on that fairly limited number of issues which we indicate are of importance to us in international forums.

In view of the growing importance to us of certain issues, of both economic and political significance, now dealt with increasingly in multilateral forums, it must be expected that the United States will be weighing this factor more heavily in making new commitments within bilateral relationships.

Mr. Chairman, we have major economic interests abroad to promote, interests on which many American jobs and American prosperity depend.

Generally speaking, those interests are best promoted by encouraging among countries the same freedom of economic exchange we have within this country.

Because we have by far the greatest economy, only we can take the lead in moving the international economy in this direction. We must not fail to exercise that responsibility.

But our leadership role must not and does not prevent us from using our economic power to make sure that American traders and investors get a fair opportunity.

The developing countries are a special case. If we want them to join the open economic system of which the United States is the center, we have to make it more accessible to them.

This is the key to the proposals I made at the Seventh Special Session: To use new trading, investment and commodity measures rather than large-scale new aid to accelerate their development.

These policies can bring important benefits to us: New trading and investment opportunities for Americans and better protection against inflation.

To developing countries the impact of these policies can be crucial, but if it is right for us to adopt these policies, the developing countries must realize that they are not unconditional.

They too much accept obligations as members of the international system that grow as their economies grow.

By this approach I am hopeful that we can create between developing and industrial countries a new relationship of confidence and equality, in which expanding investment and two-way trade will accelerate growth in both the North and the South.

Thank you.

The CHAIRMAN. Senator Talmadge.

Senator TALMADGE. Thank you, Mr. Chairman.

Mr. Secretary, yesterday the Under Secretary of Commerce testified that we could be as vulnerable to an embargo on chromium as we were on oil.

Why do we support an embargo on chromium in Rhodesia when we wind up being 100 percent dependent on the Soviet Union?

Secretary KISSINGER. The support for the embargo in Rhodesia is based primarily upon the consideration of the impact of any U.S. policy on the claims of independence by the Federal Rhodesian authorities in the African context, and it is not based on economic considerations.

Senator TALMADGE. It is purely political and not economic?

Senator KISSINGER. It is a position that had been taken on essentially foreign policy grounds, yes.

Senator TALMADGE. Three days ago Under Secretary of State Charles Robinson and Assistant Secretary of the Treasury Parsky told one of our subcommittees that the OPEC rate increases accounted directly for about one-half of the inflation in developed countries between 1973 and 1974 and the indirect effects may even be greater.

Can you supply us with the basis of these estimates?

Secretary KISSINGER. I would have to submit to you the statistics

separately. They are based on OECD studies, and they reflect the fourfold increase in the price of oil, which produced an increase in the price of other products, and, therefore, had a multiplier effect.

I don't have the statistics on which they are based.

Senator TALMADGE. You think those statements are accurate; do you not?

Secretary KISSINGER. I think they are substantially accurate, yes.

[The following material was subsequently submitted by the State Department:]

DEPARTMENT OF STATE,
Washington, D.C., February 10, 1976.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate

DEAR MR. CHAIRMAN: During his testimony before the Committee on Finance January 30, Secretary Kissinger indicated that the Department would provide the Committee with additional information concerning the contribution of oil price increases to inflation in the industrialized countries.

As Under Secretary Robinson testified before the Subcommittee on International Finance and Resources January 26, the full impact of the oil price increase on inflation is impossible to measure with accuracy. He referred to a figure of 3½ percent as one expert estimate of the *direct* impact of the increases in the price of imported oil and the associated increases in domestically produced energy on the consumer price level in the member countries of the Organization for Economic Cooperation and Development. This estimate, made by the OECD Secretariat, accounts for roughly half of the *acceleration* of the rate of increase in consumer prices in the OECD area between 1973 and 1974. However, the *full* impact of the oil price increase is certainly much greater—perhaps twice as great—when the indirect effects operating through the impetus given to the wage-price spiral and inflationary expectations are taken into account.

I hope this information is of use to the Committee.

Sincerely,

ROBERT J. MCCLOSKEY,
Assistant Secretary for Congressional Relations.

Senator TALMADGE. When you took the initiative to establish a dialog between the oil producers and the oil consumers, the oil producers apparently insisted that the dialog take place in a broader forum, representing all developing countries, so that what started out to be a dialog on oil became a North/South dialog between developing and developed countries.

My questions are: What were and are your objectives with regard to the world price of oil?

Secretary KISSINGER. Well, let me first answer the second part of your question.

Our objectives with respect to the world price of oil are to bring about a substantial reduction in the price of oil. However, this cannot operate effectively until we create the objective conditions that produce the incentives to reduce the price of oil.

This is why we have put so much emphasis behind the IEA, behind consumer cooperation, and behind conservation in the industrialized countries.

With respect to the conference of producers and consumers, we faced the problem that some of these issues were necessary to be discussed in some respects. We thought it was in our interest to move them out of a large forum, such as the United Nations, where the bloc voting and ideological rhetoric would be dominant, into a forum in which they could be addressed at a more technical level.

Second: While the original proposals, and especially those of the radical countries of the developing world, were to have one grand conference in which all these issues would be discussed simultaneously, we have insisted there be separate negotiations in separate forums, so energy has its own forum and other issues are discussed in separate commissions with a composition that gives us a much better opportunity to bring to bear technical and substantive considerations that would not be so dominant in the previous forum in which these discussions took place.

With respect to energy, we considered the price of energy too high.

Senator TALMADGE. Don't you believe a reduction in the price of energy can be achieved by a North/South dialog?

Secretary KISSINGER. I don't believe the price of energy can be reduced by a dialog until the objective conditions are created that will produce incentives for the reduction of the price.

Dialog by itself, either in economics or in any other field, can achieve nothing without objective conditions.

Senator TALMADGE. Do you think the OPEC nations in the foreseeable future will reduce their price of oil?

Secretary KISSINGER. It depends on what we do, not simply on the basis of conversations.

Senator TALMADGE. What do you mean by "What we do"?

Secretary KISSINGER. If the consuming countries can develop adequate or substantial programs of conservation, if they can develop substantial new sources of energy, if they can reduce their dependence on imported oil, then the market conditions will shift. As the market conditions shift, it may be possible to negotiate either a lower price with all of the OPEC nations, or a lower price with particular OPEC nations which are under greater pressure than some of the others.

Senator TALMADGE. That would essentially bring into play the law of supply and demand, I take it?

Secretary KISSINGER. That is the strategy.

Senator TALMADGE. What is our current dependence on imported oil? If it grows to 50 percent, is there any limit on how high the international price can go?

Secretary KISSINGER. I think right now it is about one-third, but it is increasing. As our dependence increases, one has to say that our bargaining position declines.

Senator TALMADGE. It will get up to 50 percent by 1980, will it not, or thereabouts?

Secretary KISSINGER. That is the direction, yes.

Senator TALMADGE. Unless we do more toward conserving energy and developing alternative resources?

Secretary KISSINGER. That is correct. As our dependence increases, Senator, I would agree with you, unless somebody else's dependence declined markedly. As our dependence increases, our ability to affect the price of oil decreases as well.

Senator TALMADGE. The special negotiations are taking place in Geneva now, and so we see the President's Special Trade Representative here today, and we are happy to have him with us.

Secretary KISSINGER. Keep an eye on him.

Senator TALMADGE. They are negotiating with the lesser developed countries in Paris, and the Treasury is negotiating on monetary affairs in Jamaica and so on.

I am a little confused about all this. Who in the administration decides what subjects will be discussed, in what forum, and how all these pieces are drawn together to make a coherent international economic policy for the United States.

Secretary KISSINGER. I think one has to say in candor that the negotiating responsibilities of various agencies developed as a result of tradition, and sometimes in part as a result of congressional desires to create particular instruments with specific legislative functions.

So, it is true that various departments are negotiating in the economic field with a general division that those in which foreign policy considerations have a greater role are negotiated, perhaps, by the State Department, while others in which, for example, Treasury has had a traditional role, such as in international finance, would be negotiated by the Treasury Department. The trade area is substantially under STR.

In terms of coordination, I would like to repeat what I have said earlier. Despite the fact that the formal machinery is less elaborate than it is in the national security field, I would say it would work perhaps somewhat better, maybe because of that.

On every major issue that we have had, say, in preparation of the Rambouillet Conference—and I would say even in preparation for these hearings—all of the economic agencies get together and have extensive discussions as to the major influence of the policy we should be pursuing. Who is technically in charge of one or the other is really less decisive than the fact that the exchange on an "informal" basis among the agencies with an interest in the foreign economic field—especially in the last 2 years—has been extraordinarily easy, both on the human level and on the practical level.

This doesn't mean there aren't occasional disagreements. It does mean that everyone has a chance at presenting his point of view, and that the few disagreements that survive this process are taken to the President and resolved by him.

Senator TALMADGE. You think we do have adequate coordination, then, between the various agencies?

Secretary KISSINGER. I really do.

Senator TALMADGE. One final question: Would you please summarize the principal objectives as you conceive them to be of U.S. foreign economic policy toward the developing world.

Do we seek assured access to supplies?

Is it your purpose to transfer resources to poor countries?

Is political stability your primary goal?

Would you give us your relative priorities that you attach to these matters?

Secretary KISSINGER. We have many considerations, some economic and some of a foreign policy nature. In the economic field assured access to supplies, especially of raw materials for the United States, is going to be of increasing importance in the decades ahead.

At the same time, we are also interested in an international environment in which issues are handled by means other than constant confrontation. We are trying to discourage the organization of blocs which determine both the economic and the foreign policy decisions of a large area of the world.

We have, therefore, tried to avoid the abstract debate on whether we are creating a new economic order.

As far as the United States is concerned, we, of course, stand for the free market system. What we have attempted to do is create a series of concrete economic issues which will put an emphasis on technical competence and on the substance related to these issues rather than on political bloc organization.

We supported this approach toward commodity discussions, rather than a general commodity negotiation.

Political stability in other countries is an interest of ours, but it is not the overwhelming interest.

As for the transfer of resources, we believe that the transfer of resources through AID must play and will play a diminishing role in the process of development. We would prefer to see development occur through the encouragement of a growing world economy in which the developing countries participate.

Senator TALMADGE. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Dr. Kissinger, on behalf of Senator Curtis of Nebraska, who is unable to be here today, I have some questions that he has asked me to submit to you.

Do you regard the grain produced in the United States as Government property, or is it property belonging to private citizens?

Secretary KISSINGER. I was going to say it proves that man cannot escape his destiny. [Laughter.] I believe that grain produced in the United States is, of course, private property. But I also believe—since I know where these questions are headed [laughter]—that the economic resources of the United States are a reality, and an asset in the contemporary conduct of foreign relations. We have to take them into account.

I do not challenge that they are the private property of those who have produced it.

Senator HANSEN. If action is taken on the basis of authority in the Constitution, isn't the Executive bound to exercise that authority in accord with duly enacted statutes?

Secretary KISSINGER. Undoubtedly.

Senator HANSEN. Is not the export of grain foreign commerce?

Secretary KISSINGER. I would assume so.

Senator HANSEN. Does not article I of the Constitution give to the Congress the power to regulate foreign commerce?

Secretary KISSINGER. I am no expert on constitutional theory. Though I would not wish to be involved in a constitutional argument, all of this sounds reasonable to me. [Laughter.]

Senator HANSEN. When the flow of grain to Russia and Poland was interrupted, under what authority did the U.S. Government take action?

Secretary KISSINGER. Somebody just handed me a note telling me the legal authority. But let me tell you the considerations that were in the President's mind. I may say, if I don't get a reaction from my friend to the left here, that it was our impression that we were working with the agreement and the closest cooperation of the Department of Agriculture.

Now, let me explain what our considerations were.

We confronted in the early part of December the prospect of massive and potentially disruptive purchases of grain by the Soviet Union of a nature that would affect the interests of our consumers, and could affect the interest of countries that have been traditional and constant purchasers not only in years of emergency. It would have a potential, therefore, of considerable economic dislocation.

At the point when it was our judgment that supplies in the rest of the world remained only marginal, so that we were not interrupting purchases from the United States, we attempted to see whether through voluntary restraints we could achieve some stability for our consumers. Above all we attempted to use this situation to obtain a long-term agreement which would, over the period of its life, give much greater stability to our program by requiring the Soviet Union to purchase grain not just in years of shortage, with massive disruptive effect, but on a long-term basis.

Therefore, we discussed a program of voluntary restraint, as a result of which we obtained an agreement for 5 years. We believe it will be of much greater long-term benefit without, in our judgment, affecting the sales of the current crop, simply postponing it. Because of our analysis of the market conditions, this was the theory which we were following.

It was not legislated. It was a program of voluntary restraint.

Senator HANSEN. Certainly I can't speak for Senator Curtis, but it seems to me maybe you have given the rationale for your actions rather than to cite the authority under the law——

Secretary KISSINGER. The Export Administration Act provides authority to limit exports, but we didn't invoke it. We did it on the basis of voluntary restraint.

Senator HANSEN. Where did Russia buy grain during the weeks that the U.S. citizens were stopped from shipping grain?

Secretary KISSINGER. We believe that the grain that Russia purchased during the weeks that American citizens did not sell grain would have been purchased by the Soviet Union in any event.

Since the ending of the voluntary restraint, the Soviet Union has placed orders for something like 3 million tons, and a few hundred thousand tons in recent days. So according to our analysis this program of voluntary restraints to help consumers, to help our traditional customers, and to induce a long-term agreement which would be of great benefit to our farms, has not reduced sales and for that matter has not reduced prices.

Senator HANSEN. Was there any time during 1975 that there was an actual shortage of any grain in the United States for domestic purposes?

Secretary KISSINGER. To the best of my knowledge, no. You would know this.

Mr. BELL. No.

Senator HANSEN. Did the Secretary of Agriculture approve in writing the interruption of the export of grain any time in 1975?

Secretary KISSINGER. The only issue on which the Secretary of Agriculture disagreed during 1975 was on voluntary restraint of sales to Poland, which were only about 2 or 3 weeks, and which, in any event, resulted in the sale of the amount that was under negotiation.

This was simply a part of the Soviet negotiations, and any of you

who know the Secretary of Agriculture will agree that his opposition does not take the most restrained and silent forms. [Laughter.]

So, the President was well aware of the view of the agricultural community when he made his decision.

Senator HANSEN. You probably anticipated my last question: Who made the announcement of the stoppage of grain shipments to Poland?

Secretary KISSINGER. I am not sure any formal announcement was ever made. If my recollection is correct, it was a matter of only, at most, 3 weeks. There was no announcement.

Senator HANSEN. It was stopped?

Senator KISSINGER. Well, it was discouraged. [Laughter.]

Senator HANSEN. Was the Secretary of Agriculture informed of this before it was announced?

I think you said——

Secretary KISSINGER. It was never announced. I was present at the meeting where the President made that decision, and the Secretary of Agriculture, believe me, was heard.

Senator HANSEN. The first round has ended, Mr. Secretary. [Laughter.]

The CHAIRMAN. Senator Ribicoff.

Senator RIBICOFF. Thank you, Mr. Chairman.

Mr. Secretary, in connection with Arab boycott of American firms——

Secretary KISSINGER. Sir, I didn't hear you.

Senator RIBICOFF. In connection with the Arab boycott of American firms, the President made a strong statement committing his administration to opposing the boycott last November.

Recently, the Justice Department filed suit against the Bechtel Corp. for alleged antitrust violations stemming from possible compliance with the boycott.

Do you think Bechtel is being singled out, or do you think other firms should be prosecuted as well?

Secretary KISSINGER. Well, I simply do not know enough about the legal situation to make a judgment. I would assume that the law that applied to Bechtel should apply to all corporations, and I would assume that the Justice Department, in bringing the suit against Bechtel, is trying to establish a precedent which it then can apply in other similar circumstances. But I am not familiar with the legal aspects of the matter.

Senator RIBICOFF. Can you, then, explain why the State and Commerce Departments, testifying before the House International Relations Subcommittee on Trade and Finance last March and again this past December, stated that action against a secondary boycott should only be taken in the context of an overall political settlement in the Middle East.

Weren't these officials from your Department really saying that the United States should live with the Arab boycott, which has had a direct impact on our commerce and our international trade?

Secretary KISSINGER. Of course, with respect to boycotts in general, its use is a method not totally unknown to American democracy. It is one that we have applied in a number of instances.

The case which you mention deals, however, with secondary rather than primary boycott.

There is no question that from the point of view of foreign policy—and I am not making a legal point here—our relations with Saudi Arabia and other oil-producing countries are of considerable importance and, therefore, when the Department of State is asked about its opinion with respect to the foreign policy of nations and certain actions. it must state candidly that the impact on our relations with Saudi Arabia can be unfortunate and probably will be unfortunate in some of these cases.

That does not, however, mean that foreign policy considerations should override provisions of our law, and, as I understand it, the Justice Department is proceeding with these cases in pursuance of its conception of the requirements of the law.

Senator RIBICOFF. Am I correct that after the Justice Department filed suit in the *Bechtel* case the State Department tried to have the suit delayed for foreign policy reasons?

You have stated the foreign policy objectives. Do you now support the President and the Attorney General in feeling that the Bechtel case should proceed as fast as possible?

Secretary KISSINGER. First of all, with respect to the suit, I am asked by the Attorney General, prior to the filing of the suit, about the foreign policy implications, and with respect to timing and other matters.

I had to give my candid opinion that while I had no jurisdiction over the filing of suits, I had to state that the impact on foreign policy would not be helpful.

However, I did not couple this with any particular request. I pointed out that Assistant Secretary Atherton was going to Saudi Arabia within a 2-week period and that it would be helpful from a foreign policy point of view if he could explain the considerations that led to the formal filing of the suit.

After Assistant Secretary Atherton returned, I told the Attorney General that we had no legal standing in relation to the suit, and told him about our U.S. foreign policy implications. We did not request that the suit not be filed.

Of course, I support the Attorney General's determination of what the law requires.

Senator RIBICOFF. Mr. Secretary, I understand that the discussions between the United States, the Soviet Union on an oil agreement began this week in Washington.

Is that correct?

Secetary KISSINGER. That is correct.

Senator RIBICOFF. If a United States-Russian oil agreement is reached, do you not agree that it will affect all trade between the United States and the Soviet Union?

Secretary KISSINGER. Certainly.

Senator RIBICOFF. Won't such an agreement be a trade agreement?

Secretary KISSINGER. Well, there is another school of thought that would hold it to be an energy agreement, and yet another school of thought that would hold it to be a commodity agreement.

Senator RIBICOFF. But if it is energy or commodities, it is certainly involved in trade, whatever you call it; whether it is an energy agreement or a commodity agreement, it is still a trade agreement.

Your whole testimony here today involved commodities and energy. Wouldn't it be a trade bill?

Secretary KISSINGER. It will certainly involve trade.

Senator RIBICOFF. All right. Under those circumstances, shouldn't this agreement, if an agreement is reached, be submitted to Congress under the expedited procedures in the Trade Act?

Secretary KISSINGER. Well, it will not involve tariffs and those matters that have been generally considered part of trade agreements, but I frankly haven't thought through this particular question.

Senator RIBICOFF. Well, you have a tough problem, because I think one of the problems you will have, Mr. Secretary, with the Finance Committee—and I am not speaking for the chairman—is that there has been a complete neglect on the part of the State Department of the implications of the Trade Act, and the State Department has a low degree of acceptability in this committee, which is indicated time and time again all through the Trade Act, and it was ironical to read your statement, "Continuing exchange between this committee and the State Department is essential if our policy is to reflect totality of our national interest."

You, yourself, I think, canceled out some six appearances before this committee. In writing the Trade Act, we really nailed into it the requirement that you come before this committee, the Congress, and the Ways and Means Committee, when you have trade matters.

If you enter a deal with the Soviet Union on oil and you say you don't have to come before us for approval of commodity agreements, then how do you expect to come before Congress asking us to appropriate money and implementing legislation to carry them out?

I think this is a matter that should be given very careful consideration by the State Department.

Secretary KISSINGER. Senator, I have already expressed my regret about the difficulties that arose on those occasions, which were partly due to the fact that the Senate was not in session as we were preparing for the Special Session.

We did invite members of this committee, but not the committee as an institution, to several of the preparatory meetings of the delegation.

During October when this committee was most seized with this issue, I was testifying every day before other congressional committees on the Sinai Agreement, and the reason for these repeated cancellations was not lack of respect for this committee but because the hearings on the Sinai Agreement were much more protracted than anybody foresaw at the time we launched into them.

Therefore, they took practically all of my time.

I take your point that there should be closer cooperation. It is our responsibility—to take that step, and we will consider the points which you have made——

Senator RIBICOFF. Your own statements have often referred to the seamless web of international relations and no issue can be looked at in isolation in negotiating with another nation.

In this connection, how do you go about linking issues? Do you try to use leverage in one area to gain concessions in another?

The reason I ask this, is that the impression we have is that you deal with economics on an ad hoc basis without a grand strategy that you always seem to apply to geopolitics.

The negotiations on safeguards for nuclear technology exports have happened in one place while economics take place all over the map,

and the consumer-producer dialog in Paris, in the General Assembly, in Unctad, in Geneva, in London, and bilaterals.

Everyone seems to be going in different directions. I sense this, too, when you go abroad and you talk to ambassadors or men involved in economics in special agencies, that no one seems to know what anyone else is doing in related fields.

Maybe this is your intention. How would you explain your grand strategy when it comes to economic problems?

Secretary KISSINGER. I think, Senator, you should distinguish between the execution of policy, which is often fragmented in the political as well as the economic field, and has to be fragmented in the nature of things to specific individuals or agencies that have a special responsibility, from the overall economic or from the overall strategy.

What we generally do on every issue of major importance, in the political as well as in the economic field, is to constitute a group as soon as we begin to address the issue, as, for example, in the case of energy.

When we prepared for the Washington Energy Conference 2 years ago—which I think has had outstanding successes; I consider the cooperation achieved at the IEA one of the major things—we got together the Treasury and practically all of the economic departments. Over a period of 6 weeks, we worked out an overall strategy, and on the whole we are still following it, sometimes adjusted to particular conditions.

In preparation for the Rambouillet meeting—to take a more recent example—we organized a Cabinet-level steering group where we and Treasury were represented, backed up by a working group that met all day. We produced all the papers that were going to be presented at that conference.

The specific execution of these decisions was left to individual departments so that, for example, at Rambouillet, Secretary Simon took the lead role in the negotiation on financial matters.

Other agencies took the lead role in negotiation of other matters, but the fact was that every position we had at Rambouillet was a joint product of a working group and of a Cabinet-level group, and was examined by the President in great detail.

Therefore, I am not so bothered by the fact that one negotiation may be conducted by one agency and another may be conducted by a different one, because basically we are trying to develop an overall policy in the closest coordination between all of the economic agencies.

Senator RIBICOFF. Thank you very much. I think my time is up.

I would like to have the privilege of submitting other questions in writing.

The CHAIRMAN. Without objection, it is so ordered.

Senator RIBICOFF [presiding]. Senator Packwood?

Senator PACKWOOD. Mr. Secretary, when we passed the Trade Act, there was complaint from American businessmen about the lack of consultation and a feeling that they were given short shrift for diplomatic purposes.

We tried to write into the act some strong provisions that trade associations would be consulted by the special trade representatives and others, and I will say to Mr. Dent's credit that we have heard nothing but good reports about the consultations you had, and the communities seem pleased.

Mr. Secretary, do you share that view in terms of multilateral and bilateral trade agreements?

Secretary KISSINGER. I share it strongly. On the one hand, we are constantly being told we should use the economic strength of this Nation in achieving national objectives.

On the other hand, when you do that, it is obvious that you can do it only by putting some restraints on the unrestricted exercise of that economic power, because otherwise it no longer is a tool of policy.

You will have seen recently that, on the one hand, we are told that we are not conducting an adequate policy with respect to Angola, because we are not cutting off wheat sales.

But, on the other hand, we get the line of questioning that Senator Hansen conducted on behalf of Senator Curtis, when, in order to achieve an outcome which we thought was primarily beneficial to the farmers by giving them long-term stability in a market, and we have a temporary voluntary restraint, we are then accused of not taking into consideration or interfering with the free market.

I am not complaining, but I am pointing out the various considerations. I agree that various economic interests should have an opportunity to be heard.

Senator PACKWOOD. Good.

Can you tell me specifically which trade association groups were involved in the long-term grain agreement with Russia?

Secretary KISSINGER. That would not be handled by my Department. Maybe Mr. Bell would discuss this.

Mr. BELL. There was no consultation, Senator——

Senator PACKWOOD. That is what I thought.

Mr. BELL [continuing]. Because of the nature it unfolded in.

Senator PACKWOOD. There was no consultation with any grain trade association in this country, was there?

Mr. BELL. No, sir.

Senator PACKWOOD. So, when the committee and this Congress passes an act that gives them a chance to be heard, they are not consulted. That is what I thought.

Can we go back to the 1972 Russian grain purchase? The repercussions didn't really hit on that until 1973 when we discovered that we sold a lot of grain and then the inflationary impact hit us in 1973, and I think at that time when we imposed the soybean export it added—to the detriment of Japan and not Russia, which didn't do much to help our relations with Japan, I think—tremendous consumer reaction to high beef prices and feed grain prices.

Now, with that background, the 1972 grain sale to Russia and the political consequences of that, the 1973 soybean embargo, we put into the Export Control Act in 1974, the following language:

> The authority conferred by this section shall not be exercised with respect to any agricultural commodity without the approval of the Secretary of Agriculture. The Secretary of Agriculture shall not approve the exercise of such authority with respect to any such commodity in any period for which the supply of such commodity is determined by him to be in excess of the requirements of the domestic economy.

Last year, we grew about 2.1 billion bushels of wheat and used 750,000 or 800,000 bushels domestically. You indicated we had no shortage.

Mr. Secretary, when you were faced with this situation, where you looked for a temporary limitation on the export of wheat, the Con-

gress indicated that they did not want to have a limitation unless there was a domestic short supply, and you had to find a way of getting around the congressional intent.

Secretary KISSINGER. It wasn't a question of getting around the congressional intent; it was a question of the President having concluded that a certain course was in the national interest, and talking to American citizens to convince them of the wisdom of this course.

If they had refused, he had no authority to compel them.

Senator PACKWOOD. Is that what you mean by voluntary restraints?

Secretary KISSINGER. That is correct.

Senator PACKWOOD. They voluntarily agreed not to export the grain?

Secretary KISSINGER. The farmers achieved, in our judgment, all the sales they were going to achieve anyway, and the restraint, the voluntary restraint, was not carried out.

It was not intended to be implemented until a judgment had been made as to overall market conditions, in which it was the conviction of the Secretary of Agriculture, who knows the subject, that it would not hurt the sale of American agricultural products.

Senator PACKWOOD. In conclusion, what you are saying is this, that there was no embargo, that farmers voluntarily restrained themselves from exporting?

Secretary KISSINGER. I am saying that in working with the grain companies, we achieved a voluntary restraint.

Senator PACKWOOD. The grain companies?

Secretary KISSINGER. That is correct.

Senator PACKWOOD. You made reference to the opening of the International Energy Agency meeting today.

Secretary KISSINGER. Yes.

Senator PACKWOOD. Would the American position at that meeting be an effort to achieve a minimum floor?

Secretary KISSINGER. The American position has been to negotiate a minimum sale contract price on oil, yes.

Senator PACKWOOD. Does Secretary Simon know about it?

Secretary KISSINGER. To the best of my knowledge. He has representatives on all of the groups that have worked this out, and I think he is aware of it.

Senator PACKWOOD. As far as these specific meetings are concerned, he did not know there would be an effort made again to try to achieve a minimum floor?

Secretary KISSINGER. It is reassuring to know that the Treasury bureaucracy slips up sometimes.

Senator PACKWOOD. Let me ask you this: Assuming you achieve the minimum floor of $6 or $8, or wherever you put it, and then the world price slips below that, what is going to be the authority of the executive that you enforce a $7 floor, or whatever the minimum may be?

Secretary KISSINGER. Of course, you realize that a $7 price, when we reach that point, will put us in a happier world than we are in today.

Senator PACKWOOD. I don't mean $7 specifically. I am curious where the authority comes from to enforce any floor.

Secretary KISSINGER. This will be an overall program, of course, and will then have to be ratified by the constitutional processes of each country. Therefore, each country that does not have the authority to

implement it will have to get the authority it requires from whatever constitutional process it has, and we cannot implement it until legal authority is created.

Senator PACKWOOD. In your estimation will a minimum floor require a confirmation by this Congress?

Secretary KISSINGER. Yes; in order to be implemented it would, yes.

Senator PACKWOOD. Thank you. I have no other questions.

Senator RIBICOFF. Senator Byrd?

Senator HARRY F. BYRD, Jr. Thank you, Mr. Chairman.

The trade bill and the Export-Import Bank bill both provide for a ceiling of $300 million on Export-Import Bank loans to Russia.

Do you or the State Department have an intention of seeking any change in that ceiling?

Secretary KISSINGER. We have opposed the ceiling in the past.

Senator HARRY F. BYRD, Jr. I didn't understand you.

Secretary KISSINGER. We did not favor the ceiling in the past, and we think it has deprived us of important leverage in our relationships.

We have in general been in favor of modifying the various restrictions that have been tied to emigration questions.

Senator HARRY F. BYRD, Jr. This is aside from it——

Secretary KISSINGER. It is aside from it, but it was conceptually related to it.

At the same time, we had originally intended to move more actively to consult with the Congress to see whether the modifications of either the credit issue or the trade issue, or at least one or the other, might be possible.

I think in view of the situation in Angola, this is not an appropriate moment to come before the Congress with such a request.

Senator HARRY F. BYRD, Jr. So, it is not your intention, then, to seek a change in the $300 million ceiling?

Secretary KISSINGER. Not in the immediate future, not unless the political environment changes.

Senator HARRY F. BYRD, Jr. If you change your mind, would you let the Senator from Virginia know, because I have an interest in this matter being the sponsor of both amendments.

Secretary KISSINGER. From my knowledge of the Senator from Virginia, it would be extremely difficult to keep it from him. [Laughter.]

Senator HARRY F. BYRD, Jr. Mr. Secretary, given the huge sales of technological products and skills to Communist countries, do you feel there is a growing risk of transfer of technology with implications for national defense?

Secretary KISSINGER. I keep reading these comments in the press, and I have asked for a study so that I can get a clearer understanding of just what it encompasses.

My impression is that as far as the United States is concerned, our contribution to the transfer of technology to the Soviet Union is a relatively small part of the overall picture.

The largest trade of the Soviet Union now is with Western Europe and Japan. The credit from those areas, while we are limited to $300 million, approaches $10 billion. Where our credits have always been tied to specific projects so that we could control, by decision, the

transfer of technology and the nature of the enterprise, the credits of others are open ended and can be used much more flexibly.

So, I think we do not face primarily a United States problem.

Senator HARRY F. BYRD, JR. I see.

Secretary KISSINGER. But we will have better information about that in a few weeks, and I will then be able to give you more accurate answers.

Senator HARRY F. BYRD, Jr. I suppose, then, by follow-up questions would need to wait for those 2 weeks.

Mr. Secretary, the defense budget, which has just been submitted, assumes a SALT Agreement. The budget is based upon that assumption?

Secretary KISSINGER. Yes.

Senator HARRY F. BYRD, Jr. To me that suggests an agreement already has been reached, or that our negotiators are determined to make concessions to achieve an agreement.

Would you comment on that?

Secretary KISSINGER. I think both of these assumptions are incorrect, sir.

An agreement has not been reached. Our negotiators are not determined to make concessions that are against our interests or to reach an agreement.

We have a clear idea of the limits beyond which we will not go, and if we cannot get an agreement within these limits, then there will not be an agreement. Under those conditions we would have to come back to the Congress and ask for supplemental funds for the strategic budget.

The worst situation would be to have a military budget based on one set of assumptions, and no SALT Agreement, so that any gaps that exist will widen, and we will have to face the fact that in the absence of the SALT Agreement we will have to ask for additional resources for our strategic forces.

Senator HARRY F. BYRD, Jr. I must say it seems to me strange to base our defense budget on an assumed agreement with a potential enemy without whom it wouldn't be necessary to have such a heavy defonse budget.

Secretary KISSINGER. Well, we have a supplementary budget which we are prepared to put forward. We have the figures of what would be required in the judgment of the President and his principal advisers should it become apparent later on this year that an agreement is not achievable.

Senator HARRY F. BYRD, Jr. Isn't it correct that the budget is based on the assumption that there will be an agreement?

Secretary KISSINGER. It is based on the assumption that there will be an agreement partly because the issues have been narrowed significantly and one can imagine the direction in which an agreement would be sought.

Senator HARRY F. BYRD, Jr. You have been saying that the Russians made "all the concessions" in the SALT II. That seems to me astonishing.

Secretary KISSINGER. That is also not a correct statement. I said the Soviets over the past year have made some significant concessions.

For example, the agreement not to count forward-based systems; the

agreement on a ceiling for strategic forces which is below that of the Soviets, of the total that the Soviets now have, but above that which we have, so that this will require reductions by the Soviet Union of several hundred units to reach the agreed ceilings; the acceptance by the Soviet Union of the counting rules that we have asked for in relation to the counting of MIRV's.

These are significant concessions.

Also, I would be the first to say that even with these concessions we cannot settle on the present position, and that further considerations and negotiations will be necessary.

Senator HARRY F. BYRD, Jr. A lot of Americans are asking what the United States is getting out of détente. We feed Russia; Russia supports OPEC; Russia intervenes in Portugal and Angola; Russia builds up its first strike capacity, and I am wondering if you could give us some concrete examples of how détente is working for the American citizen.

Secretary KISSINGER. First of all, Senator, the question is: What is meant by détente?

This is the first issue that has to be addressed.

What we understand by the condition which has been described as détente, is a constant realization of the fact which cannot be avoided by American policy—that the Soviet Union, as a result of technological and industrial growth, has emerged for the first time in the 1970's to the level of super power status.

In the 1950's and 1960's the superiority of American strategic forces was so overwhelming that the Soviet Union was not really in a position of equality. If you combine the destructiveness of nuclear weapons with the growth of technology, then an upper limit is reached above which military superiority loses a great deal of its traditional meaning. This means the regulation of our relationships with the Soviet Union is a different matter than it was in the 1950's and 1960's.

This is a fact that no American administration will be able to avoid.

Second, the United States seeks to do two things concurrently: On the one hand, we are cognizant of the fact that in the past, wherever another superpower emerged, the relationship between it and the established countries was invariably settled by war, either by the established countries trying to reduce the emergency of the superpower or by the superpower trying to seize something from the established countries.

Under the present conditions, where nuclear war will mean casualties probably involving hundreds of millions on both sides, any national leader must do everything he can to avoid recourse to that contingency. We have an obligation to try to build a new international relationship which overcomes some of the traditional patterns.

On the other hand, while building this new international relationship, we cannot permit, and we are determined to resist, the expansion of the Soviet sphere by military power. Therefore, where the Soviet Union has attempted to expand, such as in Angola, or where the Soviet Union has launched political offensives, such as in Portugal, the United States has resisted and has resisted with great determination, and if I can be candid, not all of this with the support of the Congress.

So, we face a dual problem, as I have pointed out.

Now, when you conceive détente in the way I have described it, it is not a favor we do the Soviet Union. It is a necessity of contemporary international politics. I am not suprised that Soviet power continues to grow, partly as a result of their ideology, partly as a result of the evolution of industry and technology. We cannot prevent the growth of Soviet power. What we can prevent is the uses to which this power is put, and that requires that we keep our strength up and that when there is a utilization of this power, directly or indirectly, we resist as a united people.

Now, we don't look at the Soviet grain deal as a question of feeding Russia. We have discussed what happened in 1972 in this committee before. I am talking now about the reason behind it. Some of the questions that we were asked in this committee indicated the pressures that exist on the administration.

We have attempted to strike a balance between the concerns of our farmers and the long-term requirements of American policy, by preventing disruptive Soviet incursions into our markets, and by putting an upper limit beyond which the Soviet purchases cannot take place without additional discussions with our Government.

So, what we have gotten out of this relationship is a method for regulating a condition, on which the survival of civilization could well depend, by methods less catastrophic than nuclear war, while retaining the option which is essential to resist the expansion of Soviet power, provided we can get enough concessions to do it.

Senator HARRY F. BYRD, Jr. Thank you, Mr. Secretary. My time has expired.

Senator RIBICOFF. Senator Fannin?

Senator FANNIN. Thank you.

Mr. Secretary, I commend you for an excellent statement. I am especially pleased with your conclusion when you say we have major economic interests abroad, on which American jobs depend.

You say these interests are best promoted by encouraging among these countries the same freedom of economic exchange that we have in this country, and you bring out the fact that we can only take the lead and not fail in the exercise of this responsibility.

What impresses me is that you say our leadership role does not and must not prevent us from using our economic power to make sure American traders get a fair deal.

I bring out that the developing countries are a special case, but you point out that they must accept obligations as a part of the international system as their economies grow.

I am impressed with what you say in this regard, because it brings out the fact that we have to challenge these countries to do their part.

Now, a spokesman for the Treasury Department testified that there was no basic conflict between the Treasury and State Departments regarding commodity agreements.

Further, the offer to examine commodities on a case-by-case basis was in fact a rejection of the demand for keeping new commodity price supports by LDC's.

Could you tell the committee the merits of the case-by-case approach as distinguished from commodity price supports?

Secretary KISSINGER. We were confronted last year with a demand by LDC's. They proposed one grand negotiation on commodities, with indexing and many other features that we found objectionable, and in

which the various commodity producers would link themselves together into a sort of super network and use the supplies of raw materials to extort additional concessions from the industrialized countries.

We thought that the best method to counteract it was not to reject any discussion on commodities, which would have had the practical effect of consolidating this, but rather to create a forum in which legitimate grievances could be determined, under examination on economic grounds, and on a case-by-case basis so that we would not have a condition in which various producers could trade off their strengths to produce a confrontation with the developed countries.

We think this approach has worked because it allows us to deal with the commodities of greatest interest to us, and to group those countries with which it is possible to reach an agreement. It gives us the right to refuse to go along, as for example in the cocoa agreement, without having to have an immediate or dramatic effect on international relationships.

Senator FANNIN. Mr. Secretary, one of the justifications for commodity cartels is the allegation that raw material prices have been lagging behind the prices of manufactured goods.

In a study by the United Nations it was shown that in the last 25 years raw material prices have outstripped those of manufactured items.

Does this mean the gap is narrowing?

Secretary KISSINGER. The overall gap between rich and poor does not seem to be narrowing, except if you throw the oil-producing nations into the statistics. Quite the contrary, the special problems of many of the developing countries have not yet been fundamentally solved.

Senator FANNIN. Mr. Secretary, from what you said then, I assume that you agree with what Secretary Simon testified to, that both our own economic interests and those of other countries can best be served by not putting more controls on the free market and on raw materials, but by working to dismantle those that now exist. You are in agreement with that?

Secretary KISSINGER. I am in agreement with this, yes.

Senator FANNIN. What steps are you taking to help dismantle price-fixing arrangements? OPEC, of course, is the greatest problem.

Secretary KISSINGER. We would have to discuss this on a case-by-case basis. On the whole our approach is by public stocks rather than price-fixing arrangements, because that would use the market forces to help even out some of the swings, without, however, leading to price fixing. So our approach to commodity negotiations is through the buffer stock system rather than through price fixing.

Senator FANNIN. Some have observed that petroleum is an exception, and that no other group of less-developed countries possess the attributes to regulate a major raw material.

I know you have commented before that cartels were possible in other commodities, but I would assume that your desire is to discourage every possible commodity agreement.

Secretary KISSINGER. Our desire is to discourage insofar as possible the emergence of these cartels. I would say that I am perhaps less impressed by the economic arguments of the difficulty of doing this, because the decisions could well be taken on foreign policy grounds

by countries to try to create cartels, and they might be able to achieve a greater cohesion than a purely economic analysis would indicate. This is something we are attempting to the best of our ability to counteract.

Senator FANNIN. There has been a great deal of comment in recent weeks about the OECD statements which the 24 countries have given which indicate that they are just about holding their own, or not lagging behind as they were in the last couple of years. Do you feel that those countries do represent a cross section? Naturally they do not represent the last-developed countries, but do you feel they represent a cross section of the industrialized countries?

Secretary KISSINGER. The 24, the OECD countries?

Senator FANNIN. Yes.

Secretary KISSINGER. I think they represent a good cross section of the developed countries.

Senator FANNIN. The problems reflected in their reports would indicate that they are making—that those countries are making progress now, and that—I don't say they are overly optimistic, but at least they do feel that they are headed in the direction of recovery.

Secretary KISSINGER. The developed countries, we believe, are beginning their process of recovery, and so we agree with that statement.

Senator FANNIN. We have talked about the oil prices, and I think you have commented on it before, regarding what could be done as far as the executive authority for the IDA establishment of the minimum oil price of $7, and $7, as I understand it, is not necessarily a fixed figure.

Secretary KISSINGER. It hasn't been fixed. I think it will be fixed today or tomorrow, but it will be in the range of $7.

Senator FANNIN. Now, the original Soviet gas deal worked out by Tenneco, we are talking about what is happening around the world, and just going back to that particular contract—not a contract necessarily, but the negotiations going on. It would be involving about $7 billion of financing pipelines and equipment and tankers.

The Exim Bank would put up a billion dollars, the American business $1 billion, the Soviets $650 million, and the rest U.S. banks. The Soviets agreed to sell us gas over a 25-year period at $1.25 per thousand cubic feet. That sounds high today with the average about 52 cents a thousand, but at the same time the projection for the future would not put that price out of line.

What do you think should be done to encourage this, or would you be in favor of going forward with a program of that nature?

Secretary KISSINGER. Well, when this program was first developed, the concept was that as the economic relations between us and the Soviet Union developed, it would provide incentives for political restraint. I am still not sure that this was not a correct theory.

Many of the political actions of the Soviet Union to which we have objected, such as Angola, occurred within about 3 months, or began within about 3 months of the inability to implement the trade agreement.

Now, in assessing whether to go ahead with energy projects with the Soviet Union, one has to weigh, on the one hand, the greater supply and dependence on the Soviet supply it necessitates versus the greater independence from other foreign sources. Then one has to weigh the

relationship and the political pressures that can be brought by us in one area and the political costs in one area as against the other.

One has to consider also the impact on the overall relationship between us and the Soviet Union while this project is being developed, which will be a period of nearly 10 years.

So I must say that in 1973 when it first came up I generally favored the concept without having examined all the details. Since then, and for a variety of reasons, some of which we may well regret as time goes on, political conditions have reached a point where right now would not be the most opportune moment to produce, or to come forward with projects or large-scale economic cooperation, because that has to be based on greater foreign policy effects than have existed in the recent months.

Senator HARRY F. BYRD, Jr. [presiding]. Mr. Hansen?

Senator HANSEN. Mr. Secretary, it has been my impression, and maybe you wouldn't agree, that for a number of years the United States and, as a matter of fact, I would say since shortly after the end of World War II, the United States has pursued a policy of encouraging the formation of new countries, and we responded with approval to the efforts of people that wanted it to set up their own countries, and as a consequence there has been a proliferation of countries worldwide.

I now note that these countries don't necessarily see things our way. I note that Ambassador Moynihan seems to find reason to disapprove of the acts of some of these developing countries, and recently he has been critical of the State Department.

How would you comment upon his criticism of lack of State Department support? Is that a fair criticism?

Secretary KISSINGER. Well, first of all, the same cable which was——

Senator HANSEN. I didn't hear you, sir.

Secretary KISSINGER. The cable printed in the New York Times spoke of full support by the President and the Secretary of State, but some lack of enthusiasm for some of the ideas by some lower levels of the State Department. I think an ambassador would be concerned with whether he has the support of the Secretary of State, and not whether every secretary in the State Department supports him. As I could have told him from my own personal experience, not every official of the State Department supports me. In fact, they have been known to come up here on the Hill and lobby against some policies that I preferred.

So I would think that in any large bureaucracy it is necessary to have different points of view. I encourage the Foreign Service officers to express their views freely, and it is necessary to have their views represented. Once a decision is made, then they must get behind it and support it.

I believe that Ambassador Moynihan has done an outstanding job. I recommended him to the President on the basis of an article he had written in Commentary magazine, in which he precisely outlined the policies that he thought we should pursue, and we would scarcely have put him there if we had wanted different policies.

On the other hand, the senior officials, responsible officers in the Department of State, must be free to express their views even if they don't necessarily agree with those of either Ambassador Moynihan or myself.

I believe that Ambassador Moynihan has the full support of the

Secretary. That is the support he needs, and in the formulation of that policy it is quite proper for different points of view to be expressed.

Senator HANSEN. In your prepared remarks, and I won't try to quote them to you precisely, but I think essentially you called attention to your awareness of the need for this country's policy to encourage developing nations in their economic and social aspirations, underlying the needs for credit and access to raw materials and that sort of thing.

As you look at the world today, would it be your feeling that because of the new nations that have come into existence, say in the last two decades, we have imposed an increasing and perhaps extremely difficult burden for this country to shoulder in providing the financial and economic assistance necessary to continue these new nations as viable entities in the modern world?

Secretary KISSINGER. The emergence of so many new nations has gone far beyond what anybody envisaged when the United Nations was first formed. When the United Nations was first formed there were, I think, 50 nations or less in the world. Today there are 140. These new nations are of a size that in any previous period would not have been considered capable of self-sustaining national identity.

Therefore, the problem of achieving a coherent economic development policy of nations with such a character is extremely difficult. At the same time, we carry, in any event, a very heavy burden of world leadership, which results from our size, the strength of our economy, the fact that we are domestically a nation that is capable of pursuing a coherent policy and the fact that there is no alternative.

We are attempting to avoid a situation in which the development of these new nations becomes primarily a matter of American governmental responsibility. The whole thrust of my speech to the U.N. Seventh Special Session was to say that whatever we do in the field of formal foreign aid is going to be vastly insufficient in relation to the overall needs. We have, therefore, to look for mechanisms by which the operation of the world economy, the operation of the market, can help these countries achieve development rather than formal governmental aid as it has been conceived in the past.

Senator HANSEN. Appreciating the need, and the good reason for posture on the part of this country that would proclaim by act as well as words our good intentions, and our concern for peoples everywhere, isn't it realistic to anticipate that within the coming year, within a relatively short span of years, a lot of these nations, one way or the other, would have passed out of existence?

Secretary KISSINGER. Well, they may not pass out of existence——

Senator HANSEN. I mean they will be incorporated into other, more powerful countries. Larger neighbors would take them over.

Secretary KISSINGER. It doesn't seem to be the trend, but what worries us, partly as a result of the events of the past year, that the use of force to settle disputes seems to be on the rise, and if this develops on an unrestricted basis, then I could well see the absorption of several countries by stronger neighbors. That also would create such an amount of instability in the international order that it might tempt superpowers to enter that game, and then we would have a very difficult situation.

But many of these nations that emerged from fragments of empires have their primary historic origin in the fact that they were colonized by a certain country.

Senator HANSEN. I am aware of that, and I appreciate the good intentions that have entailed us to do many of the things we have done, but it seems to me we may be unrealistic in our present posture in presuming that we can't pursue a global policy that will achieve objectives to which we had earlier committed ourselves in light of present-day trends.

Secretary KISSINGER. We cannot achieve a global policy equally relevant to every country in the world, and we cannot promote the economic development of every country in the world by direct American action.

What we can do is create an international environment in which those countries that are willing to make efforts on their own behalf should be able to thrive. We can pay special attention to certain high-priority areas, high priority in terms of American interest, without direct intervention—direct support.

Senator HANSEN. Might I ask one more question? I do apologize.

Senator HARRY F. BYRD, Jr. Certainly.

Senator HANSEN. Let me say this, that it seems to me that the demands that have been placed upon us, the positions that we have taken that have resulted either in an alienation in the support of other countries, or absence in supporting us, and there are some of the recent votes in the U.N. that certainly carry this clear impression to me, and I just wonder if more and more we are not getting down into a position where, despite our earnest endeavor to have the support of powerful and influential nations around the world, we seem oftentimes to be all by ourselves.

Secretary KISSINGER. The trends you describe are due more to political and ideological factors than they are to economic factors. It is true that many of the new nations are beginning to be attracted by ideologies that give them an opportunity for, among other things, maintaining essentially one-man government, or one-party government. It is true that they are forming blocs, often against our interests. It is also in part caused by the inability of the United States to act on the foreign policy side, and I am not talking economically, in ways that are relevant or impressive, but it is not a situation that we cannot manage.

We will not have the overwhelming support that we enjoyed in the postwar period, but we must not forget that we are still the strongest nation in the world, and progress and security anywhere still depends on us. If we use our resources and our power and our values competently, we can still be the most important factor in international policy. But that depends importantly on us.

Senator HANSON. Thank you, Mr. Secretary.

Senator HARRY F. BYRD, Jr. Senator Packwood?

Senator PACKWOOD. Mr. Secretary, in your statement there is reference made to title IV, in regard to the Trade Act, and I know that argument continued all during the Trade Act consideration before this committee.

Why, in your estimation, after we have granted the most-favored-nation status to Romania and other benefits, has the immigration dropped so drastically.

Secretary KISSINGER. From Romania?

Senator PACKWOOD. From Romania. We gave them the benefits they allegedly wanted, and we didn't put the restrictions on them as we did others in title IV.

Secretary KISSINGER. I have to tell you candidly, even if it undermines your confidence, that I didn't know immigration had dropped from Romania.

Senator PACKWOOD. Let's go back to the grain agreement. Was this from the Department of Agriculture, or what, the one with Russia?

Secretary KISSINGER. The technical head of the delegation was Under Secretary Robinson. Mr. Bell was a member of the delegation, and all the negotiations were worked out with the closest cooperation between State and Agriculture. I am not aware of any disagreements in the course of these negotiations that were not resolved. One can say that the decisions that were adopted were common positions and not imposed by one or the other.

Mr. BELL. That is true.

Senator PACKWOOD. Mr. Bell, did you use your Agriculture Policy Advisory Committee or the Agriculture Technical Advisory Committee, and Feed and Grain Committee?

Mr. BELL. No, we did not.

Senator PACKWOOD. Why not?

Mr. BELL. Because of the nature of the way the negotiations unfolded and the need to wrap them up as quickly as possible. There was no opportunity for consultations. They certainly were briefed and advised as soon as we had an opportunity.

Senator PACKWOOD. It is fair to say that the principal growers and exporters in this country are not wild about this agreement, are they?

Mr. BELL. I have this impression, sir.

Senator PACKWOOD. This was hasty, and you had it tied up almost in 2 weeks or so. I realize it extended over a longer period of time.

The haste flies in the face of the Trade Act. These groups were not even consulted. I hope this is not going to be a harbinger.

I will say this to Ambassador Dent, that he has been very good, but I hope this isn't a harbinger that we will see in other nonagriculture areas. You were almost in a position of concluding this quickly, that the farmers are going to be up in arms, and we never will be able to do it.

Mr. BELL. We were, of course, in the Agriculture Department anxious to conclude the agreement as soon as possible. We were in the early days of October, the harvests were about to be completed in some crops, and we thought it would be important to complete it as soon as possible so we could resume sales. Sales were resumed almost immediately after the completion of the agreement.

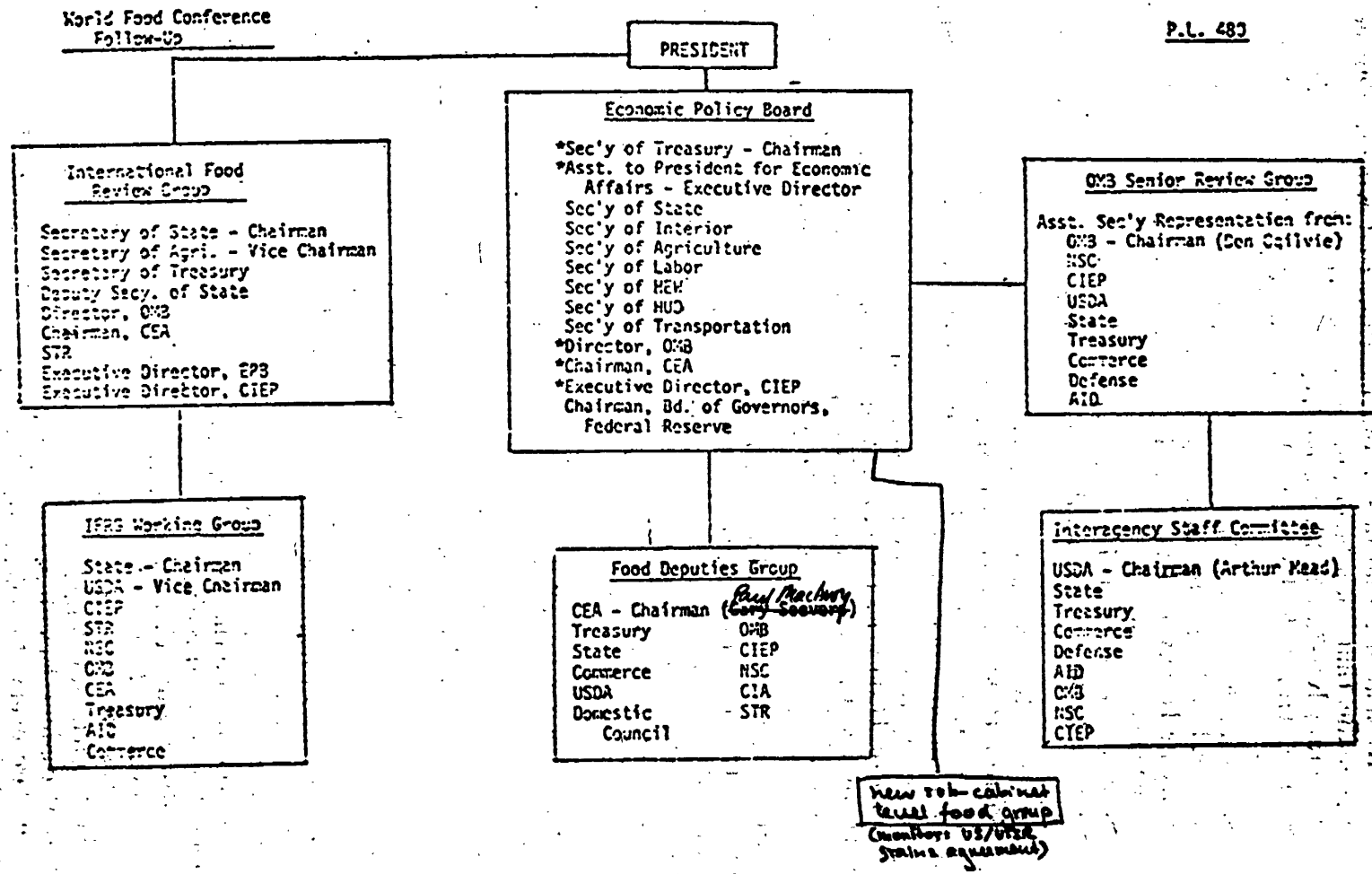
The concept of the agreement and its form was not decided in haste. There were general ideas on the thinking of it some weeks in advance, but once the decision was made that we were going to have an agreement, we in Agriculture wanted to wrap it up as quickly as possible.

Senator PACKWOOD. I think it was a grievous mistake in not involving the grain associations. I think you could have had many of them on your side. I think you underestimated what they can produce if they are really asked to produce, and that your limit of 8 million tons would turn out to be——

Mr. BELL. I don't understand that figure to be a limit. As Secretary Kissinger says—we in the Department have great leaders in consultation, and we do have consultations, and we will expect to in the future.

[Mr. Bell subsequently supplied the following chart:]

Executive Office Organization for Food Issues



Senator PACKWOOD. I have no further questions, Mr. Chairman.

Senator HARRY F. BYRD, Jr. Mr. Secretary, in regard to the United States-Russian negotiations on oil, I assume that whatever agreement can be made, that not a large amount of oil will be involved.

Secretary KISSINGER. That is correct.

Senator HARRY F. BYRD, Jr. In other words, it is a minimal thing, and——

Secretary KISSINGER. But it will be somewhat relevant. It will not however, be a large amount; that is correct.

Senator HARRY F. BYRD, Jr. It will be in relation to U.S. need—it will be very, very little?

Secretary KISSINGER. Less than 5 percent of our total imports.

Senator HARRY F. BYRD, Jr. Substantially less than 5 percent, is it not?

Secretary KISSINGER. In the area of 3 percent.

Senator HARRY F. BYRD, Jr. Mr. Secretary, my belief is that Russia does not want nuclear war any more than does the United States. Would you concur in that?

Secretary KISSINGER. I agree with that.

Senator HARRY F. BYRD, Jr. And in reply to my previous question with regard to détente and also in our own discussions, you seem to feel that, if I understand you correctly, that it is détente that has prevented a nuclear war?

Secretary KISSINGER. I am saying that we are operating at two levels. One is the level of traditional foreign policy in which you prevent war and prevent expansion and maintain your interests by the traditional methods of pressure and counterpressure, where you rely on the mutual self-interests of countries concerned to prevent war.

At the same time, we are also trying to build a new international environment which is somewhat less risky. We are not saying that that has been achieved, because if you look at the traditional policies of pressures and counterpressures, you must be struck by the fact that they have almost invariably, soonor or later, led to war.

Look at the diplomacy, for example, that led to the outbreak of World War I. I think it is safe to say that no leader actually wanted war at that time. I think it is safe to say that any leader at that time—had he been told 4 weeks before they started that, within a month, they would be involved in a war killing millions of people in 4 years—would have recoiled from horror at that prospect.

Yet it happened.

We want to create an environment in which that sort of contingency is removed, not on the basis of unilateral American activity, but on the basis of strict reciprocity.

Senator HARRY F. BYRD, Jr. What date do you put as the starting point of détente?

Secretary KISSINGER. I would say that the concept started as soon as the Soviets developed a significant nuclear capability. As early as 1954, President Eisenhower said, "There is no alternative to peace." Since then every American President, no matter how different their personalities, and no matter how different their original conceptions, has attempted to grapple with the problem.

Now, the present period of attempting to do this I would put around 1970, 1971—more likely 1971.

Senator HARRY F. BYRD, Jr. I think almost everyone would agree that there is no alternative to peace, but you would put it around 1970 or 1971?

Secretary KISSINGER. I am talking about a particular phase, and about the recognition of the necessity of it. I would put that in 1954 when Eisenhower and John Foster Dulles were conducting foreign policy.

Senator HARRY F. BYRD, Jr. You don't put the period 1954 to 1970 as a period of détente, do you?

Secretary KISSINGER. I am not saying that the attempt to achieve détente is always realized in any one period, but if you look at the period 1954 to 1970, we have had periods of ups and downs. You have had the period of the so-called "Spirit of Geneva" and then in 1955 when Khrushchev came over here. Then you had another period in the 1960's. This recent period has been perhaps the most systematic and sustained one of that 20-year period.

Senator HARRY F. BYRD, Jr. That is the period also where the concessions were made?

Secretary KISSINGER. I don't know what concessions. Frankly, Senator, I think this is one of the myths that is being perpetrated right now. What concessions have been made?

Senator HARRY F. BYRD, Jr. You, in regard to my earlier question in regard to SALT II, when I asked the accuracy of the quotation in the press, attributed to you, saying that in SALT II the Russians had made all the concessions, your reply was that that was not an accurate statement.

Secretary KISSINGER. I think the Soviet Union in SALT has made significant concessions, but it should not be a criticism of policy, that the Soviets have made concessions.

Senator HARRY F. BYRD, Jr. Mr. Secretary, have you been able to make any headway with the Russians in regard to Professor McClellan? You and I have talked about this several times.

Secretary KISSINGER. Senator, I have always held the view that on these cases of human hardship, the method of nonpublic confrontation is the better method of achieving one's objective.

Senator HARRY F. BYRD, Jr. Oh, yes, I am not——

Secretary KISSINGER. I can only say it is a matter I am dealing with, and I would like to brief you about it personally. I think it will be better for the case involved——

Senator HARRY F. BYRD, Jr. Yes.

Secretary KISSINGER. If I do not go into a public discussion of it.

Senator HARRY F. BYRD, Jr. That is fine. I fully understand that, and I think you are quite right. I have just one more question.

I am a member of the Armed Services Subcommittee on Arms Control, and the committee has been seeking since last March to have you appear and testify on SALT issues. I am wondering whether you might indicate a convenient date.

Secretary KISSINGER. I am prepared to appear on SALT issues. The invitation was expressed in rather a curious way, in which all the

conclusions to be reached by the committee were already expressed in the letter of invitation.

The second problem has been that I have no substantial disagreement with the testimony that was made by Secretary Schlesinger and Director Colby. I hope we can have a procedure so that the chairman doesn't report every 20 minutes to the television cameras what was said in executive session. I would prefer to come before the committee with representatives from Defense, the Joint Chiefs and the CIA to put together the issues in a definitive way, once and for all, so that we avoid this impression that there is fundamental disagreement on SALT. We can have everybody gathered in the same room at one and the same time to explain and defend the positions we have jointly taken. On this basis, I am prepared to work out a mutually agreeable day with the committee.

Senator HARRY F. BYRD, Jr. It seems to me, Mr. Secretary, that it is really more important for you to be willing to come before the committee.

Secretary KISSINGER. I said I am prepared to do it, and at a date that we will arrive at.

Senator HARRY F. BYRD, Jr. I say this particularly because the present Defense budget is based on an agreement on SALT.

Secretary KISSINGER. But the President has made very clear that if there is no agreement on SALT, we will have to put in a supplemental.

Senator HARRY F. BYRD, Jr. I understand that, and that is a cause for concern, too. I must say I was sorry to note that our Defense budget would be based and is based on an assumed agreement with the Soviet Union.

Secretary KISSINGER. But, Senator, if there were no agreement with the Soviet Union, since the leadtime on all these items is very long, and since that will not in itself produce an immediate crisis, there will be plenty of opportunity to ask for the funds that will be necessary under conditions of no SALT agreement. You can be certain these funds will be asked for, and the ideas for that have already been put before the President. So that if there is no agreement, we are not putting ourselves at any disadvantage, because the first thing that can be done is to accelerate those programs that already being planned. There is complete agreement between the Defense Department, the Joint Chiefs, and the State Department as to how to proceed in the absence of a SALT agreement, as there was complete agreement on the Defense budget. The idea to submit a Defense budget of this kind was not the idea of the negotiators. This was something that was agreed to between the President and the Defense Department, and not something that was put forward by the negotiators.

Senator HARRY F. BYRD, Jr. When I expressed a view yesterday to one of the ablest Members of the House of Representatives that they were struggling to base this on an assumed agreement, he said he didn't regard it as startling, but he regarded it as frightening.

I think that is an additional reason, and if you and the committee chairman can work it out, and you could arrange to come before us——

Secretary KISSINGER. First of all, this is not a position I originated. From the point of view of negotiating, one is better off to go the other

way, but from the point of view of National security, I think the decision that the President made in consultation with the Secretary of Defense and the Chairman of the Joint Chiefs of Staff gives no reason to be frightened. We have adequate strategic forces today, and we will have adequate strategic forces for the existing future.

If there is no SALT agreement, we can accelerate existing programs, and we can bring in new programs by the time this acceleration has run its course, and certainly meet our needs in National defense.

Our problem is not in strategic forces, which we can manage, but our problem is in the shortage of conventional forces for reasonable defense. The reason it is important to bring the strategic forces under control is so we don't put our military resources into the politically and strategically lease-useful category.

Senator HARRY F. BYRD, Jr. The other aspect, too, is that it is a weapon that can be used against Congress by saying, "You either take whatever agreement our negotiators work out on SALT, or if you don't do that, you are going to have to come up with a lot of extra money."

I don't use the word "frightening"—it was my colleague in the House of Representatives that used that. I do think it is startling.

Secretary KISSINGER. It is a fact that if there is no agreement, there will have to be more money. There is no possible way we can say that in the absence of an agreement, under conditions of unrestrained arms, that we don't need more money. We can't have it both ways. It has to be one or the other, and this is not a form of blackmail. It is a reality.

Besides, we don't have an agreement to put before you at this point, and when we do, my quick impression is that it will be dissected with loving care.

Senator HARRY F. BYRD, Jr. If we don't have an agreement, I don't know how we can work up a budget based on an agreement.

Senator Hansen?

Senator HANSEN. Mr. Secretary, I think it is appropriate that a Republican should put this question that I am about to ask of you.

There is growing concern among some of us on the minority side that perhaps in an effort earlier, during the Nixon administration at least, to reach agreements with Russia, furthering détente and SALT agreements, that undue haste may have characterized our actions, and that we really didn't consider all the ramifications and details to the extent that now would seem indicated.

Is that a view you share?

Secretary KISSINGER. Senator Hansen, under the conditions in which tensions have, to some extent, been reduced, and the constant fear of war has been reduced, it is very safe to make grandiloquent statements that were never made at the time.

Let me take the case of the first SALT agreement. There is a myth existing, which is now widespread, that the United States negotiated this hastily at the time of President Nixon's visit to Moscow. That is total nonsense. The entire SALT agreement was negotiated by the U.S. delegation in Helsinki. Every line of that agreement was drafted in Helsinki. Not one line was drafted in Moscow.

On this delegation were representatives of the Joint Chiefs of Staff, the Defense Department, the Arms Control and Disarmament Agency, and the State Department. In fact, in Moscow there were only three

issues discussed at all. One had to do with the baseline from which reductions of Soviet forces had to be negotiated, the 210 Soviet missiles that as a result of SALT I are being dismantled, the size of the missile silos in which we and Moscow attempted to improve what the delegation had approved in Helsinki and failed, and therefore we went back to what the Helsinki delegation had negotiated already, and the third is an esoteric problem not widely discussed today about how to handle the missiles on a G class basis.

The Soviet Union was building something like a hundred land-based missiles a year. It was building eight missile-carrying submarines a year. It was building heavy missiles of a throw weight far beyond anything that the United States was building, by unilateral American decisions, not as a result of SALT.

As a result of SALT we stopped the Soviet heavy missiles program. We stopped the Soviet submarine program. We stopped the Soviet land-based missile program. We gave up not one American program that we either had planned, had funded, or could possibly have implemented, and many people, some of whom Senator Byrd will hear about later this year, who are very vocal today, at that time were urging us to go ahead with these programs.

We cannot look at marginal things that occurred under the program, under the agreement, every one of which would have occurred more strongly without the agreement. I consider SALT an achievement for American foreign policy, and a necessity for the United States. As soon as some balance returns to our domestic debate, I am convinced that it will be seen as a significant foreign policy decision that was not pressed for electoral reasons, because it was the common view at the time that the public didn't understand enough about these technical issues to have a view one way or another.

It is an issue that has been distorted in the public debate, and it is not correct that it was not handled with care, that it was handled hastily. I am sure the chief negotiator, Gerald Smith, who was at Helsinki doing the negotiating and drafting, would agree with me.

Senator HANSEN. Do you look for a return to more rational debate on this issue before November of this year?

Secretary KISSINGER. Not from all aspirants to office.

Senator HANSEN. Turning to another issue, Dr. Kissinger, I gather from what I read and what I hear that the cost of energy, its widening use, is a serious concern not only to the developed countries, but also to the developing nations as well.

Included in the developing nations are a number of countries that are significant oil producers, as well as nonoil producers. We have extremes of opulence on the one hand, or relative opulence as far as the national treasuries of some of these developing countries go, compared to a very miserable condition on the part of others.

What is the weakness or the failure or what might we do to bring up the solidarity of the so-called developing countries on many issues that seem so perplexing at the present moment?

Secretary KISSINGER. Well, Senator, of course, the countries that are hardest hit by the oil prices are the non-oil-producing developing countries. Their gains are wiped out almost entirely by every increase in oil prices, and whatever they get in aid very often, too, as a result of the increase in oil prices. On the other hand, they become enor-

mously dependent on the oil-producing countries who give them concessional aid and to ease some, but not all, of the impact of the oil prices.

We are attempting to bring home to the countries concerned that they can deal with us, that if they deal with us on the basis of concrete issues, we will respond with compassionate understanding. If they confront us on the basis of blocs, we will resist them.

This is the great contribution Ambassador Moynihan is making at the United Nations, emphasizing the danger of bloc confrontation. At the same time we are trying to show them a rational alternative.

Senator HANSEN. Thank you, Mr. Chairman.

Senator HARRY F. BYRD, Jr. Just one question, Mr. Secretary.

What restrictions, if any, do we have on trade with South Africa?

Secretary KISSINGER. Well, there is an embargo on arms that was established in the 1960's, and I believe there has been an embargo on some other military-related items.

Senator HARRY F. BYRD, Jr. You mean there are no restrictions on trade with South Africa except an embargo on arms?

Secretary KISSINGER. That is correct.

Senator HARRY F. BYRD, Jr. Would you favor restrictions on trade to South Africa?

Secretary KISSINGER. No.

Senator HARRY F. BYRD, Jr. Thank you, Mr. Secretary.

I think—have you presented your paper?

Mr. BELL. I would like to submit it, Mr. Chairman, for the record, that is all.

Senator HARRY F. BYRD, Jr. Would you like to have the statement summarized?

Senator Hansen?

Senator HANSEN. No. If I might be so bold as to suggest it, Mr. Chairman, possibly there might be a question or two that could be submitted in writing to our distinguished witnesses to which they might respond.

Secretary KISSINGER. I would be delighted.

Senator HANSEN. I didn't quite get to all of Senator Curtis' questions, but I think Senator Packwood picked up where I left off, so probably Senator Curtis would agree.

Secretary KISSINGER. We will be delighted to respond.

Senator HARRY F. BYRD, Jr. The committee will resume this hearing at 9:30 a.m. on February 4.

Thank you, gentlemen.

[The prepared statements of Secretary Kissinger and Mr. Bell follow:]

PREPARED STATEMENT OF HON. HENRY A. KISSINGER, SECRETARY OF STATE

I welcome this opportunity to testify before this distinguished Committee which plays such a critical role in a wide range of international economic issues. Continuing exchange between this Committee and the State Department is essential if our policy is to reflect the totality of our national interest. I hope my testimony today will signal the beginning of a process of more active collaboration.

Our foreign economic policies affect vitally every American: The farmer, the working man, the entrepreneur, and the consumer. They affect our economic prosperity and our security as a Nation.

Our economic policies are a critical element in the construction of a stable world order. The maintenance of peace, historically a function of our military strength, is increasingly dependent as well on our economic strength.

The twentieth century revolution in technology, transportation, communication, and world economic development has multiplied the pressure points among nations and the potential for conflict. It has stirred a groundswell of demands from those nations and peoples that have not shared fully in the world's economic progress. It has inspired growing concern about access to the world's natural resources and disputes over the distribution of the economic benefits that come from these resources. Our economies, institutions, and daily lives are vulnerable to the economic policies of others.

At the same time, the United States is the world's most powerful economy. Together with our allies among the industrial democracies, we are the engine of global prosperity, technological innovation, and the best hope for widening economic opportunity to millions around the globe. We could withstand an era of international economic warfare better than any. But our heritage and our aspirations demand more of us than the mere search for survival in a world of resentment and despair. Indeed, such a world could not but ultimately undermine the stability and peace upon which all else we seek to do in the world is based. The prospect for our children's well being and for the future of the values we cherish will be dim unless we take the lead in seeking a new era of international economic cooperation.

Foreign economic policy is thus a critical element in our overall foreign policy and in the pursuit of our broadest national objectives.

At the present time we face a series of economic challenges that must be met if we are to have a stable world order:

—Inflation and recession have spread throughout the world, threatening the world's trading and financial system and the health of our social institutions. Recovery is now underway in much of the industrial world.

—The stunning increase in the price of oil has transferred massive wealth to a small group of producer countries. It has intensified world recession, exacerbated world inflation, and created serious problems of debt, financing, and balance of payments adjustment.

—The premises of the post-war economic system are being challenged by the nations of the Third World in a variety of international bodies. Their rhetoric is often bitter and accusatory, their tactics confrontational.

We must respond to these challenges firmly and constructively. The United States must play a leading role if our basic national interests are to be protected. If we fail to take the lead, our destiny may be determined more by the drift of events than by conscious design.

Along with pursuit of our broadest foreign policy goals, we have very important economic interests of individual Americans to protect:

—Our international energy policies determine whether Americans will have regular supplies and stable prices for energy resources so vital for our continued economic prosperity.

—Our relations abroad can provide the American farmer with stable and growing export markets and the American consumer with more stability in food prices.

—Our commodity policy can assure us of a regular supply and reasonable prices for the critical raw materials that we import, and stable and expanding markets for those that we export.

—Our foreign policies in money, trade and investment can give growing opportunities for Americans whose livelihood depends on expanding export markets for manufactured and technology-intensive items. Our policies can provide the American consumer a wide range of goods and services from which to choose and protection against high prices and the monopolistic practices of special interest groups.

There may be occasions, however, when specific economic interests are in opposition to our larger foreign policy goals and economic disputes with a particular country are in conflict with our larger foreign policy interests in that particular country. This points up the need for effective coordination within our government of our specific and larger policy goals. It is not surprising that the positions of departments and agencies may clash. Indeed, it would be strange if they did not. Each department looks at issues from the perspective of its interests and goals. What is necessary is to bring these conflicts to a resolution.

We have various formal and informal mechanisms for resolution of differences. The formal mechanisms include the Council on International Economic Policy, the Economic Policy Board, the National Security Council, and the Trade Policy Committee. In fact, interagency consultation takes place on a continuing basis

and at all levels. The agencies try to reach agreement without burdening the President needlessly. But when serious conflicts cannot be resolved, the President makes the decision. He does so on the basis of our total national interest and objectives.

It has been my experience that the coordination of foreign economy policy in this Administration has been outstanding, and it is a misreading of the situation to believe that occasional differences mean disarray. Differences lead to compromise and decision. The end result of the process is a coherent foreign economic policy.

Our approach to foreign economy policy has three basic elements:

—The building of stronger economic ties with our industrial allies;

—The construction of a stable and mutually beneficial economic relationship with the Communist nations; and

—Providing opportunities for the less developed nations to share in both the benefits and the responsibilities of the world economic system.

The meeting of the leaders of six major industrialized democracies in Rambouillett, France, last November was a significant foreign policy event. They agreed to coordinate their economic policies more closely to assure a stable and durable recovery. They confirmed their commitment to the OECD trade pledge. And they concurred in the basic elements of an agreement on monetary reform that was accepted by the IMF Interim Committee in Jamaica on January 9.

Our relations with the Communist nations can be stabilized and more prudent behavior on the part of the Soviet Union and its allies can be encouraged by closer economic ties.

The grain agreement that we negotiated with the Soviet Union was a major step in building a better relationship. It provides an assured export market for our farmers. Yet by putting our grain trade with the Soviet Union on a more regular basis, it protects our consumers from the wild swings in grain prices caused by large and erratic Soviet purchases. And it puts the Soviet Union on notice that the economic benefits of our relationship require an atmosphere of accommodation and understanding between East and West.

Unfortunately, the ability of this country to use the process of normalizing trade with the Communist countries as a flexible and constructive element in East-West relationships is reduced by the provisions of Title IV of the Trade Act. These provisions, in establishing a single issue in East-West relations as the governing condition for normalizing trade, close the door on the use of the trade relationship over a wider range of issues and interests.

The relations of the industrialized with the developing world is a problem of particular concern at the moment and our policy deserves a fuller elaboration to this Committee.

RELATIONS WITH DEVELOPING COUNTRIES

Over the last few years the industrial countries have been the object of mounting criticism by much of the developing world, which believes that the international economic system and the policies of the industrial nations have denied them opportunities for advancement. The hostility of some Third World spokesmen and bloc voting have made constructive discussion in UN forums between the industrial and developing worlds almost impossible.

The developing countries are not a natural bloc. They compromise more than 100 countries which differ widely in income, economic structure, and level of development. In recent years they have not pursued their real and varied interests in UN forums. They have combined instead to confront and accuse the developed world of exploiting them.

The radicalization of the Third World and its consolidation into an antagonistic bloc is neither in our political nor our economic interest. A world of hostile blocs is a world of tension and disorders. Developing countries can play a spoiler's role in the world economy, attempting to restrict the supply of critical materials, subjecting foreign investment to harassment and confiscation, thwarting our efforts to restructure the world trade and monetary system. Clearly, it is in our national interest—and in the world interest—that economic relations between the developed and developing nations be conducted in a cooperative way, and that each have a realistic appreciation of what can be done to advance their mutual interests.

In addressing this problem, our objectives have been fourfold: to change the atmosphere in which discussions between the developed and developing countries

are held from confrontation to cooperation; to change the substance of the discussions from ideology to consideration of practical actions; to encourage the developing countries to pursue their real and varied interests in a realistic way; and to shift the locus of discussions and actions insofar as possible to forums in which participants can be expected to act responsibly.

At the UN Special Session, we set an agenda for future discussions between the rich and the poor countries with a broad range of practical proposals that serve the mutual interests of both. Our proposals were developed in consultation with members of Congress who met with me during the summer months preceding the Special Session. I am aware of your concern, Mr. Chairman, that we did not at that time consult directly with your Committee, and I regret that we did not do so.

Our initiatives were addressed to five areas:

—To moderate the instability in the world economy that impedes the development of the poor countries;

—To accelerate their economic growth by providing improved access to capital and technology, and improvement in the conditions of private foreign investment;

—To make the world trading system better serve the needs of development;

—To improve the conditions of trade and investment in key commodities;

—To address the special needs of the poorest countries.

In each of these areas we offered concrete solutions to developing country problems that are consistent with our own economic philosophy and our own economic interests. We tried to make the developing countries aware that the existing econnomic system can further their welfare and that they have a stake in its effectiveness. We were, I believe, constructive and forthcoming as is fitting for a great nation and as is necessary if we are to encourage the developing countries to look to the real, not the rhetorical, world. In my view, we achieved our objectives at the UN Special Session.

The Special Session was an important event in the slow process of encouraging the developing countries to pursue their varied interests in a realistic way, but it was only a beginning. We need to move ahead to give effect to our initiatives, and we need to maintain a continuing dialogue with the developing world. We have begun a new dialogue with these countries and with the oil exporting countries in the Conference on International Economic Cooperation which met in Paris last December. We look to the Conference, with its four Commissions on energy, raw materials, development, and related financial issues, to consider seriously many of our UN proposals that have not yet been implemented. Unlike the broad UN forums in which developing nations vastly outnumber the industrial democracies and vie with each other to escalate their demands, the Commissions will be small—15 members in each—and focussed on specific issues. We think the discussions will be more balanced as a result. The CIEC and its Commissions are a one-year experiment. The success of the experiment will depend on the willingness of member governments to use the Commissions for discussions of practical solutions to concrete problems, solutions that take due account of the interests of all the countries concerned.

We are pursuing our Special Session initiatives and dialogue in many other appropriate forums—among them, the International Monetary Fund, the Multilateral Trade Negotiations, the World Bank, and producer/consumer commodity groups—with some success. Thus, the IMF, with the support of its developing as well as industrialized members, has already acted favorably on several of our key initiatives, notably:

—The establishment of a Trust Fund to provide concessional balance of payments assistance to the poorest countries;

—The substantial liberalization of arrangements to stabilize the export earnings of developing countries; and

—Increased access to IMF credit (from 100 to 145 percent of quota).

I would like to put some of our other initiatives, especially those in the trade, commodity, investment, and energy areas, in proper context by outlining the general policies that guide us in these areas.

TRADE

The multilateral trade negotiations represent a major foreign policy initiative. Their results will affect our relations with all our trading partners. They will affect our domestic—and international—prosperity. My colleagues have already discussed problems and progress in these negotiations. I would like to talk about the developing countries.

The developing countries have been playing an increasingly important role in our trade—a fact which I believe we tend to overlook. They now account for about one-third of our total trade and—more importantly—for 90 percent of our total trade surpluses in recent years. While recession has been depressing our export of manufactures to developed countries, our exports of these items to developing countries have been increasing—supporting employment and income in the United States. Central to the development objectives of the developing countries is expanding markets for their exports. Without these opportunities to earn foreign exchange, they will not be able to continue taking an increasing share of our exports.

Trade, therefore, forms a vital and two-way link in our relations with these countries. The Committee, I believe, fully appreciates this point and adopted Section 106 of the Trade Act to stress the interest we have in mutually beneficial trade agreements with developing countries. To make this a reality, however, we must also recognize that the needs of the developing countries are different, requiring transitional special and differential treatment which accords with their individual development status.

This is the principle underlying the Congress' action in extending temporary generalized tariff preferences to these countries. It is the principle I stated in the UN Special Session. In both cases account is taken of the fact that our goal is the development of these countries to the point where they can participate more fully in the world trading system, sharing both its rights and obligations. Some are already nearer this point than others. The different levels of development among these countries were taken into account by Congress in our generalized system of preferences. In that system, developing countries cease to enjoy preferential treatment for products they can sell in our market in substantial volume, as defined in the competitive need provisions of the Trade Act, indicating that they have become competitive as exporters of these products. We intend to see that similar provisions are made in other forms of special and differential treatment which may be agreed to.

With regard to our system of generalized preferences, we continue to support amendatory legislation, such as that which has been introduced by Senator Bentsen, which would waive the OPEC exclusion provision of Title V of the Trade Act for those OPEC members that did not participate in the 1973 oil embargo.

The blanket exclusion of OPEC countries has had a noticeable adverse effect on our relations with important countries such as Indonesia, Venezuela and Ecuador—countries that did not participate in the 1973 embargo, and has diminished the overall favorable impact of GSP on our relations with developing countries. The GSP denial has become a major issue between the U.S. and practically all of Latin America, and is by all odds the most divisive factor in the hemisphere in the trade field; it has also affected U.S. relations with members of ASEAN. Furthermore, it casts a shadow on the North-South dialogue that is just beginning in the Conference on International Economic Cooperation. The present provision has led to support and sympathy among other LDCs for the OPEC countries. Amendment of the OPEC exclusion provision is in the U.S. national interest.

COMMODITIES

The U.S. has assumed the leadership role in the area of international commodity policy. The reason is clear: We are the world's largest producer, consumer, and trader of commodities. We are importing an increasing amount of our raw material consumption each year. It is thus in our interest to insure that commodity markets function efficiently, that they offer incentives to plan and invest for the future and not result in shortages and inflationary prices tomorrow.

We have several specific concerns for which we are continuing to develop policies.

First, as a major consumer we are concerned with security of supply at reasonable prices. While we are not generally concerned with the possibility of successful OPEC-type action in raw materials, we cannot ignore the possibility that unilateral attempts to leverage industrial consumers are a possibility and could, in a few cases, be economically disruptive. We intend to address this issue through supply access negotiations in the MTN, as the Congress has clearly legislated.

Second, we are concerned that an uncertain investment climate in the developing world, as well as the increasing cost of mineral exploration and exploita-

tion, will undermine adequate private investment flows for mineral development. Our response has been on two levels. We have expressed a willingness to improve the investment climate in the developing world by discussing guidelines for the behavior of both multinationals and governments, by calling for a multilateral investment insurance agency, and by using what leverage we have to settle investment disputes by third party arbitration. We have also proposed that the World Bank—both the IBRD and the IFC—become more involved in mineral financing in the LDCs. These institutions would mobilize private resources, acting where necessary as the middleman between foreign countries and U.S. companies.

Third, we must direct attention to those commodities whose prices fluctuate excessively, with severe inflationary effects on our own economy. We are prepared to give consideration to means of moderating fluctuations, ranging from a better exchange of information between producers and consumers to formal arrangements in specific commodities where appropriate.

Fourth, we recognize that for many commodities the dominant problem may not be volatile prices but competition from synthetics, declining or sluggish secular demand, or overproduction as new suppliers come on the market. The remedies in such cases would be measures such as diversification, improved productivity, or better marketing practices. Each commodity has its particular characteristics and problems peculiar to it and must be considered individually. We have, therefore, proposed that there be a producer-consumer forum for each key commodity to consider what can be done to promote the efficiency, growth and stability of its market.

Negotiations have been completed on a new coffee agreement which contains substantial improvements from both consumer and producer viewpoints. We will submit this shortly to the President for decision. The new cocoa agreement contains insufficient protection for consumers and its price provisions are too rigid. We are asking for renegotiation. We will shortly submit the tin agreement, which is a treaty, for advice and consent by the Senate.

INTERNATIONAL INVESTMENT

Transnational enterprises have been important instruments for growth in both the industrial and developing countries. They contribute not only scarce capital but also scarce technology, management, and marketing skills. In recognition of these benefits, the industrial countries, including the United States, have maintained an open policy on international investment.

The developing countries are ambivalent about private foreign investment They want it for the benefits it brings, but they are uneasy about it—and in particular about the transitional company which is the major instrument for international investment—because of its power and global outlook.

Many of the most successful developing countries have taken advantage of foreign private investment. In general the results have been more rapid modernization and a strengthened private sector. We remain convinced that developing countries would be well served by offering a secure climate for foreign investment but the choice remains theirs, as do the costs of foregoing investment.

The benefits deriving from transnational enterprises make it important that governments deal with legitimate concerns about these companies. One major concern is that these enterprises may deviate from proper standards of business behavior. There have also been serious instances of apparent disregard for national law with respect in particular to illicit payments. I am aware of the keen interest of members of this Committee on this issue as reflected in Senate Resolution 265.

The U.S. has taken the lead in dealing with these concerns because of our commitment to an open international system for investment and trade. We are active in efforts within the OECD to work out guidelines defining reasonable standards of business practices for transnational enterprises. Our delegation to the multilateral trade negotiations has also raised this issue in that forum. Such guidelines can provide the basis for better understanding between governments and enterprises and thus assist in preserving a favorable climate for international investment.

In my address to the UN Special Session, I said that the U.S. is willing to pursue discussion of international guidelines for transnational enterprises within the UN. We are willing to address the concerns of developing countries, in particular that transnational enterprises contribute to the development process. At

the same time, we believe that any UN guidelines should be balanced. In particular they should include not only the obligations of enterprises, but also those of governments to treat the enterprises equitably and in accordance with international law; they should apply equally to domestic and international enterprises, and to private and public firms, wherever appropriate; they should stress the obligation of all parties to carry through on undertakings freely entered upon.

ENERGY

Two years have passed since the oil exporting countries sent shock waves through the world economy by the abrupt and enormous increase in the price of oil. In those two years we have:

—Created the International Energy Agency, a potentially dynamic center for energy cooperation;

—Established a comprehensive emergency program to increase the ability of IEA members to withstand the economic impact of another embargo;

—Negotiated a financial support fund to meet problems posed by the huge financial accumulations of the oil producing countries;

—Established the long-term IEA program to accelerate the shift in supply and demand for world energy that will eventually end our vulnerability to arbitrary OPEC control over world prices.

The eighteen countries of the International Energy Agency are meeting today in Paris on the establishment of a program for long-term cooperation in the field of energy. This long-term program will tie together and reinforce our respective national efforts to reduce our excessive dependence on imported oil.

The adoption of this long-term program will complete the basic design for consumer country cooperation in energy which is a central pillar of U.S. international energy policy. Having completed this framework for cooperation among the industrial democracies, we are now ready to begin a dialogue with the oil producers and the non-oil producing developing countries.

On February 11, the Energy Commission of the Conference on International Economic Cooperation will meet in Paris under the co-chairmanship of Saudi Arabia and the United States. We approach this dialogue in a spirit of constructive cooperation, aware of our own vital interests, but convinced that our interests and those of the oil producers can be harmonized.

NEXT STEPS

The attainment of our objective of substituting cooperation for North/South confrontation will depend importantly on the ability of the Administration and the Congress, working together, to translate our proposals into concrete policies and action.

We will need authority from the Congress to replenish the resources of the regional lending institutions and to subscribe new capital to the International Finance Corporation.

In the commodity area, we will be seeking the advice and consent of the Senate to U.S. membership in the International Tin Agreement and in other international commodity agreements that we determine are consistent with our interests. We will be coming to this Committee for implementing legislation where such legislation is required. Coffee is an example.

In the trade area we are acting in full compliance with the letter and spirit of the Trade Act of 1974 and our proposals will come to the Congress in accordance with the terms of that legislation. We will be consulting with the Congress and this Committee on a continuing basis.

Clearly, the success of our efforts in North/South diplomacy depends on partnership between the Administration and the Congress. The role of this important Committee is critical.

The success of our efforts in North/South diplomacy depends also on more systematic efforts by us to ensure that each developing country understands that our bilateral relations with it include that country's behavior toward us in international meetings and, in particular, its votes there on issues of highest importance to us. I have asked each of our Embassies overseas to make clear to its host government that one of the factors by which we will measure the value which that government attaches to its relations with us will be its statements and votes on that fairly limited number of issues which we indicate are of importance to us in international forums. In view of the growing importance to us of certain issues, of both economic and political significance, now dealt

with increasingly in multilateral forums, it must be expected that the United States will be weighing this factor more heavily in making new commitments within bilateral relationships.

CONCLUSION

Mr. Chairman, we have major economic interests abroad to promote, interests on which many American jobs and American prosperity depend.

Generally speaking, those interests are best promoted by encouraging among countries the same freedom of economic exchange we have within this country. Because we have by far the greatest economy, only we can take the lead in moving the international economy in this direction. We must not fail to exercise that responsibility.

But our leadership role must not and does not prevent us from using our economic power to make sure that American traders and investors get a fair opportunity.

The developing countries are a special case. If we want them to joint the open economic system of which the United States is the center, we have to make it more accessible to them. This is the key to the proposals I made at the Seventh Special Session: to use new trading, investment and commodity measures rather than large scale new aid to accelerate their development. These policies can bring important benefits to us: new trading and investment opportunities for Americans and better protection against inflation. To developing countries the impact of these policies can be crucial. But if it is right for us to adopt these policies, the developing countries must realize that they are not unconditional. They too much accept obligations as members of the international system that grow as their economies grow.

By this approach I am hopeful that we can create between developing and industrial countries a new relationship of confidence and equality, in which expanding investment and two-way trade will accelerate growth in both the North and the South.

PREPARED STATEMENT OF RICHARD E. BELL, ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Mr. Chairman, I appreciate the opportunity to appear before this Committee, and to discuss the Trade Act of 1974, the need for further trade expansion, and the crucial importance of trade to American agriculture in 1976.

A few days ago, the Department of Agriculture issued its first report of farmers' planting intentions in 1976. This report indicates that farmers now intend to plant 2.8 million more acres to major field crops than they planted in 1975. However, due to drought, somewhat more wheat acreage is being abandoned than was the case a year ago. We therefore are projecting overall harvested acreage this year at about the same as last year. In 1975, we harvested the largest acreage since 1956 and produced the largest total crop output in history.

Farmers are responding to the opportunity to produce for the market. We announced last summer that there would be no set-aside on grains and cotton in 1976. This means that, outside of tobacco, rice and peanuts, farmers have complete freedom to plant with no government limitations or disincentives. This will be true for the third consecutive year.

This policy of full production does not mean that farmers should necessarily plant from fence row to fence row. It does mean they are free to use their resources to produce efficiently what they think the market will accept at prices profitable to producers.

We have assured farmers that they will have freedom to market, including the opportunity to export. In support of this, we have had a number of conversations with customer nations in order to assess their future needs. In the case of the Soviet Union, we have negotiated a supply agreement, in order to even out that country's purchases and assure our farmers of a market there.

A full production policy is dependent on the freedom to market overseas as well as at home. If the American farmer is to expand production, as he is doing, he must be able to depend on growth in exports as well as in domestic use. The world market is a production incentive—encouraging abundance and efficiency of production in the interest of all Americans and all consumers world-wide.

Farm product exports in fiscal 1976, which is roughly equivalent to the marketing period for 1975 crops, will exceed $20 billion for the third straight year. As for volume, we will ship more tonnage of bulk products than ever before, exceeding

the record 100 million metric tons of two years ago. As recently as 1969 we exported only 47 million tons.

This growth in trade is crucial to American farmers and the general economy. Farmers are now exporting the produce of almost one out of every three cropland acres. Exports account for almost a fifth of their gross income. Moreover, they are the direct source of 1 million jobs, many of them off the farm. Too, agricultural trade last fiscal year contributed a net positive balance of $12 billion to our international trade account, more than offsetting a $10 billion deficit in our non-agricultural trade.

BILATERAL ARRANGEMENTS

In line with these needs, we have sought a better assessment of import needs of traditional customers and emerging new markets, particularly those of centrally-planned economies, in order to improve the ability of U.S. farmers to plan production for those needs.

We have carried on discussions and in some cases arrived at specific understandings with customer nations, giving an indication of what to expect in the way of future purchases from the United States. These understandings provide for exchange of information on supply, demand and trade intentions, and they give our trading partners the best possible assurances that, within the framework of the market system and subject to availabilities, supplies will be forthcoming to meet their needs.

Japan, the U.S. farmer's largest overseas customer, indicated a desire for such an understanding last summer. The Japanese have indicated that for each of the next three years, they would like to purchase about 14 million metric tons of grains and soybeans from the United States. For our part, we have indicated our willingness to supply Japan's requirements within the framework of our market system. It appears that the 14-million tons can be achieved in the current marketing year.

Israel also sought U.S. cooperation in meeting its agricultural import requirements. That government has indicated a desire to purchase about 1.7 million tons of U.S. farm products—wheat, feedgrains, and soybeans—in each of the next three years. We have expressed our appreciation for Israel's clear expression of intention to remain a valued U.S. customer, and have pledged our cooperation in making U.S. farmers aware of the importance of that market.

In a similar vein, Poland, a growing market for U.S. agricultural products, has indicated its intention to make regular purchases here. In each of the next five years, Poland plans to purchase about 2.5 million metric tons of grain, and has further expressed its desire to meet with U.S. officials each year to specify its exact levels of purchases.

Each of these nations has sought U.S. cooperation in meeting its goal of a better national diet. These countries recognize that the U.S. farmer produces for a market, and that the best way to assure themselves of a place in that market is to give a clear indication of their needs.

The agreement with the Soviet Union differs from these general understandings. The U.S.-USSR agreement was specifically negotiated as a unique solution to a unique problem. As a large centrally-planned economy, the Soviet Union was able to enter the world market without first sending out signals of the role it intended to play as a customer. Because of production problems in the USSR, its purchases from world markets had been erratic—and the world's producers were unable to count on regular purchases. The agreement with the Soviets commits them to buy 6 million tons of U.S. corn and wheat each year for five years—and permits 8 million after consultations. This will go far toward eliminating disruption in the market as a result of Soviet purchases. This is an obvious advantage to our producers, and also is beneficial to the Soviet Union, which is now able to take its place as a dependable customer for U.S. agriculture.

INTERNATIONAL FOOD SERVICES

Since the World Food Conference in November 1974, the U.S. has worked to bring into existence an international grain reserve network to help promote world food security. Our basic concept is a system that would ensure that world grain stocks are adequate to offset crop failures that might occur. At the same time, the system should not interfere with basic market forces which must operate if there is to be a worldwide expansion in efficient grain production and trade to meet growing needs.

The focus of discussions on grain reserves has been in a Preparatory Group of the International Wheat Council in London. Progress has been slow. Some countries have wanted to expand the reserve concept into an overall scheme to stabilize world grain prices and manage world trade. The U.S. has firmly opposed this approach which would, in our view, perpetuate inefficient food production patterns. The last discussion of countries' proposals was held in London January 19–21. We are now evaluating what our next steps should be.

While discussions in London have proceeded, individual countries have taken some steps to assure future supplies and markets. The new five year grains agreement with the Soviet Union will also encourage increased stock holding in the USSR in years of good harvests. We have reason to believe that the Soviet government plans to increase grain storage capacity by 40 million tons in years ahead. The Japanese government has also been discussing means of increasing Japan's grain storage capacity. India, which had an extraordinarily good harvest this year, is nonetheless importing U.S. wheat and building grain stocks for the future.

While these are signs of future progress on the part of important individual countries, the fact remains that world grain stocks (rice excluded) will decline again this year to the lowest point in about a quarter century. U.S. carryout stocks, however, will increase this year by about 40 percent as a result of the production response of U.S. farmers, limits on the import capacity of the Soviet Union due to transportation bottlenecks, and grain import restrictions by major countries to shield their farmers from foreign competition. There continues to be a need for market-oriented reserves and for progress in liberalizing grain trade barriers in the MTN.

THE MULTILATERAL TRADE NEGOTIATIONS

American farmers have a real and direct stake in the multilateral trade negotiations—and their support of the Trade Act of 1974 and the negotiations themselves bears this out. It is important to maintain our efforts to assure that agriculture's interests will be truly served.

We believe the major negotiating thrust is directed at nontariff barriers—a form of restriction to which agricultural products are especially vulnerable. These include variable levies, import quotas, export subsidies, packaging and labeling standards, government procurement practices, customs valuation methods, and import licensing requirements.

We believe that these barriers can be eliminated or reduced only if agriculture and industrial matters are negotiated together, not separately as they were in the Kennedy Round. One-fifth of total U.S. exports are agricultural. Two-thirds (by value) of our agricultural exports are subject to one kind or another of foreign trade restrictions. We believe that this general round of trade negotiations offers our agriculture an opportunity to negotiate away some of these barriers.

If we are required to negotiate in an "agriculture only" forum, there is little that we can accomplish. The reason is that the United States—while not without its own agricultural trade restrictions—does in fact maintain a relatively low level of protection against farm product imports.

In fiscal year 1975, U.S. farm product exports of $21.6 billion included about $15 billion facing foreign trade restrictions of some sort. Meantime, our agricultural imports of $9.6 billion included only $3 billion that faced U.S. restrictions. This means we would be trying to obtain concessions on $15 billion in trade restrictions with only $3 billion that could be offered as viable concessions. Such a one-sided negotiation could not succeed.

We recognize that basic differences between our agricultural system and that of the European Community wil continue to be a problem. In many ways, these systems are incompatible. However, there are ways in which we can work together with the Europeans, and it is important that we keep the avenues of communication open which we are doing.

For example, we met with the Europeans once again earlier this month. We have told them that, while our systems are in sharp contrast, we should each respect the other's rights to think differently and to operate his own system. Our job in the negotiations is to seek and find ways in which trade can be on a mutually beneficial basis. We must find ways to assure that our respective agricultural systems do not distort or interfere with world trade.

THE AGRICULTURAL ADVISORY COMMITTEES

As you will recall, Mr. Chairman, American farmers and their organizations were supporters of the Trade Act of 1974—as they have historically adovated liberal trade. They continue to provide major support and counsel with respect to the negotiations going on in Geneva.

The Trade Act includes a provision (Section 135) establishing a formal vehicle to insure liaison between the government and the private sector in the conduct of trade negotiations. That vehicle is the Advisory Committee system.

President Ford in Executive Order No. 11846 of March 27, 1975 delegated this authority to the Special Trade Representative jointly with the Secretaries of Commerce, Agriculture, and Labor as appropriate. The establishment of the Agricultural Policy Advisory Committee and Agricultural Technical Advisory Committees for Cotton, Dairy, Fruits and Vegetables, Grain and Feed, Livestock and Livestock Products, Oilseeds and Products, Poultry and Eggs, and Tobacco was announced jointly by the Department and STR on April 8, 1975.

There are approximately 150 people on the Committees we have established representing U.S. agriculture. The Agricultural Policy Advisory Committee, consisting of approximately 25 members, met four times during 1975. It will meet again on February 24. There are approximately 125 members of the eight Agricultural Technical Advisory Committees. Individual Committee memberships vary depending upon the particular commodity coverage. For example, the Fruits and Vegetables Advisory Committee, which covers an extremely broad and diverse commodity range, has approximately 20 members. On the other hand, the Tobacco Advisory Committee, representing a more compact industry, has approximately 10 members. Each of these Committees met at least twice and some as many as four times during 1975. All eight Technical Advisory Committees submitted reports and recommendations in their community areas to Ambassador Dent and to Secretary Butz last fall.

Membership on the Agricultural Advisory Committees represents a broad spectrum of agricultural producers, processors, and traders. In selecting members, the Department provided recognition for a diversity of agricultural interests while at the same time keping each Committee to a practical size. While we have attempted to provide the widest possible representation from national agricultural and commodity organizations, it has not been possible to provide membership for every organization and individual.

AGRICULTURE AND THE TRADE ACT OF 1974

The Trade Act of 1974 has strengthened the authority of the President to negotiate lower levels of trade restrictions. Whatever success the United States achieves in the multilateral trade negotiations can be credited in substantial part to the wisdom of Congres in enacting the Trade Act. Meanwhile, various provisions of the Act are helping to facilitate trade.

For example, we know from our first year's experience under the Act that the revised countervailing duty statute is working.

One provision has however served to limit the U.S. farmer's trade opportunities. The restrictions in Section 402 place the American producer at a disadvantage in reaching the growing East European market.

Our inability to extend most-favored-nation tariff treatment to most East European countries tends to jeopardize our trade position relative to other suppliers. MFN, which simply provides to one nation the same tariff treatment granted any other trading partner, is denied to the non-market economies except for Poland, Romania, and Yugoslavia. We have a considerable positive trade balance with the Communist countries. They must be allowed to compete in the West if they are to buy in the West.

Also denied to those countries is access to one of our most important market development tools—U.S. government credit. Without exception, the leaders Secretary Butz talked with last November during a trip to Eastern Europe brought up the Commodity Credit Corporation (CCC) export credit program—either in terms of access to CCC credit or a desire for larger credits under the program.

Under Title IV of the Trade Act of 1974, all nonmarket economy countries except for Poland, Romania and Yugoslavia are now ineligible to receive CCC credits. In the case of Poland, a traditional CCC credit customer, we have been able to use credits to develop a large, long-term market for our agricultural products. The CCC credit program has been put to work in our trade with Romania since 1970, and has assisted in the sale of $120 million worth of agricultural products.

There is a large market potential in the other Eastern European nations, but the nonavailability of credits makes this development difficult. In a normal situation where commodities are in abundant supply and buyers are free to choose among several sources, considerations such as the availability of credits often are the decisive factors in the purchaser's decision to buy from one source over another. Among our competitors, Canada, Australia, and the European Community have used credits or subsidies to advance their position in the East European market.

The absence of the normal trading features of most-favored nation status, and our discrimination in granting U.S. Government credits, have put the development of commercial agreeemnts with those nations on an unsure footing. Yet the benefits of developing these markets would extend beyond the interests of the American farmer to the larger U.S. economic community in terms of increased production, employment, and balance of trade.

Mr. Chairman, thank you again for the opportunity to meet with the Committee. I will be pleased to receive questions.

[Whereupon, at 12:03 p.m. the committee recessed, to reconvene at 9:30 a.m., Wednesday, February 4, 1976.]

OVERSIGHT HEARINGS ON U.S. FOREIGN TRADE POLICY

WEDNESDAY, FEBRUARY 4, 1976

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

The committee met at 9:36 a.m., pursuant to recess, in room 2221, Dirksen Senate Office Building, Senator Bob Packwood, presiding.

Present: Senators Long, Byrd Jr., of Virginia, Haskell, Curtis, Packwood, and Roth, Jr.

Senator PACKWOOD. Let's get started. Senator Long will be along shortly. There is no point in holding up your statements until he arrives. So, why don't you go ahead.

Who is going to testify first?

STATEMENT OF R. HEATH LARRY, VICE CHAIRMAN, UNITED STATES STEEL, CHAIRMAN, TRADE COMMITTEE, AMERICAN IRON AND STEEL INSTITUTE, ACCOMPANIED BY RICHARD P. SIMMONS, PRESIDENT OF ALLEGHENY LUDLUM STEEL CORP., AND DOM KING, COUNSEL

Mr. LARRY. I guess I am it, Senator.

I would like to add that I am speaking in behalf of United States Steel and I would like to indicate I am also appearing in behalf of American Iron and Steel Institute since I am the chairman of their trade committee.

I have with me Mr. Dick Simmons who is going to present some remarks on specialty steel problems, and we are pleased to have him here and also Mr. Dom King, our counsel who has had a great deal of experience in trade matters.

I want to start, Senator, by expressing our appreciation to your committee and to you for the opportunity to have participated in these oversight hearings.

I think they are immensely timely, it is a very important thing that we have them at this point.

I know some will have read our statement, the long statement which we have filed a few days ago in accordance with your rules and concluded that it might seem just a bit salty. If so, I want to say that it is done in all sincerity and in all desire to be constructive. It is done on the basis of the facts as we know them, and we may not know all the facts which are involved in these negotiations.

On the other hand, it is possible that some of our criticism is well merited and that our negotiators really are not pursuing a course quite in line with what this committee and the Congress and the lawmakers

might have intended. So, I think it is highly pertinent at this point in time that we have a kind of a review as to how things are going and where they are going and what the feeling of the lawmakers was as well as the feeling of the State Department and Treasury Department and the STR.

Now, I have, of course, a rather lengthy statement, and I don't have any opportunity or desire to read it all through. I am hoping that there will be those who have read it. I hope you will permit me, therefore, to draw attention to just a few of the highlights and if it is in front of you, perhaps I might call attention first to the material which begins on page 7. It is entitled U.S. Negotiating Attitudes.

I am concerned really about what I see and hear and feel, at times, represents the U.S. negotiating attitude, one still reflective of the belief that we are a kind of a supereconomic power, that we can all afford to turn the other cheek, that we can look to the international concerns first even at the expense of our own national concerns.

In all frankness, I am of the belief now that we have come to that point in time that whatever agreement is reached, it is going to have to be one which looks after the interests of the United States.

I am a little concerned that some past history might cause our representatives to, if you will, "reach" for agreement just to be able to say they have made an agreement.

I want to say one thing: Mr. Abel is going to testify here right after Mr. Simmons and I have finished, and if he has taught me one thing, it was that from my standpoint "reaching" for an agreement is a most perilous approach in bargaining and I am suggesting that it may be also for the United States.

We tend to rather lose out a little bit when we reach too far.

I think we have to remember how markedly the world has changed since the early days of classical free market economics when trade might really have been deemed an end in itself.

But look at what's happened since the days of Smith and Ricardo when they rather assumed open markets internally and externally. Today we have a mixture of market and nonmarket economies. We have a great ownership by government, at least with respect to steel operations in many economies.

We have strong populist pressure upon governments to manage their own economies and frankly that, coupled with the fact that we now have manifold and quite often comparable industrial centers throughout the world capable of making the identical products in the same way, and virtually at the same cost, I think, makes a marked difference in how we assume that the end of trade negotiations is to encourage the expansion of trade. I think we have come to that point in time where it may be worthwhile to sit back and take a very careful look because if we do proceed on the basis that trade is an end in itself, we will risk reaching for an agreement, and I think we would be better advised waiting until we see one possible in the framework which accords with our own interests and that's going to be difficult.

One of the reasons it is going to be difficult is something I point out in the first few pages.

If you would look on page 3, there is a section entitled "The Japan-EEC Steel Arrangement." Frankly, I have been somewhat astonished to learn that there are places within both the legislative arm and the

executive-administrative arms of Government these days who are not aware of the fact that an agreement has, in fact, been worked out.

We detail it there in some considerable number of lines with quotes from the Japan Economic Journal. We have quotes from their local papers and their official journals if you would like to have them.

The point is that the whole thing is illustrative of a double standard. Here the Europeans and the Japanese have come to work out this kind of an accord, creating a cartel, limiting the amount of steel to be shipped into the European market. This is a bilateral agreement reached during a period of denials by the parties involved, violating Article 19 of the GATT and the MFN provisions and our officials learned about it only after it was done, and we are not sure they have officially protested about it, even yet.

Now, meanwhile, rightly or wrongly, we rather sense that our trade representatives are somewhat embarrassed by the action of U.S. Steel in filing for countervailing duties against the export subsidies reflected in the European value-added tax remission scheme.

One senses the same kind of embarrassment, frankly, with respect to the action of the specialty steel industry in having achieved what I think is, at best, a very minimal reaction from the ITC and incidentally Mr. Simmons, who represents the specialty steel producers, can explain to you, and he will do so, just exactly how minimal it is.

Good morning, sir.

The Chairman [presiding]. Good morning.

Mr. LARRY. Particularly in light of the Japan-EEC agreement, we can't seem to see the problem involving sector negotiations in steel, a theme we begin to discuss on page 10 of our longer statement. There is much in there reciting that it was the sense of this committee that there be sector negotiations amongst a number of industries, steel specifically enumerated. I do not see why, incidentally, and particularly in light of what we have seen elsewhere, the discussions which have taken place between the Japanese community and the European community, why there should be any difficulty in moving toward these negotiations and why it might be that anyone would suggest that we ought to cash any chips, frankly, in order to get them underway.

Now, let me say a word about the subsidy question, and countervailing duties and then I think I ought to withhold further comment awaiting the direction of your questions.

Now, we are aware that in the early days of GATT, and I say "we" here—whoever was involved on the part of the United States—might have compromised ourselves somewhat and have encouraged a credibility in the spurious differentiation between direct and indirect taxes with the result that some people would say that we have encouraged the Europeans to proceed in the direction they have. But that, to my mind, does not excuse the fact that a prime result of that system is to raise a shield in their home market against imports from us, and to encourage the making of exports to our market.

I don't think there can be any doubt that that is the economic consequence, with the combination of the border tax imposition and the value-added tax remission, that simply represents a distortion of trade which cries out for treatment.

We point out in our paper that we are not asking the Europeans to abandon their system. It is not necessary they do that. We are not

meddling in their internal tax structure. All they have to do, frankly, is to do the same thing in trade with us, that they have agreed to do with respect to their trading partners within the Common Market, that is, not to use the border tax adjustment process in trade back and forth. In other words, don't use it. Use it, as a tax-revenue device within their economy, but not use it as a trade distorting device in shipments into and out of their respective economies.

What worries me, frankly, is that the United States may be on the way to possibly losing the point about this countervailing duty even before the point is made. We hear rumors that the Europeans are willing to talk about the subject of value-added tax remission only if there has been a precommitment to an injury test.

Senator HASKELL. A precommitment to what, sir?

Mr. LARRY. To an injury test, sir.

Now, there really is no problem about the value-added tax remission unless it does, in fact, constitute an export subsidy.

Gentlemen, this is a fact which is capable of resolution as an economic fact. I don't think it ought to be resolved in terms of negotiations. If there is a determination that it is, in fact, an export subsidy, then I think there is a lot of agreement around the world that export subsidies should be prohibited and that subsidies, which should be prohibited, don't need an injury test, because if you allow for that process to take place before remedy occurs, all you do is encourage violation. And I refer in my statement to a very scholarly commentary on this point at page 77–78 of the policy papers of the Atlantic Council entitled "GATT Plus."

Now, the remaining sections of our paper relate to the effective enforcement of fair trade statutes and to antidumping regulations on page 19 which are by nature somewhat technical and either I or Mr. King can discuss or respond to your inquiring about these things at a later point at your convenience. But just one more brief comment, and then let me suggest that Mr. Simmons might make a comment. This has to do with the market disruption and safeguards section. Mr. Simmons will talk about this because he has been deeply involved in it recently. But some of you may know that we have offered or proposed or discussed with the Trade Representative's Office an approach to negotiation both about disruption safeguards and escape clause avenues, but particularly in relation to the steel industry.

I have to say that I sincerely hope that it may be deemed by the Special Trade Representative that what we have suggested could be an approach which would enable him to move forward with diligence putting, if you will, safeguard discussions in a place of high priority in the course of steel sector negotiations.

I think they can be taken up very well as an illustrative case, in the course of steel sector negotiations, and this is what we have been pressing for, this is for what we would like to continue to press; and we thank you, Mr. Chairman, and other distinguished gentlemen, for this opportunity to file this paper and to make this brief commentary.

Perhaps, if you are willing now, I would like to call on Mr. Simmons.

Mr. SIMMONS. Thank you, Heath.

Senators, I certainly appreciate the opportunity to make a brief statement with respect to the specialty steel case.

I am Dick Simmons, president of Allegheny Ludlum Steel Corp. and chairman of the advisory committee, Tool and Stainless Steel Committee of the Specialty Steel Industry.

The International Trade Commission, in what must be viewed as a precedent decision, found recently that the specialty steel industry of the United States and the United Steel Workers of the United States indeed had been injured under the terms of the 1974 Trade Act.

Their findings, the first such findings of injury since the act was passed by the Congress, came after 6 months of intensive examination by the Commission and its staff. They found, and we quote, "On the basis of its investigation that bars; wire rods; and plates, sheets and strip * * *; all of the foregoing of stainless steel or alloy tool steel * * * are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry."

The International Trade Commission carefully considered the arguments presented by both the domestic companies and the foreign producers to establish that the conditions of the act had been met. They found, as stated in their report to the President, that the condition of increased imports had been met either in actual terms or relative to domestic production. The Commission also found that the requirement of serious injury or threat of serious injury had also been met as measured by the idling of productive capacity, significant unemployment or underemployment and the inability of a significant number of firms to operate at a reasonable level of profit. Finally, the Commission having studied the requirements of "serious injury," concluded that imports are an important cause of injury and not less in importance than the recession.

The Commission concluded, and we quote, "Therefore, the statutory criteria having been met, in our opinion an affirmative determination is required."

The lengthy investigation and the public hearings open to all interested parties resulted in the findings which I have reviewed briefly. The findings and recommendations of the Commission must now be considered, as you know, by the President.

Based on the initial reaction of some of our foreign competitors, it appears that they are attempting to accomplish through political means what they had full opportunity to accomplish—and could not—during the investigation and the hearings conducted by the Commission under the law.

The specialty steel companies, although highly gratified by the finding of the International Trade Commission, would point out that the Commission, in its recommendations to the President, did not go as far as the specialty steel companies had recommended during the hearings. Nevertheless, the specialty steel companies, in recognition of the extensive investigation conducted by the Commission, totally, unanimously and without reservation, support the Commission's recommendation to the President, and urge the President to approve and implement the remedy proposed by the Commission without delay or change.

The remedy proposed would not exclude foreign producers from American markets. On the contrary, for 1976 the Commission's recommendations to the President would reduce overall specialty steel imports for these products covered by the decision by only 4 percent as compared to 1975. In fact, stainless steel tonnages permitted under the Commission's recommendations for 1976 would exceed or equal

imports in every year but one prior to 1975. It is difficult to equate this fact with some of the public statements which have been made regarding the Commission's findings.

In subsequent years through 1980, imports of these products would be permitted specific market shares of the American market. This would permit foreign producers to increase their shipments into our markets as American markets grow. It would also force them to curtail their shipments during periods of sharp recession such as 1975, preventing them from exporting their own unemployment during such periods.

We have attached a chart which is a duplicate of the one which you see before you which summarizes the findings in complete detail. Let me stress again, the total and unqualified support for the Commission's recommendations by the specialty steel industry. Our assessment of the Commission's recommendations leads us to conclude that the findings are reasonable and moderate and not at all radical, as statements by foreign producers and their governments would have the American public believe. In fact, the proposed limits for stainless steel sheet and strip are significantly higher for 1976 than the actual levels for 1975.

It is ironic, as Mr. Larry has mentioned, that our Common Market competitors and their governments which have been so outspokenly critical of the Commission's findings and recommendations have, as mentioned recently, concluded an arrangement with Japanese companies to limit Japanese exports of steel to the Common Market for the year 1976.

These hearings, held at this time, I think, are particularly appropriate as we move from the factual consideration of the specialty steel case under the 1974 Trade Act to the President for his review.

Will the President accept the recommendations of the Commission, which were reached, as we have pointed out, after 6 months of study, hearings, and deliberation, or will other considerations prevail?

The specialty steel industry and indeed the entire steel industry of the United States welcome the findings of the International Trade Commission. We believe that the President's decision concerning this case will establish clearly whether the intent of Congress and the intent of the legislation is to be carried out.

Thank you.

Mr. LARRY. That concludes our original presentation, Mr. Chairman, so we will meet your questions if that be your pleasure.

The CHAIRMAN. My information tells me that Senator Packwood was here first. Under the early bird rule, Senator Packwood is first. You may ask your questions, Senator.

Senator PACKWOOD. I have a couple questions, Mr. Chairman.

I ask this question out of ignorance. What is violative of the GATT requirements on the EEC-Japanese Steel Agreement?

Mr. LARRY. I think it is a bilateral agreement which tends to limit markets. It certainly is going to have a spillover effect on markets other than those parties involved in it. I think it is very simple. We can show you some recent indications in the Japanese press which address the problem, both the Japanese press, incidentally, and the European press, and their concern about the volume which is possibly going to occur under their arrangement.

If you put a cork in the spout of a teakettle that's sitting on the stove and it is boiling, the pressure is going to spill out somewhere. It is going to spill out and probably in the open market of the world, which is ours. We have seen it happen time and time again.

In other words, they adopted an agreement which is going to affect our market; they do it themselves; they don't go through the procedures of article 19 as I am informed they apply.

Senator PACKWOOD. What you are saying is the bilateral agreement violates this, the Japanese and European community cannot make this type of agreement.

Mr. LARRY. They cannot do it without following the procedures of article 19.

Mr. KING. And the most-favored-nation treatment, Senator, is the cornerstone of the General Agreement on Tariff and Trade which requires that signatory countries may not enter into bilateral arrangements in derogation of the arrangements under GATT and any relationship that restricts the trade is a violation of article 19. They have undertaken this agreement, and they have done it then not through the aegis of the GATT nor by the safeguard procedures permitted under GATT under article 19, and there are other procedures under GATT which they can use to make application to other members for relief. They have not done this. They did it in a secretive fashion outside of the confines of the GATT structure so that in our judgment they have violated their basic commitment under that agreement.

Senator PACKWOOD. Yes.

Mr. KING. Well, Senator, in there, I think there is possibly a problem that I want to get into with the textile people, and I don't know the basis of the negotiations that went on in the cotton-textile agreement, but all of the countries in GATT, as I understood it, under the textile agreement that were going to be adversely affected by the arrangement were parties and signatories to the agreement.

In other words, all of the member nations of GATT who could possibly have been adversely affected were, in fact, invited into the negotiations and were participants in it which is quite different when the Europeans and Japanese enter into a steel arrangement and exclude from the consideration of impact one of the important steel countries of the world, namely, our own Nation.

Senator PACKWOOD. And the GATT agreement does preclude these bilateral agreements which apparently is an agreement in the law. But all Japan has done is voluntarily agreed to refrain from exporting above a certain level to the European communities?

Mr. KING. That is correct.

Senator PACKWOOD. On the steel imports, I am looking at the totals here, and in terms of the average, if you look at it over the years, 1975 was slightly higher than previous years, but not higher than 1971, not higher than 1974. Was the real adverse effect in 1975 because of the recession in this country, and the dropping of our own domestic market?

Mr. SIMMONS. The Commission in examining this and in their findings considered the fact that imports had risen on a trend basis since 1964, and as they examined it it is my understanding that they considered that the years 1970, 1971, and 1972 were an aberration because of the recession that had occurred at that point.

With specific reference to your question, obviously the imports of 1975 which did not decline to any degree—they were virtually the same as 1974—were aggravating the situation in the United States because of the 45 percent decline that had occurred in domestic shipments.

Senator PACKWOOD. Domestic shipments to where?

Mr. SIMMONS. To the American market.

Senator PACKWOOD. By decline of the American market, you mean then?

Mr. SIMMONS. That is right.

Senator PACKWOOD. Absent that, looking at 1970—these are in net tons—143,000; 1971, 158,000, then it drops off in 1972 and 1973, then back up to 151,000. Would this have been a severe problem but for the recession?

Mr. SIMMONS. Yes. We feel so. We feel when you look at the trend over the period that goes back to 1964, and I have those numbers in front of me here, the total imports of products at that time represented less than 1 percent of our market.

Senator PACKWOOD. When?

Mr. SIMMONS. In 1960. This trend increased——

Senator PACKWOOD. How many tons in 1960?

Mr. SIMMONS. In 1960, the total tons of imports were 4,500 tons——

Mr. PACKWOOD. It went from 143,000 10 years later.

Mr. SIMMONS. That is correct. The point we make in our presentation, before the presentation, and that the Commission apparently considered significant was the fact that it is true that imports had reached an extremely high level in the years 1970–71, but that was also a period of injury and had the law been in effect during that period it would have constituted injury under the law.

Senator PACKWOOD. So, it was only the 1974 act that gave you the leverage that you needed?

Mr. SIMMONS. Well, for a couple of products. In some products, such as tool steel, actually, the shipments in 1975 really exceeded even the levels of 1970 and 1971.

Senator PACKWOOD. Now, let me ask a question about the suit in countervailing duties on the value-added tax. The theory of this is that whatever distinction might have existed at one time between direct and indirect taxes is no longer a valid distinction, because the taxes are getting so high as to constitute a significant tax and they are not counted as a tax in terms of border adjustments that operate at a tremendous discrimination, is that correct?

Mr. LARRY. I would like to ask Mr. King to answer that because he prepared our complaints and is proceeding with our lawsuit.

Mr. KING. Senator, we have felt that the distinction between direct and indirect tax dichotomy that found its way into the GATT is correctly summed up in this committee's staff report that is very good, February 26, 1974, dealing with the Trade Act. I believe that they point out that this was put into the GATT and it was not at all clear that there was such a distinction between GATT and—between the direct and indirect tax, and it took subsequent interpractice notes within the GATT to do this, and our country, Senator, stood by and permitted this to occur when we were not concerned about it. We had a huge trade surplus, the Marshall plan was intact, and, frankly,

we didn't perceive the danger and the risks in the fact that what we were doing was setting a foot a mischievous idea that has no economic basis. I think it is safe to say today there is not an economist anywhere in the world that believes the basic concepts under the direct/indirect: namely, there is full forward shifting of the indirect tax and full backward shifting of the direct tax. There is just no basis at all that direct taxes are fully shifted backward and indirect taxes are fully shifted forward. We became deeply concerned, Senator, that in the last 10 years the United States has protested in the OECD, they have protested in the GATT provision. There have been working parties set up to deal with this issue, the State Department, the Treasury Department, the Commerce Department, two former Presidents, former members of the Special Trade Representatives, and one of the distinguished members of the Kennedy round who now is associated with your work in this committee have spoken out against it, and we have tried to negotiate with the Europeans for 10 years with a notable lack of success. They absolutely refuse to accede on this.

It was with this point in mind that I think Mr. Larry has pointed out quite accurately in his statement that we, therefore, determined that the countervailing duty statute should be pursued as a means of getting at this very issue, and I would want to point out that we are not really asking the Europeans to change their tax system, we are merely asking they should go to the country of origin principle which they have agreed to do within trade in the community, and to eliminate these border tax adjustments both on remission of the tax on the outgo and imposition of it on the imports coming in there, because we believe it is trade distorting and we believe that, hopefully, we can win this points in customs court, which is where we are headed.

Senator PACKWOOD. If nothing else works and you lose your suit and the bottom falls out of everything, would you recommend that this country reduce its corporate direct tax and go to the value-added tax?

Mr. LARRY. No, sir, there has been a lot of discussion about the value-added tax as an available concept for the United States for a long time. Apparently, the very difficult thing, from all I have heard from those in the Treasury, is to refashion our tax in that way, but I am not at all sure it would be impossible to first do two other things: (1) Of course, is recognize the right to countervail on the way in, and (2) if you will, provide an equivalent reduction in our taxes when we are exporting to a market which has that kind of a tax system.

I don't particularly like the idea of doing it. I think it would be much better if we didn't have to worry about the problem and if, as Mr. King has suggested, that the European community were to extend to our market the same kind of concept as they apparently are going to extend within theirs.

Senator PACKWOOD. Thank you very much.

Mr. KING. Senator, there is one, if I may I would like to make one other comment that I hate to see any country have to try to structure its tax system based upon trying to attain parity in international trade. It seems to me that the easier way is for other countries to

eliminate the border tax adjustment so each nation may determine how it best wants to handle its own tax-raising fiscal policies.

Senator PACKWOOD. I have another reason for wanting to go that direction. I would rather lower the corporate tax and have more money available for taxes and pass it along for consumption.

Senator HARRY F. BYRD, JR. We will have to suspend for the vote in the Senate.

The CHAIRMAN. We will be back in a moment.

One quick question though: What capacity is the steel industry operating at the present time?

Mr. LARRY. Very low.

[Laughter.]

Mr. LARRY. We are about ready to get some numbers out indicating capacity again, but we have not had official numbers in that direction for a long time, but I will tell you, we are on the low edge, believe me, and there are an awful lot of people unemployed.

Senator HARRY F. BYRD, JR. To save time, Mr. Best of the committee will ask a few questions on behalf of the committee, and I will ask Mr. Best if he will put the questions to you now while the Senators are voting.

Mr. LARRY. I think, Mr. Best, if you want a ballpark number, we could say something like 60–65 percent recognizing the vagaries of capacity.

Mr. BEST. The chairman had a question or two on the Japanese-European agreement.

The first one is——

Mr. LARRY. Is your mike on, Mr. Best? I can't quite hear you.

Mr. BEST. The chairman had a question or two on the Japanese-European voluntary agreement. I think you indicated this was done outside of the framework of the GATT in bilateral agreements.

Mr. LARRY. Well, it must have been. There is no official proceedings about it that I know of.

Mr. BEST. Could you supply the committee with details with regard to the nature of the voluntary agreement and its effects on the United States?

Mr. LARRY. I think we have got some detail, obviously, in the references to the Japan-Economic European Community in our statement. Now, we do have supplemental reports. We do not have an actual copy of their agreement. We do not have an actual copy of their cartel arrangement.

We find references in both the European press and Japanese press to the—each thinking they have done maybe something which they shouldn't have done, that is that they could have done a little better from their own standpoint.

We will be happy to furnish you additional detail. We do have it available in our files.

Mr. BEST. Do you feel that the ultimate solution to the steel industry's trade problems lies in a multilateral agreement along the lines of the textile agreement; or in simply enforcing our unfair trade practice statutes?

Mr. LARRY. Well, I suppose we have not yet seen enough of the latter to be able to form a judgment as to how we feel if that were to happen.

We certainly, however, in light of the current circumstances, felt

justified in putting forth to the STR some concepts as to an approach for sectoral negotiations on a multination basis. We have had a feeling rightly or wrongly, that steel is a rather unique situation, that the development of other countries with government ownership of a significant portion of their industry, the basic nature of it to supply the fundamental, if you will, employment and basic product of the economy, have all made it such an element of concern for various governments throughout the world that we are inclined to believe that the forms of involvement are such they almost have to be tackled by looking at the steel industry as such, rather than, say, look at codes for one kind of unfair practice or another.

The variations, I think, are infinite when you begin to get into the economy, Government ownership, nonopen market concept which is so prevalent in many economies in terms of steel. That is the reason we felt it would be so important as a kind of a trial balloon, if you will, to tackle our industry, and we saw so much evidence of a similar concern both in what we called an aborted meeting last fall, and now once again after what has happened between the European and Japanese communities, we are concerned that there is a great peril to the capital formation needs of this industry because of the current downturn and because of what governments might cause industries to do in light of it.

So, we think there are opportunities to pursue that approach. We don't see why anyone wishes to feel that anyone from abroad ought to feel entitled, and that we should cash a chip in order to get it underway. We would just like to see us get on with it.

Mr. BEST. Just one followup question on that; Do you feel that the negotiators in Geneva are carrying out the will of the Congress in sectorial negotiations as to steel?

Mr. LARRY. Well, I would have to say that from what I can see, I do not have a basis for encouragement that they are.

Now, there may be things going on of which I am not aware. I would be rather happy if that were so.

Mr. BEST. Are you part of the advisory system?

Mr. LARRY. I am not personally, no, but we have representatives on that ISAC setup and I have to say that those who are involved in it feel a little bit frustrated by it.

Senator HASKELL. Just a couple of self-educating questions, if I may.

Was your proceeding in front of the Tariff Commission based solely on the Japan-EEC agreement, or did it attack the remission of the value-added tax head on?

Mr. LARRY. I think we are mixing a couple of things.

Senator HASKELL. All right, will you please explain it to me?

Mr. LARRY. We have a proceeding before the Tariff Commission in terms of the specialty industry, and we have a proceeding before the Treasury on the value-added. They are two different things, Senator.

Senator HASKELL. Thank you. Please continue.

Mr. LARRY. Well, we have one on either side of me who participated in starting each. So, let's start over here.

Mr. KING. Senator, on the countervailing duty complaint that was pending before Treasury and it is now on its appellate procedure in Customs Court, it had nothing to do with the Japanese-EEC arrangement. Indeed, that arrangement really would not have a relevancy or

materiality to the issue that we have raised as to rebate of the value-added tax.

Senator HASKELL. Let's confine ourselves to the remission of the value-added tax.

Mr. KING. That is what our countervailing duty case is about. We have claimed that under the statute the border tax adjustment inherent in the rebate of the VAT on exports leaving the community constitutes an export subsidy and the imposition of that tax on imports that we try to send into the community constitute a subsidy on the manufacture of or production which is permitted under our statute because it is trade inhibiting. It inhibits our ability to export to those countries. So that issue is an independent one that——

Senator HASKELL. That is the issue I am particularly interested in. Tell me a little bit about it. What did the Treasury do, did they turn you down?

Mr. KING. Yes; they turned us down, Senator, and I might add that we are somewhat disappointed that this Congress in the 1974 Trade Act provided for the first time specific judicial review for an American manufacturer who has a negative decision. In fact, there is a whole new section 516(d) to the 1930 Tariff Act, as amended, this 1974 Trade Act provided that.

When we were turned down by them, they issued an order, in effect, saying that on the basis of our complaint and the brief that we gave in support of it, that they could not find that there was a granting of bounty being made under the remissions and then in a press conference that they held in conjunction with the issuance of this decision, they pointed out that they were sympathetic with our economic position and, indeed, they accepted really our basis that there is not a valid distinction between the direct and indirect. However, they said the Treasury practice had consistently recognized that difference and they had never countervailed against remission of indirect taxes, and they also recognized that in our brief there were Supreme Court decisions that supported us, but they said those were old decisions and they felt a court looking at this anew would not go the same way.

Senator HASKELL. Now you are in the Customs Court, is that correct?

Mr. KING. That is where we will take the appeal. But I was leading up to that in a rather circular fashion, Senator.

Under your new Trade Act, we are required to file a notice of protest with the Treasury that we protest the decision that they made. This we did. We had to do that within 30 days after their decision. They are then required forthwith to publish our notice of protest in the Federal Register, then we must perfect our appeal in the Customs Court within 30 days after the appearance of this in the Federal Register.

Treasury has, within the last few weeks, published our notice of protest which was filed with them back in November of last year, and apparently there was a debate that ranged within the Treasury whether they would even publish our notice of protest, and we were faced with the prospect of having to bring a mandamus proceeding against the Secretary to have him publish it. This was on the theory of some in the General Counsel's Office in Treasury, apparently, who were suggesting that the decision of the Treasury was a nondecision and that the only way we can take an appeal to the Customs Court is by protesting

an entry that is actually coming in and which we go under the old 516(c) and say, "You are not assessing the correct duty on this; you ought to be assessing a bounty or grant."

Then they would put us through this whole convoluted, circular fashion that would not permit a direct appeal as to the correctness of the Treasury decision which I believe that Congress intended when they passed 516(d).

Senator HASKELL. I would think that Congress intended for you to have speedy access to a court. But, if you are correct, it seems to be a clear subsidy for an export. I may not understand the issue thoroughly, but——

Mr. KING. I think you understand it very well, Senator, I agree with you completely.

Senator HASKELL. I am sure you agree with me, but I may be wrong. From what I know about it, it seems rather clear.

If it is a subsidy in the case of steel, it must be a subsidy in the case of shoes or chickens or what have you.

The CHAIRMAN. Could I interrupt here?

Senator HASKELL. Sure.

The CHAIRMAN. One of the questions I asked of the Secretary of the Treasury when he was before this committee a few days ago was whether that was a negative decision, and he said it was. I think now that the Secretary of the Treasury has testified before the Finance Committee that that was a negative decision that that solves that problem.

Senator HASKELL. So, does this mean that these gentlemen are in court.

Mr. LARRY. We hope so.

The CHAIRMAN. I am confident it does, but if it doesn't, then we ought to amend that law so that they have a right to file a petition in the court seeking an order mandating Treasury to make the decision one way or the other.

Mr. KING. Thank you, Senator.

Senator HASKELL. If I may, let me follow up.

To get some relief now, is it necessary that you show anything other than an export subsidy?

Mr. KING. That is all that is required, Senator.

Senator HASKELL. Well, that is all that should be required. That probably completes my questions. I understand the Japan-EEC situation.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me just raise a thought that occurs to me about all this, and you can respond to it or think about it if you want to.

It seems to me that it is completely unfair for our people to have agreed that the excise taxes, which is the principal source of revenues of these European countries, could be rebated and that that would not be regarded as an export subsidy, although the income tax which is our principal source of revenue could not be rebated on the same basis.

Our trade negotiator, apparently, is still going along with that type of thinking in these negotiations. It occurs to me it might be well for us to adopt an approach of simply saying that we will let a business compute what its taxation cost is on a unit basis and then proceed to levy an excise tax on a unit basis and let a company elect to pay the excise tax, and then if they do that, give credit, or excuse them from paying the income tax.

We could use that device then to say that we are not rebating an income tax, we are rebating an excise tax, the same kind of tax that they are rebating. We would be doing the same thing they are doing.

We might use that approach in order to put our people on the same basis with theirs.

Mr. LARRY. Mr. Chairman, what you describe—I am not sure that I fully appreciate what you have said, but to the extent that I think I do, it contains the seeds of considerable ingenuity. I think it is something that is worthy of a good deal of thought and consideration because as you say, what you need is really something that neutralizes this thing and your thought may be a good one.

We would like to give that a little more thought and come back to you.

The CHAIRMAN. All through the tax code we have elections. Taxpayers make the election which gives the best advantage. It occurs to me that we could levy a tax and give the taxpayer the election to elect which tax he wanted to pay which would be approximately the same amount.

Then having made that election, he could—one in the exporting business could elect to pay the excise tax and by having done that, he would be in a position to ask that it be rebated.

Mr. LARRY. Yes.

Mr. Simmons would like to make an observation.

Mr. SIMMONS. If I may, Senator, we are totally in support of the concept that Mr. Larry has attempted to articulate with respect to the countervailing tax and rebate of the value-added taxes, and possibly your solution.

But I would like to point out that the problem is not just value-added tax rebates or other such direct or indirect subsidies.

It really touches in our opinion on a much broader issue. I think that we persented that issue before the International Trade Commission when we filed against our foreign competitors, all of them, not just the Japanese, for injuring the American specialty steel industry. The very quick point I would like to make is that we believe we demonstrated very closely in the testimony that there is a whole myriad of advantages, subsidies and government ownership of the steel industry throughout the world, so that addressing ourselves to only that point which we would agree and support is a very important one, but it may not deal with what we consider to be the broader issue.

The real broader issue is simply how does any investor-owned privately owned corporation in the United States compete as we are forced to do at the moment, with Government-owned, subsidized, or directed companies.

The CHAIRMAN. I don't misunderstand you. In fact, I have been impressed by some of the testimony before this committee that indicates that when you are competing with the Japanese, you are competing with the Japanese Government, and even if you are General Motors Corp., if you are competing with the Japanese Government which is in a position, if need be, to use the taxpayers' money, General Motors Corp. couldn't compete.

I read somewhere where that the Japanese were going to go into competition, in a particular industry.

My reaction to that was if the Japanese Government is going to compete with an American company, the company doesn't have a

prayer. They might as well sell their company now, because there is no private corporation which has to pay taxes to a government and a very substantial tax it is, too, which can compete with a government which is collecting taxes from the people. If we are going to permit a government to compete against a private company, it doesn't take a very big government to defeat one of our American corporations.

Now, that gets me to the next point. We hear about these voluntary agreements. Have you agreed to one of these so-called voluntary agreements?

Mr. LARRY. Nobody has asked us.

The CHAIRMAN. It is well to understand that they are talking about voluntary agreement, that means that somebody over in Japan or somebody in Europe who is in the process of taking your market away from you agrees to restrain himself in what he is doing to run Americans out of business, but he is not agreeing with you, he is making an agreement with an American official who is declining to do his duty under law to save you.

Mr. LARRY. Right. Correct, sir.

The CHAIRMAN. And do I—can I understand correctly that in many instances what we are talking about here is that these agreements are oftentimes something that your people don't think will save you for a moment?

Mr. LARRY. That is exactly right, sir.

The CHAIRMAN. He is saying, look, I will continue to leave American industry at the mercy of this foreign nation provided that you people will be a little more delicate about how you go about liquidating this American concern.

[Laughter.]

Mr. LARRY. Not a bad way to put it.

The CHAIRMAN. That is the kind of thing we have to think about.

Well, thank you very much, gentlemen——

Senator HASKELL. Mr. Chairman, let me ask another question.

Back to the narrow issue of the remission of value-added tax, the chairman has given a possible solution to that. I have thought of one that may be too simplistic, but I would like to get your views either now or later on.

It seems to me that if the Common Market countries remit their value-added tax to the people that export, it wouldn't be too inequitable for the United States to impose a tariff on imports of their product equal to the value-added tax remitted.

Mr. LARRY. This is really what we tried to achieve by countervailing against that amount.

Senator HASKELL. Unless I completely miss the mark—I don't see how you can say that a remission of the value-added tax is anything but a subsidy. And a rather simple approach would be the one that I suggest—at least it seems simple to me—is that your position?

Mr. LARRY. We agree. We hope we documented in great detail in our brief to the Treasury the justification for the economic conclusion that it is an export subsidy and, therefore, we would—we are advocating the view which you just now expressed with all fervor and all diligence before the appeals court.

Senator HASKELL. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, gentlemen.

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

[The prepared statements of Messrs. Larry and Simmons follow. A supplementary statement submitted by Mr. Simmons appears at page 87 of this volume. Oral testimony continues on p. 193.]

PREPARED TESTIMONY OF R. HEATH LARRY, VICE CHAIRMAN UNITED STATES STEEL CORP.

Mr. Chairman, I am R. Heath Larry, Vice Chairman of the United States Steel Corporation, and I have been invited to testify on behalf of my company. As Chairman of the Committee on International Trade of the American Iron and Steel Institute, I am also testifying today on behalf of the domestic steel industry. With me is Richard Simmons, President of Allegheny Ludlum Steel Corporation, a producer of specialty steels. We endorse the judgment and timing of the Senate Finance Committee in deciding to hold oversight hearings to review U.S. foreign trade policies. We appreciate the opportunity to provide views on this important subject.

When the Trade Act of 1974 was enacted into law, we were optimistic. As we saw it, the act achieved two basic purposes. *First*, it provided a sensible approach for United States participation in the multilateral trade negotiations under the auspices of the GATT to seek equivalent competitive trade opportunities. *Second*, the Trade Act of 1974 remedies a number of deficiencies which had seriously impaired the effective implementation of U.S. trade laws designed to cope with unfair foreign competition and those laws designed to provide relief to industries and workers adversely affected by imports.

In short, we had felt that Congress, after a great deal of thought and effort, had put together what could be regarded as a commendable trade program incorporating imagination, foresight, and a greater sense of fair play in international trade relations. We endorsed the views expressed by members of this Committee, whose report on the bill stated:

"In short, the Trade Reform Act, as modified by the Committee, is designed to avoid the pitfalls of past trade agreement programs and to give U.S. negotiators the authority needed to deal with a world of proliferating trade blocs, cartels, and disruptive influences."

Since the passage of the act, a number of trade-related developments have taken place, and particularly over the past year, which affect the steel industry. Frankly, we are disappointed with what we see taking place. It is becoming more evident that the approaches and mistakes embodied in past trade agreements may be repeated. It appears to us that negotiating opportunities are being missed. Resort to statutory remedies against unfair trade practices seems to be regarded as "protectionism." Sensitive trade issues, such as subsidies and border tax adjustments, are not being met forthrightly. There appears a dangerous probability that we may weaken even our existing laws in order to placate the complaints of other nations, however ill founded.

These developments do not inspire confidence within the American steel industry, or for that matter, within many other industry sectors.

Some within government respond by pointing to the depressed economic conditions throughout the world in 1975, asserting that these conditions have not been conductive to concluding constructive trade negotiations. Perhaps so. But in our judgment, the conditions of 1975 cried out for more dialogue on trade than was sought. This was certainly the case in steel and may well have applied to other industrial sectors as well.

Today, we hope at least to outline for you some of the sources of our disillusionment, including specific instances where we feel the intent of Congress is either being ignored or flagrantly violated. By doing so, we do not intend to single out for criticism any one official or government agency. We simply wish to respond to what we deem an invitation by the Committee for a candid appraisal of what is happening in the trade policy area. It is, after all, in the national interest to see that the trade negotiating program is improved. We do not wish it to falter for lack of steel or other industry support.

Our statement covers the following issues:

The EEC-Japan Steel Arrangement.
The Apparent U.S. Negotiating Attitude.
Sector Negotiations.
GATT Revisions and the Subsidy Question.
Effective Enforcement of the Fair Trade Laws.
Market Disruption, Safeguard and Escape Clause.

THE JAPAN-EEC STEEL ARRANGEMENT

For the steel industry, the deficiencies and inequities of the present international trade system emerged into full and dramatic view during the closing days of 1975. In an effort to obtain relief for its recession-plagued steel industries, the European Economic Community developed a multi-faceted approach involving both internal and external measures. One external measure was aimed at securing a commitment by Japan to restrain its steel exports to the Community. The effort succeeded. Japanese steelmakers obtained Japanese government approval for the formation of an export cartel to regulate shipments to the European Economic Community during calendar year 1976. To be more specific, the *Japan Economic Journal* on December 30, 1975, reported the following:

The Ministry of International Trade and Industry has approved formation of a cartel proposed by six major steelmakers for voluntarily regulating their exports to the European Economic Community.

By creating such a cartel on the basis of the Export and Import Transaction Law, the steelmakers intend to set the ceiling of their exports to EEC nations in calendar 1976 at 1,220,000 tons.

The six companies are Nippon Steel Corporation, Nippon Kokan K.K., Kawasaki Steel Corp., Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd., and Nisshin Steel Co. Their steel exports to EEC at present account for about 90 per cent of the nation's total steel sales to the area.

In the three-year period ended 1974, they had been holding down their shipments to EEC within the same framework of 1,200,000 tons a year.

In actuality, their exports to EEC ran to 1,516,000 tons in 1972 and 1,278,000 tons in 1973. Such a self-control was abrogated in 1975 since the quantity in 1974 dropped far below the target figure remaining at only 1,090,000 tons.

In 1975, however, Japan's steel exports to EEC turned upward again. Shipments to the area in entire 1975 are estimated at around 1,600,000 tons, up about 47 per cent from the performance in the preceding year.

This commitment, a 23.8% reduction from the 1975 level of Japanese steel shipments to the EEC in effect constitutes a bilateral arrangement, based on a cartel. It clearly discriminates against the United States. No attempt was made by the EEC or Japan to process the arrangement through the Article XIX safeguard procedures of the GATT. It is violative of the most-favored-nation provisions of the GATT, which purports to be the cornerstone of the post-war international trade system. Our belief is that U.S. trade officials were advised of the arrangement only after the fact.

Equally distressing to us is the hypocrisy surrounding the arrangement. In testimony on July 23, 1975, before the Trade Policy Staff Committee of the Office of the Special Representative, we asserted our belief that Japan and the EEC had worked out an arrangement designed to restrain exports for the remainder of 1975, and urged U.S. trade officials to deal with it. European and Japanese government officials then denied the existence of such an arrangement. As far as we know, American government officials lodged no official protest.

Now, despite these former European and Japanese denials, the 1976 arrangement has surfaced and has been reported in the Japanese press. Again, as far as we know, there still has been no protest from U.S. trade negotiation officials against the discriminatory character of the arrangement, against its violation of GATT principles, and against the lack of multilateral consultations.

At the very time that the European Community was engaged in negotiations with Japan to restrict exports to the Community, and while the Community was engaged in discussions exploring the establishment of minimum steel prices in Europe, our European trading partners were piously protesting the action of U.S. Steel in filing a countervailing duty complaint challenging the subsidy effect of the border tax adjustments used by those nations in the administration of their value-added tax systems.

The European concept of fairness surely emerged as peculiar, to say the least. How the Community can denounce our countervailing duty complaint as "protectionist" and disruptive of international relations in light of its own recent pattern of conduct (including setting in place absolute quotas on steel exports from Japan) is unbelievable.

It should be pointed out that our complaint did *not* seek to interfere with the internal tax structure of any other sovereign government. It does not challenge their use of a value-added tax concept. It was simply a use of legal remedies and procedures prescribed by the Congress of the United States to challenge the

subsidy reflected by their remission of such taxes to their manufacturers when shipping into our market.

If this remission of value-added taxes and imposition of border taxes tend to disturb the flow of trade, as it clearly does, if indeed there results the equivalent of an export subsidy, as we believe we can prove, there is nothing "protectionist" about calling their hand through the legal procedures of the 1974 Trade Law made available to us. We don't ask them to change their internal tax system (they like to obfuscate by accusing us of internal meddling); we just don't want them to use it to the detriment of American producers.

We appreciate the fact that Congress clarified our attempt to test the correctness of our belief in court.

We are concerned, however, that even before a decision by the courts, our position may be compromised through the negotiations now underway in Geneva. I will return to this later.

At this point, I want to call attention to one more aspect of hypocrisy; I am referring to the European reaction to the recent decision by the International Trade Commission under the escape clause provisions of the Trade Act, in which the ITC found that imports were a substantial cause of injury to the specialty steel industry. The ambivalence between the European reaction to the decision and its *own* self interest response to its problems is most interesting. The following illustrates the point:

EEC charges	*Response*
1. The current steel industry crisis is of a short-term cyclical nature and that the market will make its own adjustment if left alone.	1. The EEC in 1975 took a number of actions aimed at *adjusting* the market to alleviate the plight of its steel industries; (a) OECD consultations were convened in November of 1975 at which time the EEC announced its intent to hold bilateral consultations with the countries importing low-cost steel into the EEC. (b) EEC pressure on Japan resulted in formation of the Japanese export cartel to restrain shipments into the EEC for 1976. (c) The ECSC Consultative Committee on January 19, 1976, approved a proposal to introduce a system of minimum prices for steel products within the Community. (d) The ECSC Consultative Committee on January 19, 1976, also approved a resolution requesting that a number of steps be taken as a matter of urgency, including allocation of "available funds for the restructuring and for the short-term improvement of the financial situation of steel firms, so as to contribute . . . to solving employment problems."

EEC charges	*Response*
2. The ITC decision is a protectionist measure which could set off a "snowball effect of unilateral trade protectionism."	2. Unlike the Japan–EEC steel arrangement which was worked out secretly, the specialty steel case was pursued through authorized statutory channels in public hearings. The escape clause has been an established feature of American trade law since 1942 and in fact became the basis of the GATT escape clause in Article XIX.
3. The ITC action on specialty steel might have the effect of undoing the work of GATT in creating multilateral trade agreements, may severely compromise the U.S. GATT position, and may violate the OECD trade pledges, principally an American initiative.	3. The ITC discussion was based upon Congressionally mandated standards. Moreover, the OECD trade pledge was not intended to apply to statutory escape clause situations but to ward off balance of payments actions arising out of the energy crisis.

From all of the above it can be seen that the U.S. has open legal procedures. In contrast, the Europeans have a system which virtually excludes any participation by any adversely affected nations. Our escape clause procedure takes upwards of eight months before a definitive conclusion is reached. Their system can operate rather peremptorily, with little or no public participation.

U.S. NEGOTIATING ATTITUDES

What disturbs us greatly and should disturb the Congress is the completely defensive attitude which the U.S. government adopts in response to the exercise of U.S. statutory procedures. No other country in the world is so apologetic for legitimately pursued trade actions as we are. No other country in the world bargains away its self-interest as we do. Think back to the OECD steel consultations held this past November.

From all we can learn, it would seem that our government officials at the OECD steel consultations failed to take advantage of an ideal opportunity to open up for examination the issue of how countries handle problems of market disruption in the wake of cyclical downturns in steel demand. The EEC steel industries were having problems. But so were we. Notwithstanding, the United States position at the OECD talks was innocuous—simply hear out the Europeans, refer to conditions in the American steel industry, and express opposition to actions that would result in trade diversion to the United States. This was not so much an affirmative trade policy as it was a reaction syndrome, and a very minor one at that. The unprecedented opportunity to assert initiative to expand the EEC request by recommending a long-term study addressed to market disruption was lost. Perhaps this was in part because of apparent confusion as to whether the State Department or the STR was in charge.

The OECD development appears to have evidenced three points:

(1) It confirmed the lack of full commitment by the U.S. policy officials to deal with the problems of the domestic steel industry;

(2) It indicated their willingness to understand and lend support to the EEC steel industry problems; and

(3) It casts serious doubt on the ability of our officials to seize an opportunity and use it to the advantage of American interests.

Other countries seem to look to their own national interests and only then do they seek reconciliation of these interests with international commitments. In trade policy, the United States seems to act in reverse. We seem to start first with the international interest—even to the detriment of enforcing our national laws—in order to mollify and pacify foreign complainants. We seek to avoid controversy—at the expense of our industries and jobs—if such controversy upsets our trading partners.

If there is a single recommendation to be made in terms of negotiating attitudes, it is as follows:

"Congress should make clear its intent that if U.S. negotiation officials make a bona fide effort at pursuing the objectives of the Trade Act of 1974, but fail to reach an agreement, or become deadlocked, Congress will *not* construe this as a failure on the part of the U.S. negotiating team. In fact, it should be made manifest that this nation is dedicated to hard bargaining, which may result in *no* agreements whatever being reached. We simply must not give away our economic interest just to reach some international agreement. Similarly, Congress should indicate its intent to reject any trade agreement package brought back to the Congress for retification if it does not offer full fairness, equity, and reciprocity for the U.S."

Such a clarification of Congressional intent would, we feel, go to a long way to reassure U.S. officials and to buttress their position in these difficult negotiations. Otherwise, we see ourselves repeating the Kennedy-Round mistake of mollifying our trade partners with unreciprocated concessions for the sole purpose of having reached "agreement."

We submit that this nation must have the resolve to stand up for proper legal and economic principles that are designed to assure fair trade. We must not in an excess of caution, out of trying to make everyone happy, disadvantage our nation's business capability by permitting unfair trade practices to continue in international trade. It is our belief that no law of Congress can effectively deal with these unfair trade practices if the officials charged with enforcement are impaled upon some overriding principle about the United States acting as the "good guys," no matter how outrageous the trade insult received. We must remember we are no longer a super invulnerable economy; if we do not take care of ourselves, we've seen enough to know that no one else is going to do it for us. Being fair to others does not require ignoring a kick in the shins!

SECTOR NEGOTIATIONS

In its report on Section 104 of the Trade Act of 1974, the Senate Finance Committee stated:

"With respect to the principal negotiating objectives described in Section 104 of Title I, the Committee firmly believes that there are a number of sectors which lend themselves to a sectorial negotiation. These include sectors in which there is a considerable degree of direct government intervention in the market and others in which industrial countries and trade blocs maintain protective tariff and nontariff barriers. . . . The Committee feels that appropriate product sectors would include, among others, such industries as steel, aluminum, electronics, chemicals and electrical machinery, all of which should lend themselves to a sector negotiating technique. The Committee intends, therefore, that the phrase 'appropriate product sectors' include, among others, steel, aluminum, electronics, chemicals and electrical machinery. . . ."

Tackling trade issues according to certain industries merely defines a negotiating approach. It does not define an outcome. Accordingly, we fail to understand why the sector issue becomes a negotiating chip and why it instills such a defensive attitude on the part of U.S. negotiating officials.

To date, attempts at so-called sectorial negotiations have been disheartening. What we see underway in the GATT working group on sectors is merely a data analysis of steel trade flows that seems destined to continue to be indefinitely bogged down in statistical minutia. We are under the impression that some U.S. trade officials do not really want steel sector negotiations, in spite of the clear expression of Congressional intent (as the above quote demonstrates) that steel was to be a special sector negotiation. Even those officials who acknowledge the ultimate propriety of steel sector negotiations seem to take the position that such negotiations should take place in earnest only towards the end of the total negotiation, i.e., only after major progress has taken place on tariffs and various nontariff measures. To us, this is a misconception of Section 104 and would defeat its purposes.

Rather than mere statistical analysis or simply an examination of the effects of tariff and other across-the-board formulae on a particular sector, we had hoped that the sector technique might have been regarded as a way to examine in depth those trade and economic problems which are common to steel producers throughout the world. As a first stage, we anticipated that there might at least be sector "discussions" (if not full-blown negotiations) whereby GATT participants could have laid on the table their concerns in raising adequate capital,

assuring access to supplies, avoiding restrictive trade actions and examining the impact of steel trade flows on capital formation in the years ahead.

Certainly raising sufficient captial to provide the facilities necessary to meet demand in future years is a problem common to all the steel industries of the free world. We believe one of the major reasons the EEC and the Japanese steel producers sought accommodation was to keep the liquidation of steel surpluses during cyclical downturns from being used in a fashion which would be so intensely harmful even to existing investment as to put needed future expansion in serious jeopardy. But why only a bilateral approach to this issue? The U.S. industry also faces the problem of how to prevent surges of marginally priced and often subsidized imports from upsetting sensible investment plans. And as the Chairman of General Motors said in a recent speech[1] "Domestic steel is no less important to the welfare of the United States than is domestic oil—and I would underscore that priority." We must be concerned for the domestic future of an industry so basic to the economy as steel even as we must be concerned for the future of steel making jobs in this country.

It seems to us that certain priorities and objectives for trade discussions could be set out for the steel sector, given its special status in many developed countries. Having thus set the stage, negotiations could begin in earnest to realize those objectives, objectives which hopefully would be specifically responsive to steel's trade problems rather than just relying on general formulae in terms of expanding world trade over the long run. Recent history suggests that one of the real problems for any economy is that its trade negotiators may occasionally become convinced that trade expansion is an end in itself, no matter how done and at what cost. The world has changed over the last several centuries and it may be appropriate now to question just what economic good it serves for major industrial economies to be shipping, for example, the same steel products back and forth between their respective markets. There would be little sense in trying to stop it, either totally or artificially; there are occasions when there is a genuine need to resort to off-shore sources. But surely such trade is not such an important end in itself as to deserve special encouragement.

If presented in the above context, we feel that there would be support for such a steel sector approach by other GATT members. Press reports indicate that steel leaders in France, the United Kingdom, and other countries look favorably on a sectoral conference involving steel trade. This should come as no surprise. Other industries like our own are striving to increase production, to obtain capital for expansion, and to meet environmental standards. Each country' differences lie in the means of achieving these objectives; and herein, in our view, lies the essence of negotiations.

If sector negotiations are not appropriate for steel, for what sector is an in-depth approach appropriate? There is no reason for steel to be lumped with other metals—of which we have heard rumors; nor is there any reason for its interests to be traded off against, for example, the farming industry—of which there are also occasional rumors. Steel can and should be dealt with on its own bottom; there may no other way to resolve the manifold problems—arising from the fact that in some economies there is much government ownership—while in ours it is all private—as well as those problems arising between market—and non-market economies.

The present course of action indicates that future sector groups could turn out to be nothing more than rubber stamp operations to validate what the general working groups on tariffs and other issues will have worked out across the board. The steel industry cannot endorse such a result as the *meaningful* sector negotiation Congress envisioned under the Trade Act. Congress should make clear its intent that the United States should not be obliged to pay a price for engaging in sectorial talks and that American industries singled out for sectorial talks should not have to offer concessions simply to have sector negotiations undertaken as Congress had intended in the Trade Act.

GATT REVISIONS AND THE SUBSIDY QUESTION

Section 121 of the Trade Act directed the President to take "such action as may be necessary to bring trade agreements heretofore entered into, and the application thereof, into conformity with principles promoting the development of an open, nondiscriminatory, and fair world economic system." In particular,

[1] Thomas A. Murphy at the AMM Seminar of Pittsburgh, January 16, 1976.

Congress directed the President to seek "revision of Gatt articles with respect to the treatment of *border adjustments* for internal taxes to redress the disadvantage to countries relying primarily on direct rather than indirect taxes for revenue needs.

We are concerned by reports that this directive is not being diligently pursued or perhaps is misunderstood by the government's representatives. In the first "Concepts Paper" on subsidies prepared by the STR's office, the rebate of so-called "direct" taxes was included as an example of *prohibited export subsidies*—which may be countervailed against without proof of injury. The rebate of "indirect" taxes was not comprehended by the STR's proposal. Under the rules of legal interpretation, the inclusion of one category can mean the exclusion of all others. We must object strenuously to any such omission—or to any such careless classification of "indirect taxes"—at least pending conclusion of our countervailing litigation.

We are advised that the STR tabled a revised Concepts Paper in Geneva in mid-October. This proposal was ostensibly the same as the one in the first Concepts Paper but with the illustrations removed and with an additional proviso stating that special rules should be worked out for measures that are complex, in widespread use and have broad, socio-economic impact. Indications are that at least some Europaens interpreted this as meaning the *border tax adjustments would be in the permitted category of subsidies*—or at least reserved for future policy determination. Such a position gives much ground to the Europeans who quite naturally would be opposed to any meaningful discussions on the issue of border tax adjustments. They think they have a good thing. The fact that we may have let ourselves get taken at the original GATT negotiations is no reason to let a mistake become permanent.

For more than a decade now the topic has been debated under the auspices of GATT with absolutely no progress. During this period, the value-added tax, together with the border adjustments, has become the universal system within the Common Market. Many of the member nations have actually *increased* the effective subsidy by increasing the *rate* of tax. Even now, Luxembourg, the Netherlands, and West Germany are contemplating further increases.

Since we could observe no discernible progress toward negotiating an end to this trade-distorting practice, U.S. Steel elected to press the issue by pursuit of its legal remedies under the countervailing duty statute. Although our complaint was initially filed in 1968, no action was taken by the Treasury Department until 1975 when, pursuant to the new Trade Act, it published the required proceeding notice. In April U.S. Steel withdrew its complaint, which it revised and refiled in September to reflect changes in European law.

Although we were disappointed when Treasury thereafter ruled peremptorily against our petition, we were heartened by the Department's public *acknowledgment* (as reported in the press) that the thrust of our argument was correct, i.e., that there is no valid economic distinction between direct and indirect taxes which would warrant the rebate of one but not the other.[2]

It is immensely important that no action be taken by the STR which might at this point "legitimize" the trade-distorting practices which were the basis of our complaints.

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[2] Press briefing by David R. Macdonald, Assistant Secretary for Enforcement Operations and Tariff Affairs, held on October 20, 1975. We must register our disappointment at the efforts of Treasury to circumvent the judicial review provisions that Congress provided in the 1974 Trade Act. Congress passed an entirely new provision (designated as Section 516(d) of the Tariff Act of 1930, as amended), which permitted an American manufacturer to take a direct appeal to the Customs Court from a determination by the Treasury that a bounty or grant was not being paid or bestowed. On October 20, 1975, the Treasury found after full review of U.S. Steel's petitions that they had concluded that the complaints do not "describe a bounty or grant." Treasury determination was based on its being wedded to the direct-indirect tax dichotomy. In the press briefing Treasury further elaborated as follows:

"The fact that we have not found the remission of value-added taxes to be a bounty or grant within the meaning of our law, does not mean that the United States Government is wild about other taxes of this sort."

Despite this final negative determination which spelled the end of any administrative relief for U.S. Steel, the Treasury has intentionally taken the jurisdictional notice of protest that U.S. Steel filed with Treasury contesting such Treasury determination that our complaints did not "describe a bounty or grant" and has instead published in the Federal Register a misstatement of the U.S. Steel protest in an effort by Treasury to convert the 516(d) appeal into the more protracted and indirect appellate procedure under 516(c) dealing with protests against steel imports entering into the United States. This is an outright effort by Treasury to try to delay a direct judicial review of its decision by somehow positing that its negative decision was not a final determination at all. We believe that this is an improper effort by Treasury to undermine the intent of Congress which was to provide for speedy judicial review of such Treasury decisions.

Reports reaching us on the negotiating posture on subsidies and countervailing duties suggest that our trade negotiators may be seriously considering demands of the European Community that an injury test by placed in the countervailing duty statute even with respect to an out-and-out export subsidy—which enables selling at a lower price in export markets than at home. Testimony of Secretary Simon last week appears to refute these reports. But it was not helpful in displaying our government's official position as to whether remission of indirect taxes could be recognized as a direct export subsidy. Such a position ought to be resolvable in terms of economic fact (which out litigation seeks to bring about); it should not be forfeited through the vagaries of political negotiation.

In any event, we are pleased to see increasing recognition of the fact that there is no place for an injury test once the question of prohibited export subsidy is established.

Automatic countervailing, without the need to demonstrate injury, is necessary to insure observance of such prohibitions.[1]

Furthermore, anyone familiar with the unpredictable and fluctuating policy changes within the International Trade Commission in dealing with the concept of injury must recognize that such a test has the almost certain potential to significantly thwart, if not entirely blunt, the effective enforcement of a countervailing duty statute. The procedure makes it possible for an unfair trade practice to continue without remedy for a significant period of time. The injury test would thus be counterproductive to our statute's effectiveness in dealing with subsidies.

If indeed the international community is generally interested in eliminating subsidies, then prompt and effective enforcement of countervailing duties without an injury criteria is probably the surest means of accomplishing that objective.

EFFECTIVE ENFORCEMENT OF FAIR TRADE STATUTES

In his testimony before this Committee last week, Secretary Simon acknowledged that "in several of the cases which resulted in negative findings, substantial 'countervailable' programs existed at the time the inquiries began. Discussions with Treasury officials during the course of the proceedings or the mere pendency of the actions themselves convinced the responsible officials of the governments concerned to eliminate the subsidies."

We believe that in instances where negative determinations are entered following corrective action by foreign governments, Treasury's published decisions should set forth the steps taken that have eliminated the subsidies. Failure to disclose these vital facts may mislead other countries into concluding that the contested practices are permissible under U.S. law.

My company filed a countervailing duty complaint on subsidized steel plate from Mexico. This complaint was filed with Treasury in August, 1972, dealing with the Mexican practice of rebating on export a melange of federal taxes spanning the entire spectrum of so-called "direct" and "indirect" taxes and the allowance for a Mexican exporter to obtain a flat 10% tax refund even if he could not prove the payment of *any* such federal taxes.

The U.S. Customs Service advised us that in the summer of 1972 the Mexican steel producer, Altos Hornos, was on the verge of applying for the tax refund. Following the filing of U.S. Steel's complaint, however, Altos Hornos decided not to utilize the 10% option which does not require proof of payment of taxes. The Customs Service acknowledged that the 10% device was clearly an export subsidy.

Altos Hornos then claimed it had actually paid taxes amounting to 5% of the value of its exports and that the refund of this money by its government was permissible under the GATT provision allowing border adjustments of so-called "indirect" taxes. The U.S. Treasury did not accept Altos Hornos' claim for 5% because the Mexican concern could not prove it had in fact paid this entire amount. The Customs Service advised us that had a decision been rendered in 1972 or the first half of 1973, i.e., within the time limits now imposed by the Trade Act of 1974, countervailing duties would have been assessed.

Subsequently, the Mexican government altered its tax laws to try to bring all of the taxes under the shelter of the artificial "indirect tax" concept, which largely obviated the question whether the litany of taxes cited in U.S. Steel's petition were direct or indirect. It is unfortunate that Treasury chose to mention neither the 10% tax refund procedure nor the change in the Mexican tax struc-

[1] See pp. 77–78—Policy Papers of The Atlantic Council "GATT Plus."

ture in its final decision published early this year. Indeed, the only discussion on the entire tax rebate issue was a terse comment "that the 5% *ad valorem* rebate given to exporters of steel plate was determined to have constituted the rebate of indirect taxes which are directly related to the product and therefore not counteravailable."

U.S. Steel thereafter requested Treasury to correct the misunderstanding by disclosing the true circumstances of its final determination. Unfortunately, the Department chose not to do so. We believe that within the spirit of the Congressional intent manifested in the Trade Act, Congress deemed it desirable for Treasury to fully articulate the reasons for any decision, whether negative or affirmative.

If Treasury does not fully disclose the reasons for a negative determination on the discontinuance of a proceeding, the credibility of the petitioner may be unjustly impugned by those who tend to cite a negative decision as evidence of a spurious complaint and a protectionist attitude. In our Mexican case, the Treasury's tentative negative determination last year prompted the staff of a federal agency to comment that our complaint lacked any merit and evidenced a "protectionist attitude." A statement by Treasury accurately stating that the complaint had been mooted by remedial action taken by Mexico would have avoided these unfortunate misunderstandings.

ANTIDUMPING REGULATIONS

In July of 1975, Treasury published proposed amendments to its Antidumping Regulations. These proposals were intended to reflect changes to the antidumping statute contained in the Trade Act of 1974. In general, Treasury did a credible job in drafting the administrative rules needed to implement the new law. There is one area, however, in which we feel the proposals are inadequate and contradict the Congressional intent for firm, fair enforcement.

The statute, as amended, contains no time limit to the life of an antidumping finding. The Treasury Department's proposal would, in effect, legislate a two-year limit. We can appreciate the Department's desire to terminate "stale" findings. Two years may even be an appropriate time to consider revocation *under certain circumstances*. Under the proposal, however, revocation would be virtually automatic if two conditions are satisfied: (1) no sales at less than fair value (LTFV) for two years and (2) assurances from the foreign manufacturer, or importer, that no such sales will occur in the future. The first condition is largely window-dressing, i.e., the foreign producer or importer has absolutely nothing to gain from LTFV sales while a finding is in force. Any competitive edge he might otherwise obtain by selling at less than fair value will be negated by the assessment of antidumping duties; and hence, the absence of such sales is in no way indicative of how he will behave after the finding is lifted. The second condition is of little more consequence. Unlike Treasury's rules relating to assurances in the context of a discontinuance, no provision is made for monitoring compliance with the assurances. Neither are the consequences of breaching such assurances specified.

If the Treasury proposal is adopted in its present form, it may so weaken the Antidumping Act as to make it ineffectual. Few, if any, domestic concerns can justify the considerable time, effort, and expense required to prosecute a case through two proceedings—before the Treasury Department and the I.T.C.—on the chance it may be granted relief of such short duration.

We have suggested to the Treasury that in terminating stale claims that it accept assurances after two years of no dumping but that it provide a mechanism for monitoring sales of that offending party for a period of five additional years with the understanding that Treasury can reopen the old proceeding if there are dumping violations during the period of monitoring.

MARKET DISRUPTION, SAFEGUARDS, AND ESCAPE CLAUSE

As in the case of sector negotiations, Congress in Section 107 of the Trade Act set out another principal negotiating objective, namely, to obtain internationally agreed upon rules and procedures which permit the use of temporary measures to ease adjustment to changes occurring in competitive conditions in domestic markets of the parties to an agreement.

As a *principal* negotiating objective for steel, it would seem that this issue would be in the forefront of negotiations, particularly since the EEC and Japan have already negotiated a steel safeguard arrangement outside of existing GATT

covenants. Instead, it appears that every effort is being made to withhold active consideration of safeguards until late in the negotiations after tariff and other issues have been fully developed. This would be a mistake. We urge simultaneous concentration on both tariff and nontariff issues, if a balanced trade agreement is to result. Section 107 of our Trade Act provides that opportunity, as does Section 121(a)(2), which instructs the President, as soon as practicable, to seek, revision of article XIX of the GATT into a truly international safeguard procedure which takes into account all forms of import restraints countries use in response to injurious competition or threat of such competition."

At present there is no recognized international means of heading off steel market disruption problems before they reach the stage of becoming international confrontations. As mentioned earlier, there is a wide difference between the American system of handling market disruption and the systems of other countries.

In response to the plight of the European steel industries, the EEC this past November requested an OECD consultation on steel. During the course of these consultations other countries, including the United States, were put on notice as to what the EEC might do especially to rectify the problems of low-priced imports. One result was the conclusion of the EEC-Japan arrangement mentioned earlier whereby Japanese steelmakers have agreed to limit their exports into the EEC during calendar year 1976.

Contrast this situation with our own. The U.S. producers of specialty steel filed an escape clause petition on July 16, 1975, requesting import relief on the basis that imports are a substantial cause of serious injury, or threat thereof. Six months later on January 16, 1976, the International Trade Commission issued a positive finding and recommended the imposition of modest quotas. The President now has two months during which to render his finding. Hopefully, he will confirm the ITC finding and implement its recommendations in full.

Unlike the European approach to their steel problems, our approach is open to public view and invites testimony by any affected parties as an input into the decision-making process. Our approach is slow, taking at least eight months, by which time considerable damage may have been inflicted upon the domestic industry. Our approach by its nature pits the petitioner against protagonists of "free trade" and thereby escalates the issue beyond its economic merits, to one of free trade versus protectionism.

There simply has to be a better solution for handling steel problems as they arise in the future. As long as other governments can act bilaterally on behalf of their steel industries and thereby avoid invoking the multilateral procedures of the GATT and other international forums, there is no incentive for them to seek development of an improved international procedure.

The concept of market distribution is not unique. It dates back to at least 1948, where it became an important concept of the General Agreement on Tariffs and Trade. Since then, dozens of GATT consultations have been held by other nations. Basic to this concept is the idea that imports at a high volume, or at ruinous prices, or shipments inundating a local geographic region can cause the normal free market structure to go awry. Whenever this happens, it is unnecessary to look for injury. Action is taken to cope with the disruptive market situation. The concept is as old as GATT. Numerous working parties have been set up under GATT. The international idea is already in place. All we are suggesting is the modification of a uniform approach that is currently on an ad hoc basis.

In response to repeated requests from the Executive Branch, the American Iron and Steel Institute over a period of many months, carefully developed a detailed proposal aimed at establishing better international procedures for handling steel market disruption problems. It is aimed at encouraging international consultation rather than confrontation. It seeks prompt action rather than long, drawn-out deliberations. It urges relief tailored only to the degree and duration of the disruption. It rejects permanent import quotas and thereby is totally different from existing international commodity safeguards. Finally, it is a proposal which we feel other steel industries and their governments can accept as a basis for further discussion and negotiation.

Our proposal recognizes that privately owned steel industries, such as ours, represent a declining world minority, as a public ownership outside the U. S. of steel becomes more dominant. Public ownership exacerbates the problem of defining what is or is not an unfair trade practice. What is needed is an international code or mechanism whereby market disruption, whether caused by so-called fair or unfair competition, can be handled promptly and fairly.

CONCLUSION

The American steel industry is looking for new and imaginative approaches to multilateral trade negotiations. We have presented to the Executive Branch a detailed proposal covering relevant issues of the negotiations. We shall continue to avail ourselves of the statutory remedies made available by Congress to redress unfair trade practices and press for the development of effective multilateral procedures. We believe that when the Congress enacted the Trade Act of 1974 it fully intended this result, namely, that the domestic remedies should operate in tandem with our international commitments. Hopefully, this hearing will contribute to that end.

[From the Japan Metal Bulletin, Oct. 7, 1975]

Steelmaker	Crude steel			Finished steel		
	October–December	July–September	Cut rate (percent)	October–December	July–September	Cut rate (percent)
Nippon Steel	8,050	8,530	5.6	6,390	6,820	6.3
Nippon Kokan	3,570	3,910	9.0	3,020	3,310	9.0
Kawasaki	3,240	3,485	7.1	2,658	2,952	10.0
Sumitomo	3,240	3,497	7.3	2,325	2,475	6.0
Kobe Steel	1,920	2,017	4.8	1,293	1,359	4.9
Nisshin	675	688	1.9	564	567	.5
Osaka	127	132	3.8	102	93	+9.6
Nakayama	255	196	+30.1	249	244	+2.0
Total	21,077	22,455	6.6	16,606	17,821	6.8

	For domestic shipment			For export		
	October–December	July–September	Plus or minus (percent)	October–December	July–September	Plus or minus (percent)
Nippon Steel	4,530	4,960	−8.5	1,860	1,870	−0.6
Nippon Kokan	2,039	2,299	−11.0	872	895	−3.0
Kawasaki	1,708	2,026	−15.8	950	925	2.6
Sumitomo	1,567	1,645	−4.8	758	831	−8.8
Kobe Steel	944	984	−4.1	349	375	−6.9
Nisshin	548	551	−.5	16	16	0
Osaka	70	63	−11.1	32	30	6.7
Nakayama	229	296	−3.0	20	8	150.0
Total	11,635	12,764	−8.8	4,857	4,950	−1.9

Note: Based on finished steel.

STEEL EXPORTS TO EC WILL BE AT 1974 LEVEL

Leaders of steel industries in Japan and 9 EC countries have reached an agreement that the Japanese steel exports to 9 EC countries in 1976 will be limited to 1,250,000 tons, the same as for 1974, it was disclosed by a spokesman for Nippon Steel Corp.

The agreement was reached at the conference of steelmakers from Japan and EC countries held in Toronto on 18–19 September.

Japan's steel exports to EC had been voluntarily restricted till the end of 1974—1,250,000 tons for 1974. But at the end of 1974, the voluntary restriction was lifted, and the export shipments of steel products to EC countries reached 1,120,000 tons in the first 6 months period of this year. Since then the Japanese Government (MITI) has been requesting Japan steelmakers to restrict their steel exports to EC countries. MITI now believes their steel shipments to EC will be limited to a total of 1,400,000 tons at most for this year.

[From the Japan Economic Journal, Oct. 21, 1976]

GOV'T WILL URGE STEELMAKERS TO RESTRICT EXPORTS TO EEC

The Ministry of International Trade & Industry will shortly recommend to the steel industry holding down exports to EEC nations to 120,000–130,000 tons monthly for the time being.

The framework set by MITI is down about 30 per cent from the performances in May and June.

The MITI advice to the steel, industry will be given in line with the request of the European Coal & Steel Community calling on Japan voluntarily to restrict steel exports.

The Ministry will cite to steelmakers that the recent swelling of Japanese steel exports to EEC has been producing serious effects on European steel industries now suffering from an acute demand slump.

Six ECSC member countries, at a regular conference with Japan held recently, called for Japanese cooperation in helping European steel industries recover from the recession and also preventing their product prices from declining further.

Japan's steel shipments to EEC in January–August, 1975 aggregated 1,350,000 tons on a customs clearance basis, up 30 per cent from the amount in entire 1974.

[From the Japan Metal Bulletin, Oct. 28, 1976]

IRON & STEEL

BIG FIVE WILL CUT 30% EXPORTS TO EC

Five major steelmakers have agreed with EC steelmakers to curtail their steel exports to the EC countries by 30 percent from 1,220,000 tons, their actual shipments to them last year, according to the industry sources.

The agreement was reached at a lobby negotiation in Mexico City, Mexico when they recently gathered there for the annual conference of IISI. They have also agreed to limit their steel shipments to EC for the first half year period of next year to 400,000 tons.

Leaders of steel industries in Japan and EC countries held meetings in Toronto, Canada on September 18–19 and have agreed to restrict the Japanese steel exports to EC next year to a total of 1,240,000 tons, the same as for 1974. Now, however, the 5 major Japanese steelmakers have decided to cutback export shipments of their own products to 400,000 tons for the first 6 months period of next year. At the same time they have also agreed with the EC steelmakers to set their export prices at the levels not less than the real prices of the counterparts on the EC markets.

As for the second half-period of next year, negotiations will be held between the two parties in early months of the next year.

[From the Metal Bulletin, Nov. 18, 1975]

ON THE BRINK

Last week saw a lot more talking about the European steel crisis —on Wednesday at the routine meeting of the European Commission and on Thursday and Friday at the OECD forum initiated by the Commission (see page 36)—and there would have been more on Friday had not widespread fog prevented a meeting of the EEC consultative committee from taking place. Because this event did not occur, and because steelmakers in the community are still not fully agreed on what action should be taken, it is very doubtful whether the Commission will in fact grasp the crisis nettle at tomorrow's meeting, but it is pretty certain that the Commission is nearer to taking action than at any time since the bottom fell out of European steelmakers' order books just over a year ago.

This action, when taken, seems most likely to be within the provisions of Article 61 (b) of the Treaty of Paris, which allow for the fixing of minimum prices where it is found "that a manifest crisis exists or is imminent." The Germans, however, while agreeing increasingly with other EEC members that measures are required, are particularly hesitant about positive moves by the Commission.

The first reason is that all central intervention is seen as possible encouraging an increased intervention by the German government, elements of which are keen for greater control over the steel industry. The second reason is two-fold and is based on the premise that in order for minimum prices to have any effect there would have to be a ban on alignment on offers from third countries. This, say the doubters, could again have political repercussions (because it could be

interpreted as a blow against the freer relationships under the policy of Ostpolitik) and from a commercial viewpoint, could be dangerous because it might encourage consumers to turn to outside sources of steel to an even greater extent.

The advocates of the invoking of Article 61 and a ban on third country alignments maintain, however, that these commercial fears are exaggerated. They point out that action taken against certain "peripheral" problems—Japanese exports to Europe and Spanish dumping—could relieve some of the pressure (although the limitation agreement of the Japanese has yet to be "Mitified" and the UK antidumping move against Spain has yet to be concluded successfully). They go on to suggest that the dangers from the other sources could be overestimated, and anyway continued alignment on low East European offers must, in a period of hyperinflation and low production, sooner or later, and most probably sooner, lead to financial suicide for many European works, which are almost without exception losing money rapidly.

Although there have been stray gleams of hope on the European steel market recently, the general feeling is that these have largely been generated by artificial means and cannot yet be regarded in any way as substantial. If this is a correct analysis, then only a market miracle will save many steel companies from collapse unless there are positive and early Community measures. The Commission must surely move soon.

[From the Japan Metal Bulletin, Dec. 11, 1975]

IRON & STEEL

STEEL OUTPUT IN JAN.–MAR. WILL BE 22 MIL. TONS

Production of ordinary steel in the January–March quarter of next year will be limited to 22 million tons in terms of crude steel, according to the industry source.

This prediction was made basing upon their production programs which are 10 percent less than the programs for the October-December quarter. The programs for the October-December quarter were revised downward by 10 percent in mid-November. Therefore their real production for the quarter was a whole will be 5 percent less than the original programs. Now, their production in the January–March quarter will drop 10 percent from their original programs for the October-December quarter, and surely decline 5 percent from their revised programs for October–December.

With this production cutback, their shipments of steel products will be cutback. Reduction or suspension of sales to the casual customers will be continued, so that the reversed position of the market price will be remedied by the end of February. They now expect their steel inventories at the end of March will decline to 4,300,000 tons from 8,300,000 tons at the end of September.

STEELMAKERS TO ORGANIZE EXPORT CARTEL FOR EC

Nippon Steel Corp. and 5 other major steelmakers are preparing applications for the Government approvals of a steel export cartel for the 9 EC countries for the next year. Most probably they will submit the applications in a few days so that the export cartel be permitted to function early next year.

The export cartel for EC countries aims at limiting the export shipments by the big 6 steelmakers to a total of 1,220,000 tons for calendar 1976. The term of the cartel will be one year of 1976.

Export restriction of steel products to the EC countries has been studied by the major steelmakers as the exports this year sharply raised from the 1,090,000 tons of last year. The steel shipments to EC in 1972 totaled 1,516,000 tons which declined to 1,278,000 tons in 1973 and again declined to 1,090,000 tons in 1974. Since the early months of this year, however, the steel shipments to EC have rapidly increased and have totaled 1,468,000 tons by the end of October. Facing with some criticism from the steelmakers in the EC countries, the Japanese steelmakers have decided to organize once again an export cartel for the EC countries as they have in the years from 1972 through 1974.

The export quantity of steel products set at 1,220,000 tons for 1976 for the EC countries is the same as in 1974.

[From the Financial Times, Dec. 23, 1975]

EEC Curb on Japanese Steel Imports Next Year

(By Charles Smith)

Steel exports from Japan to the EEC are expected to be restricted to 1.22m. tons next year when the formation of a cartel by the Japanese steel industry is approved this week by the Ministry of International Trade and Industry.

This follows severe pressure from the EEC Commission for reintroducing Japanese voluntary restraints on steel shipments to Europe which lapsed at the end of last year.

Japan first started restricting sales to the EEC in 1972 when a ceiling of 1.25m. tons was placed on the year's shipments. The ceiling was raised to 1.45m. tons in 1973 and to 1.65m. tons in 1974, but in both years actual shipments fell below the stipulated maximum.

The world steel shortage during 1974 made European consumers and steel makers disinclined to ask for a continuation of Japanese restrains in 1975.

But conditions in the world steel market changed rapidly during the first half of this year and by June the EEC was asking Japan for a reintroduction of price or quantity controls.

Japan's steel shipments to the EEC rose spectacularly in the early part of this year as the industry's export markets elsewhere began to contract. Monthly shipments were between 150,000 tons and 295,000 tons a month from February to July.

Japanese list prices in Europe were closely comparable with European steel prices during this period, but sale prices were alleged to be 40 or 50 per cent lower than list prices.

Japan was asked to help bring the steel situation under control at a meeting in Tokyo in June between representatives of the EEC Commission and the Ministry of International Trade and Industry.

The Ministry later conducted "hearings" with steel manufacturers and trading companies responsible for European exports, after which shipments to Europe declined sharply. Exports in August were 89,588 tons (compared with the July figure of 185,405 tons) and there was a further fall in September to 77,000 tons.

For the first nine months this year, however, steel exports to Europe still amounted to 1.47m. tons or more than the total for the whole of the previous year.

The setting of a 1.22m. tons ceiling for Japanese steel exports to Europe next year means that shipments to the enlarged EEC will be back to the level set for the Six in 1972.

A possible escape route could be China, which has proved a good customer this year and could increase its purchases in 1976 if it has enough foreign exchange. Japanese imports of Chinese oil, which may well rise substantially next year, could be the key factor in enabling China to buy more Japanese steel.

Terry Dodsworth writes: Japanese car manufacturers yesterday denied that they had made a firm commitment to any level of sales in the U.K. in the first three months of next year.

The denial follows the meeting in London last week of the Japanese Automobile Manufacturers Association and the Society of Motor Manufacturers and Traders who, in a joint statement, said that the level of Japanese sales "achieved in the U.K. during the latter part of this year will be continued for at least the first three months of next year."

The JAMA Parts office last night said that "latter part" was never defined as a specific number of months. Therefore, there was no commitment to hold sales to 17,000—as was suggested in several British newspapers.

[From the Financial Times, Dec. 23, 1975]

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Japan's steel shipments to the EEC rose spectacularly in the early part of this year as the industry's export markets elswhere began to contract. Monthly shipments were between 150,000 tons and 295,000 tons a month from February to July, or at a rate of between 1.8m. and 3.5m. tons per year.

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For the first nine months this year, however, steel exports to Europe still amounted to 1.47m. tons or more than the total for the whole of the previous year. Steel was raised again when a senior EEC official visited Tokyo for the formal opening of the EEC representative office in Japan in October and at the routine EEC-Japan talks in Brussels early this month.

The setting of a 1.22m. tons ceiling for Japanese steel exports to Europe next year means that shipments to the enlarged EEC will be back to the level set for the Six in 1972.

This could have the effect of increasing pressure on Japanese steel makers to export to other major world markets, but there is no sign as yet that restraints in Europe will affect the market situation in the U.S., where Japanese steel exports this year have been running at relatively low levels.

A possible escape route could be China, which has proved a good customer this year and could increase its purchases in 1976 if it has enough foreign exchange. Japanese imports of Chinese oil, which may well rise substantially next year, could be the key factor in enabling China to buy more Japanese steel.

[From the Japan Economic Journal, Dec. 30, 1975]

Steelmakers Obtain Approval to Organize Cartel for EEC

The Ministry of International Trade & Industry has approved formation of a cartel proposed by six major steelmakers for voluntarily regulating their exports to the European Economic Community.

By creating such a cartel on the basis of the Export & Import Transaction Law, the steelmakers intend to set the ceiling of their exports to EEC nations in calendar 1976 at 1,220,000 tons.

The six companies are Nippon Steel Corp., Nippon Kokan K.K., Kawasaki Steel Corp., Sumitomo Metal Industries, Ltd., Kobe Steel, Ltd. and Nisshin Steel

Co. Their steel exports to EEC at present account for about 90 per cent of the nation's total steel sales to the area.

In the three-year period ended 1974, they had been holding down their shipments to EEC within the same framework of 1,220,000 tons a year.

In actuality, their exports to EEC ran to 1,516,000 tons in 1972 and 1,278,000 tons in 1973. Such a self-control was abrogated in 1975 since the quantity in 1974 dropped far below the target figure, remaining at only 1,090,000 tons.

In 1975, however, Japan's steel exports to EEC turned upward again. Shipments to the area in entire 1975 are estimated at around 1,600,000 tons, up about 47 per cent from the performance in the preceding year.

[From the Metal Bulletin, Feb. 10, 1976]

ASIA—EEC-JAPAN EXPORT AGREEMENT

FROM OUR JAPANESE CORRESPONDENT

It was agreed at the beginning of the year that Japanese steel exports to the EEC would be limited to 1.22m. tons this year (MB, Jan. 2) but the actual amount to be exported during any one quarter is being discussed at regular meetings. It was agreed earlier that Jan.-Mar. exports should be limited to 210,000 tons, taking account of EEC production cuts, and a total of 250,000 tons for Apr.-June shipments has now been fixed; the Japanese argued that there were now clear signs of a recovery in the market for steel and EEC representatives agreed that production cuts were unlikely to be so severe during the second quarter.

Prices were also discussed at the recent conference held in Rome and the Japanese agreed to raise export prices of steel destined for third countries as well as that bound for the EEC. EEC steelmakers will be raising third country export prices by an average $20 a ton for second quarter shipments and have asked Japanese steelmakers to take similar action; since the Japanese are now refusing to export except at a profit, their agreement seems likely.

Meanwhile, overseas interest in linepipe appears to be hotting up and prices have already climbed $20 a ton from their mid-December low. Besides the 500,000 tons being sought by the USSR (MB, Jan. 27), Iran recently booked 70,000 tons and considerable tonnages have also been booked by Iraq and Saudi Arabia. China's recent order of 1.5m–1.7m. tons of steel (MB, Jan. 27) is intended for oil development projects and 220,000 tons of it will consist of seamless pipes; a Chinese mission will visit Japan this month to discuss further exports.

The big four pipemakers—Sumitomo, Nippon Steel Corp., NKK and Kawasaki—have jointly booked an order from Pakistan for 20,000 tons of welded pipes for a double pipeline project; one pipeline will carry crude oil from Karachi port to the refinery and the other will carry refined oil. An additional 10,000 tons required for the project will come from Italy.

Among smaller export orders obtained recently, Ataka & Co. was awarded a contract to supply 6,000-7,000 tons of pipes, sheet-pilings and heavy plates needed for tunnel construction. Yamaguchi Steel Industry is to supply Saudi Arabia with 6,000 tons of plain and deformed round bars, for Feb.-Apr. shipment at $150 a ton fob, while Yamato Steel Works has booked on order from Thailand for 4,000 tons of channels, to be shipped in Feb.-Mar. at $177 a ton fob.

STATEMENT BY RICHARD P. SIMMONS, PRESIDENT OF ALLEGHENY LUDLUM STEEL CORPORATION, AND CHAIRMAN OF THE ADVISORY COMMITTEE, TOOL AND STAINLESS STEEL COMMITTEE

THE SPECIALTY STEEL CASE

The International Trade Commission in what must be viewed as a precedent decision found recently that the Specialty Steel Industry of the United States has indeed been injured under the terms of the 1974 Trade Act. Their findings, the first such findings of injury since the Act was passed by the Congress, came after six months of intensive examination by the Commission and its staff. They found and we quote, "On the basis of its investigation that bars; wire rods; and plates, sheets and strip . . .; all of the foregoing of stainless steel or alloy tool steel . . . are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry."

The International Trade Commission carefully considered the argument presented by both the domestic companies and the foreign producers to establish that the conditions of the Act had been met. They found, as stated in their report to the President, that the condition of increased imports had been met either in actual terms or relative to domestic production. The Commission also found that the requirement of serious injury or threat of serious injury had also been met as measured by the idling of productive capacity, significant unemployment or underemployment and the inability of a significant number of firms to operate at a reasonable level of profit. Finally, the Commission having studied the requirement of "serious injury," concluded that imports are an important cause of injury and not less in importance than the recession.

The Commission concluded and we quote, "Therefore, the statutory criteria having been met, in our opinion an affirmative determination is required."

The lengthy investigation and the public hearings open to all interested parties resulted in the findings which I have reviewed briefly. The findings and recommendations of the Commission must now be considered, as you know, by the President.

Based on the initial reaction of some of our foreign competitors, it appears that they are attempting to accomplish through political means what they had full opportunity to accomplish—and could not—duing the investigation and hearings conducted by the Commission.

The Specialty Steel Companies, although highly gratified by the finding of the International Trade Commission, would point out that the Commission, in its recommendations to the President, did not go as far as the Specialty Steel Companies had recommended during the hearings. Nevertheless, the Specialty Steel Companies, in recognition of the extensive investigation conducted by the Commission, totally, unanimously and without reservation, support the Commission's recommendation to the President, and urge the President to approve and implement the remedy proposed by the Commission without change or undue delay.

The remedy proposed would not exclude foreign producers from American markets. On the contrary, for 1976 the Commission's recommendation to the President would reduce overall Specialty Steel imports for those products covered by the decision by only four percent as compared to 1975. In fact, stainless steel tonnages permitted under the Commission's recommendations for 1976 would exceed or equal imports in every year but one prior to 1975. It is difficult to equate this fact with some of the public statements which have been made regarding the Commission's decision.

In subsequent years through 1980, imports of these products would be permitted specific market shares of the American market. This would permit foreign producers to increase their shipments into our markets as American markets grow. It would also force them to curtail their shipments during periods of sharp recession such as 1975, preventing them from exporting their own unemployment during such periods.

We have attached a chart which summarizes the Commission's findings in more detail. Let me stress again, the total and unqualified support for the Commission's recommendations by the Specialty Steel Industry. Our assessment of the Commission's recommendations leads us to conclude that the findings are reasonable and moderate and not at all "radical," as statements by foreign producers and their governments would have the American public believe. In fact, the proposed limits for stainless steel sheet and strip are significantly higher for 1976 than the actual levels for 1975.

It is ironic that our Common Market competitors and their governments which have been so outspokenly critical of the Commission's findings and recommendations have, as mentioned recently, concluded an arrangement with Japanese companies to limit Japanese exports of steel to the Common Market for the year 1976.

These hearings, held at this time, are particularly appropriate as we move from the factual consideration of the Specialty Steel case under the 1974 Trade Act to the President for his review.

Will the President accept the recommendations of the Commission, which were reached, as we have pointed out, after six months of study, hearings, and deliberation, or will other considerations prevail?

The Specialty Steel Industry and indeed the entire steel industry of the United States welcomed the findings of the International Trade Commission. We believe that the President's decision concerning this case will establish clearly whether the intent of Congress and the intent of the legislation is to be carried out.

SPECIALTY STEEL IMPORTS VERSUS PROPOSED ITC REMEDY

	Estimated 1975 imports		ITC remedy		
				1977–80	
	Tons	Penetration, percent	1976 maximum tons	Maximum percent penetration	Minimum import, tons/year
Stainless:					
Sheet and strip	65,274	13.7	79,000	13	73,100
Plate	16,595	14.8	13,000	15	11,900
Bar	28,733	22.7	19,600	13	19,600
Wire rod	16,962	63.3	16,000	52	15,900
Total stainless[1]	127,564	17.3	127,600	.....	120,500
Tool steel	24,063	28.6	18,400	18	18,400
Total specialty[1]	151,627	18.5	146,000	.....	138,900

[1] Includes only products covered by ITC decision.

ALL SPECIALTY STEEL IMPORTS 1970–75

[Net tons]

	1970	1971	1972	1973	1974	Average 1970–74	1975 (e)	1976 I.T.C. tons
Specialty products covered by I.T.C. decision:								
Stainless:								
Sheet and strip	88,824	105,798	59,644	44,699	64,887	73,724	65,274	79,000
Plates	8,324	10,360	17,116	11,242	12,353	11,883	16,595	13,000
Bars	15,196	16,243	18,505	20,137	27,879	19,592	28,733	19,600
Wire rod	13,885	13,550	13,002	16,761	22,076	15,855	16,962	16,000
Total stainless above	126,247	145,951	108,267	92,839	127,195	121,054	127,564	127,600
Tool steel	17,635	12,752	15,041	21,709	24,540	18,335	24,063	18,400
Total specialty	143,882	158,703	123,308	114,548	151,735	139,389	151,627	146,000
Stainless products not covered by I.T.C. decision:								
Semifinish	27,015	15,402	12,194	8,528	12,158	15,059	7,788	.....
Tubes	6,361	7,459	8,147	5,270	8,436	8,765	10,743	.....
Wire	17,586	17,812	17,726	21,626	28,318	19,660	18,994	.....
Total above	50,962	40,673	38,067	35,424	48,912	43,484	37,525	.....
Grand total	194,844	199,376	161,375	149,972	200,647	182,873	189,152	.....

SUPPLEMENTAL STATEMENT SUBMITTED BY RICHARD P. SIMMONS, PRESIDENT, ALLEGHENY LUDLUM STEEL CORPORATION AND CHAIRMAN OF THE ADVISORY COMMITTEE TOOL AND STAINLESS STEEL COMMITTEE

IMPLEMENTATION OF THE TRADE ACT OF 1974 AS VIEWED BY THE SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

The action taken by the U.S. International Trade Commission in recommending that the President limit imports of certain specialty steels is evidence of the growing recognition of the manifold problems created for American industry and workers by the increasing incursions of subsidized foreign products into our domestic market.

Although the year just past brought the largest trade surplus in U.S. history, some of our country's most vital industries continued to feel the painful impact of imports. Indeed, the trade deficit in steel for 1975 was some $2.2 Billion.

Unemployment in Specialty Steel

The specialty steel industry, a small but nonetheless very critical cog in the nation's complex economic machinery, was harder hit than many industries. Indeed, unemployment in this industry climbed as high as 40% in 1975 while

many facilities operated well below profitable levels of capacity. Some segments of the industry were even more adversely affected by the combined impact of the imports and the recession. The ITC report to the President noted, for example, that ". . . the level of employment in the domestic industry producing stainless sheet and strip in 1975 was 57 percent lower than in 1974 and below the 1970 employment level."[1] Employment in mills producing stainless bars and wire rods fell 58 percent last year.[2] And the tool steel industry, operating at levels greatly under capacity for some years, saw unemployment increase sharply in 1975.

Commission Findings

The International Trade Commission found after extensive hearings and investigation, imports were a "substantial cause of serious injury" not only in 1975 but in prior years as well.[3]

Specifically, the Commission determined that stainless steel bars, wire rods, plate, sheet and strip and alloy tool steels "are being imported into the United States in such increased quantities as to be a substantial cause of serious injury, of threat thereof . . . to the domestic industry . . ."[4]

It should be noted that the Commission held that this finding does not apply to wire, tubing, and unfinished or semi-finished products such as ingots, blooms, billets, slabs, and sheet bars of stainless steel.

The Specialty Steel Industry of the United States comprised of 19 companies, and the United Steelworkers of America, AFL–CIO, contended in their joint petition filed with the ITC last July that these products are adversely affected by imports too. Both the industry and the union still maintain there is evidence of injury in these product lines. However, it is not our purpose here to debate the Commission's findings in detail, but rather to present our view of the administration of the Trade Act of 1974 as it pertained to our industry during the Act's maiden year.

Process Takes Many Months

We want to emphasize at the outset that the industry is appreciative of the thoroughness and care with which the Commission and its staff investigated our petition. The ITC took the full six months permitted by the law to look into this matter and weigh the case of the industry and United Steelworkers against the arguments of the importers and foreign producers of specialty steels.

Six months may not seem an inordinate span of time for such a penetrating investigation and we are confident the Commission and its staff did everything within their power to process the petition as expeditiously as possible. However, these six months must be added to the six-to-nine months in late 1974 and the first half of 1975 when the rising tide of imports were forcing production curtailment and widespread furloughs of workers in our industry.

Thus, our workers and shareholders have suffered through a period of sharply reduced income and revenues that now extends for more than a year. In fact, many of our employees and a number of our companies have been severely affected by imports for a number of years, as the Trade Commission recognized in its finding. Commissioners Catherine Bedell and George Moore stated in their joint remarks appended to the ITC recommendation to the President that "employment was depressed throughout most of the 1970's." They added that "the domestic industry has been unable to sustain a reasonable level of profits" throughout most of that period.[5]

Nor is this period of anxiety and enforced idleness for so many of our employees yet at an end. The President has until March 16 in which to reject or accept the Commission's recommendations, and under the law he could have delayed this decision for two additional weeks by referring the findings back to the ITC for additional information. If the President should reject the ITC recommendation, which we naturally hope he will not, the industry and the union would be forced to appeal to the Congress. Under the Trade Act the Congress has another 90 working days in which to reverse a presidential rejection. In sum, the relief process can extend for more than a year after a petition is filed and, in reality, for several years after serious injury to an industry is sustained.

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[1] U.S. International Trade Commission, Publication No. 756, January 1976, Page 25.
[2] Ibid., Page 30.
[3] Ibid., Page 3.
[4] Ibid.
[5] Ibid., Page 11.

We realize that the members of the Senate and House who drafted this legislation did their very best to structure a sound, workable procedure. However, we would respectfully submit that a process that takes this long can cause real hardship to the families of the people who either are forced out of work or onto a sharply curtailed work schedule while they wait for all the procedures to sort out.

Moreover, a capital intensive industry like specialty steel, which requires relatively large investment to keep operating and stay competitive, cannot afford extended periods of financial distress. The larger, more diversified companies can in some cases absorb losses for a prolonged period. But most specialty steel companies are relatively small firms with limited and highly specialized product lines that are particularly vulnerable to undercutting by imports and it is conceivable that some of these could be forced out of business entirely while a petition for relief is being adjudicated under the present Trade Act.

Indeed, some of the companies among the 19 which joined with the United Steelworkers in submitting the petition would today be in very serious trouble if it had not been for the outstanding management of their mills, the cooperaion and understanding of the unions, and our advanced technology and ever-improving productivity. These, coupled with the worldwide surge in demand for our products in 1973 and 1974, have kept the industry viable in recent years.

ITC Notes Technological Leadership

This is borne out by the ITC investigation which noted the technological leadership of American producers and found that a decline in costs experienced by the domestic industry from 1970 through the early months of 1974 were due to "increases in efficiency resulting from larger production runs of individual products and the absolute increase in production for all products, which enable U.S. producers to spread their fixed costs over more units of production."[6]

Conversely, the ITC found that the "dominant factor" in the increase in average unit costs in 1975 "was the large decline in production, which caused fixed costs to be spread over fewer units of production."[7]

Specialty steel mills must operate at a high rate of capacity in order to be profitable. Unfortunately, in 1975 many domestic mills were compelled to operate at lower levels of productivity, in some cases well under 50% of capacity. This was partly due to the recession, but, as the ITC acknowledged, imports played a major role in holding the domestic industry down to such unprofitable levels of production. Nor was this the first year the U.S. industry was so seriously afflicted. The ITC report points out: "In general, U.S. producers' gross profit margins were low or nonexistent in the 1970–73 period, rose considerably in 1974 and through June 1975, then dropped precipitously to or below the 1970–73 levels."[8]

Imports Curtail Expansion

There is another aspect of this sustained period of low profitability which should be emphasized. The ITC took cognizance of it when it stated that "capital expenditures in recent years have been limited" and went on to note that "very recently, planned expenditures have been cut back by several producers."[9]

At a time of high unemployment, our economy should be generating new jobs. But the specialty steel industry, in common with other industries, has been forced to curtail or cut back expansion because of the disruptions and uncertainties caused by the impact of imports upon our domestic markets. It is difficult to determine precisely how many jobs have been lost to American specialty steel workers by imports, but we believe it must be at least 10,000. In short, our relatively small, but nonetheless vital, industry would today have an estimated 75,000 jobs instead of the 65,000 we can offer when we are operating at near peak capacity.

In our total national economy this may not seem like very much. But jobs lost to imports, both in terms of new jobs that have not materialized and those eliminated by market encroachment, make a very big difference to the communities where specialty steel mills are located. In many instances, these mills are the major employers in these communities and prolonged unemployment in the mills can and has turned whole communities into depressed areas.

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[6] Ibid., page A–41.
[7] Ibid., page A–42.
[8] Ibid.
[9] Ibid., A–13.

R. & D. Cut Back

Yet another facet of the impact of imports upon employment in the specialty steel industry is the adverse effect upon research and development, which the Trade Commission reported,[10] As noted earlier, it has been the technological leadership of the domestic industry, coupled with the efficient productivity of our workers and management, that has enabled the industry to survive the recent difficult years.

However, as imports have cut deeper into sales of our bread-and-butter products, some companies have been compelled to reduce their expenditures for research and development. Not only have jobs been lost in this crucial R&D area, but the long-range effect upon the industry's competitive position and upon the number of production jobs for the future can not be calculated. It is our hope that the ITC recommendation, if implemented, will give the industry an opportunity to maintain research and development at levels needed to retain our acknowledged leadership in technology and productivity.

Essential Industry

The specialty steel industry is one of the most essential industries in the United States. Virtually every other important producing industry relies on specialty steels. These include the energy industries—electric power, oil, natural gas, coal mining, plus aerospace, transportation, communications, metalworking, food processing, chemicals, and environmental controls. Thus, it is not just the jobs of the 65,000 people employed by our industry that are at stake. The jobs of millions of other Americans in these other vital industries have been increasingly at the mercy of foreign specialty steel producers as imports have captured ever larger portions of our domestic markets and forced American producers out of one product line after another.

Moreover, specialty steels are essential to our national defense, as the Subcommittee on General Legislation, Armed Services Committee of the United States Senate, found after an investigation and hearings conducted in 1972. The official report of the Subcommittee was submitted by the Chairman, Senator Harry F. Byrd, Jr., to Senator John C. Stennis, Chairman of the Armed Services Committee, on May 25, 1972. This Senate Report stated:

"The testimony adduced from industry and Government witnesses makes it abundantly clear that specialty steels are essential, today more than ever, in the fabrication of the major portion of our defense weapons and critical weapons systems. Moreover, these specialty steels are necessary for the proper functioning of related essential components and weapons reliability. The Department of Defense witnesses emphasized that '. . . no aircraft in use today or planned for production in the future could be considered safe without such critical high strength components. . . .'" [11]

The essentiality of the specialty steel industry to a nation's economy and to its defense is readily apparent in the actions of more than a score of countries that have rushed to build or to expand their own specialty steel industries in recent years, often at the expense of vitally needed social programs. By so doing, these countries are clearly giving recognition to the fact that any nation that wishes to establish or maintain a position of influence in today's technological world must have ready access to high technology metals.

Instruments of National Policy

In some countries the specialty steel industries have assumed yet another role, one that has already had serious repercussions for our domestic industry. Increasingly, these industries are being used as instruments of national policy by foreign governments. Evidence of this is seen in the experience of the recent world recession when a number of these governments used their specialty steel industries to export their unemployment to the United States, build up their dollar reserves, and otherwise strengthen their international economic position at the expense of American workers and American industry.

The ITC report to the President stated: "There is ample evidence of a large amount of unused capacity in foreign stainless steel mills as well as large investments underway in new production capacity for stainless steel, including stainless steel plate. These facts, plus the growing dependence of foreign mills on

[10] Ibid., Page A–14.

[11] Report on Essentiality of Specialty Steels Industry to National Security, Subcommittee on General Legislation of the Committee on Armed Services, United States Senate, 1972; Page 1.

exports in order to sustain production . . . are strong indicators of the increased imports and resultant threat of injury to the domestic industry." [12]

Should U.S. Jobs Be Forfeited?

Great Britain provides a classic case in point. In 1975, it is estimated that the British steel industry lost more than $500 million. Yet the British are embarked on a $2.5 billion capital expansion for steel. The British steel industry is, of course, almost entirely owned by the British government and thus the British taxpayer is footing the bill for steel's expansion.

One might say that this is Britain's business and it should not concern us. Unfortunately, it does concern us because it is obvious that Great Britain is tooling up for a major steel export campaign and the United States is certain to be a prime target of that campaign. The Congress must ask if it is fair to make American workers surrender their jobs in order to sustain British steel employment at artificially high levels.

Further, it should be asked how American companies, operating under the free enterprise system, can be expected to match the discounts of up to 50 percent that foreign stainless steel and tool steel producers offer our customers in the U.S. market. These American companies have discovered that no matter how much they may lower their prices, foreign producers will lower theirs even more.

Why Prices Of Imports Are Low

Most of these foreign specialty steel producers do not, of course, have to concern themselves with profits. Today, more than 70 percent of the world's steel capacity is either government-owned or heavily subsidized. It is for this reason that the foreign producers can afford to sell steel in our country with little or no regard for price.

The ITC report noted that "currently there are anti-dumping findings in effect on stainless steel wire rod from France and stainless steel plate from Sweden. . . ." [13] The French can afford to dump their steel here because their producers receive government aid to, as they put it, "carry them through the present difficult period." In Sweden, specialty steel producers also receive government loans and grants to carry excessive inventories and keep exports at high levels. Swedish producers are not permitted to lay-off workers when demand falls, so they export their problems to the U.S. and force the layoffs of American workers instead.

Japanese specialty steel producers nearly all operated at substantial losses in 1975. Their government bailed them out by providing "impact loans" through the Japanese National Bank so they could continue selling in the U.S. market at prices far below American producers. In addition, Japanese firms are encouraged to form "recession cartels" to control production and price, as well as cartels to control pricing of imported raw materials—practices that would be patently illegal under our laws. Indeed, it should be pointed out that American producers are forced to compete against a number of companies in various foreign countries that freely indulge in practices that would be against the law here.

In sum, specialty steel companies in the United States must compete against foreign national governments and as long as this situation prevails we will need the counter-measures provided by the Congress in the Trade Act. Indeed, more stringent measures may soon be required if we hope to overcome the present high rate of unemployment and get American workers back on their jobs.

Other Industries Hurt

It is not just the specialty steel industry that in confronted with this growing problem of competition from foreign governments. Many other American industries are being attacked in the same manner. U.S. flag airlines fight desperately to remain viable against government-owned foreign airlines. The Japanese computer industry is being heavily subsidized by its government so that it may compete more effectively worldwide. Many foreign auto producers have their governments as significant partners—in terms of ownership and, even more important, in terms of economic objectives.

Throughout most of the world there is a pervasive attitude of cooperation between government and industries—except, regretfully, in the United States. The Trade Act of 1974 took a tentative step toward correcting this situation but we

[12] U.S. International Trade Commission, Pub. No. 756; op. cit., Pages 29–30.
[13] Ibid., Page A–82.

still have a long way to go if we hope to provide jobs for our citizens as our population grows in this last quarter of the 20th Century.

Much Energy Wasted

Much has been said and written in recent years about the world's dwindling natural resources, particularly those that provide basic energy to fuel industry—oil, natural gas and coal, or the conversion of any of these three into electric power. Yet hardly any mention has been made of the horrendous waste inherent in the conditions that, for example, encouraging the burning of millions of tons of fuel to ship iron ore, coal and other ingredients from the United States across thousands of miles of ocean to Japan where they are transformed into steel and shipped back to this country for sale in our markets to deprive our industry of revenues and our workers of their jobs. As the Congress considers future legislation concerned with the nation's energy resources it should investigate the ramifications of wasteful trade practices such as these.

Double Standard Applied

The Congress should take notice of the double standard that foreign governments apply in formulating their own trade policies. The recommendations of the U.S. International Trade Commission for limitations on specialty steel imports had hardly been published when a number of countries began to exert pressure on the President of the United States to reverse the ITC ruling. This in spite of the fact that the Commission had emphasized that the Trade Act of 1974 *required* an affirmative determination in those products singled out by the ITC for relief.[14]

The New York Times reported on January 20, only a few days after the ITC made its decision known, that European Common Market officials "intended to make representations to the United States" regarding the Commission's findings. *The Times* said "European commercial officials in Brussels, Paris and Geneva expressed alarm" over the ITC action.[15]

A few days later *The Wall Street Journal* carried a story with a clearly implied threat aimed at this country. This story said the European Community warned that President Ford "could provoke a protectionist backlash in Europe unless he rejects a proposed quota on imports of specialty steel."[16]

On that same day the Japan Metal Daily reported that "Toshihiko Yano, director general of the Basic Industries Bureau, Ministry of International Trade and Industry, said yesterday the (Japanese) government would negotiate with the U.S. Administration for a withdrawal or revision of the U.S. International Trade Committee's (sic) recommendation. . . ."[17] Moreover, there was another implied threat from Tokyo. "The Japanese side," this story said, "intends to study countermeasures . . . after receiving and analyzing a detailed report on the ITC recommendation."[18]

The irony of these threats is that both the Europeans and the Japanese freely indulge in "protectionist" practices. Indeed, the Europeans only recently forced the Japanese to limit steel exports to their countries. The *Japan Metal Bulletin* reports that the Japanese government "approved of organizing the Steel Export Cartel for EC (European Community) applied by Nippon Steel Corp. and five other major steelmakers. The term of the Cartel is 12 months of calendar 1976, and the export quantity is limited to 1,220,000 tons of all steel items excluding pig iron and ferroalloys."[19] Nor was this the first time the Europeans had placed what are in effect quotas upon Japanese steel imports. A similar "Export Cartel" had been organized by the Japanese from 1972 through 1974 at the "request" of the European Community.[20]

How the American Consumer Loses

Much was made during the ITC hearings and elsewhere about the theoretical cost to American consumers of limitations on specialty steel imports. In practice, however, these theories fail to hold water.

First, and foremost there is the loss of income to American workers caused by what *The Economists* of London correctly terms "cut-throat prices" of specialty

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[14] Ibid., Pages 1–37.
[15] *The New York Times*, January 20, 1976.
[16] *The Wall Street Journal*, January 23, 1976.
[17] *Japan Metal Daily*, January 23, 1976.
[18] Ibid.
[19] *Japan Metal Bulletin*, January 8, 1976.
[20] Ibid.

steel imports into the United States.[11] It is obvious that these workers are consumers too, and the millions of dollars in wages they lost in 1975 alone would very probably outweigh any theoretical savings to the total population.

Secondly, during the years 1973–74 when world demand for specialty steel reached new highs, the Japanese and European producers increased their prices astronomically in this country. American fabricators and manufacturers who needed these vital metals to keep their plants operating had no choice except to pay the premium prices the foreign producers demanded. Many of the needed products were no longer made in the United States because they had been knocked out of production here by the guerilla warfare waged against our domestic industry by foreign producers and importers.

Thus, once they had the American customers at their mercy, the foreign specialty steel producers did not hesitate to increase their prices as much as 100 percent and more. It has been estimated that all the possible savings to American consumers due to imports over the prior decade were wiped out by foreign suppliers of specialty steel in less than two years of outrageous price gouging.

Free Trade Must Be Fair

The experience of the specialty steel industry over the past decade should give all of us reason to reflect on the efficacy of free trade, a doctrine many of us have always accepted as one of our free system's great articles of faith. Our industry will continue to support free trade and we are prepared to let the principle of comparative advantage determine who wins and who loses in the contest for markets. But we insist that free trade cannot exist without generally equal rules, with all parties competing on the basis of costs, technology, and productivity. If it is to work to the advantage of all peoples, free trade must first be fair.

The traditionally superior technology of America still gives many of our domestic industries an edge over foreign competition. However, as we continue to export our technology to the rest of the world, this advantage is no longer as telling as it once was, and it will become less so in the years ahead. Meanwhile, foreign specialty steel producers gain a sharp advantage over U.S. producers because of lower wages, greater capital availability in the form of low interest loans or outright subsidies, substantial tax breaks, favorable depreciation allowances, and profitable export incentives—all granted by their governments.

These government-sponsored advantages enabled the Japanese to increase their stainless steel production 400 percent in less than 10 years. France, Italy and West Germany more than doubled their stainless output in the same period. But American producers could afford to expand their stainless capacity only 40 percent in the past decade, primarily because of the uncertainty created by imports. Our industry does not want subsidies from our government. But we would like the government to act as a fair and impartial umpire.

First, however, a firm set of ground rules must be established, rules that both foreign and domestic industries should be required to honor. The Congress took a healthy step in that direction with passage of the Trade Act of 1974, which was designed to provide American companies and American workers with relief if they can prove imports are a substantial cause of serious injury.

The Specialty Steel Industry of the United States and the United Steelworkers of America proved injury from imports in four critical product areas to the satisfaction of the U.S. International Trade Commission and we are hopeful that the President will approve the ITC recommendations so that the vitally needed relief will be forthcoming soon.

The CHAIRMAN. I am going to recess this committee for 5 minutes so we can go and vote on that rollcall over on the Senate floor.

At the end of recess I would call Mr. I. W. Abel, president of the United Steelworkers, to testify.

[Short recess.]

Senator HARRY F. BYRD, Jr. (presiding). The committee will come to order.

The committee is pleased to have today Mr. I. W. Abel, president, United Steelworkers Union, accompanied by Paul Jennings, presi-

[11] *The Economist*, January 24, 1976.

dent, International Union of Electrical, Radio, & Machine Workers, and Mr. Floyd Smith, president of the International Association of Machinists & Aerospace Workers.

Welcome to the committee, gentlemen.

Mr. Abel, you may proceed as you wish.

STATEMENT OF I. W. ABEL, PRESIDENT, UNITED STEELWORKERS OF AMERICA, AND CHAIRMAN OF THE AFL–CIO ECONOMIC POLICY COMMITTEE, ACCOMPANIED BY GEORGE COLLINS, ON BEHALF OF PAUL JENNINGS, PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS; BEN SHARMAN, ON BEHALF OF FLOYD E. SMITH, PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS; AND NAT GOLDFINGER, RESEARCH DIRECTOR, AFL–CIO

Mr. ABEL. Thank you, Mr. Chairman. My name is I. W. Abel, president of the United Steelworkers of America and chairman of the Labor Policy Advisory Committee for Trade Negotiations.

Joining me this morning, Mr. Chairman, and substituting for Mr. Smith is Mr. Ben Sharman of the Machinists Union, and substituting for Paul Jennings is Mr. George Collins for the United Electrical, Radio, & Machine Workers Union.

On my right is the research director for the AFL-CIO, Mr. Nat Goldfinger.

Senator BYRD. Welcome to all of you.

Mr. ABEL. Mr. Chairman, I have submitted for the committee a lengthy statement on our views and position with regard to this matter. But I want to just present here this morning a summary of that statement.

Mr. Chairman, we appreciate this opportunity to participate in the review of U.S. foreign trade policy and the administration of the 1974 Trade Act.

As the committee knows, organized labor did not support the 1974 Trade Act because we felt that in its form and in its administration, the trade problems that face America would not be resolved.

We take no satisfaction from the fact, in our view, that we have been proven correct. We believe that the law is laden with shortcomings and fails to deal with major economic problems. We believe also that the administration has not carried out the spirit or the letter of the law in its implementation.

Organized labor deeply fears that the erosion of our Nation's industrial base and the lowering of this Nation's standard of living has not been halted or reversed since enactment of the Trade Act. On the contrary, as a consequence of the Trade Act, the erosion is likely to become more acute.

About 29 percent of our Nation's industrial capacity is idle. In 1975, approximately 1 out of 10 workers were unemployed.

This Nation is suffering the highest unemployment of any major industrial nation.

The American economy is suffering damage from imports—actual and threatened—as other nations seek to export their recessions here and erect barriers at home to protect their economies.

U.S. firms are continuing to export their technology and operations abroad to serve their foreign markets and, in many instances, to produce for this market. This committee's concern is expressed by the convening of these hearings, but we find the Administration, U.S. multinational corporations, and the Nation's media showing little alarm about these problems.

Instead, great solace is taken from reports that America's trade balance in 1975 had improved, that exports were higher than imports. However, the important export-import figure missing from these reports is the net gain or loss in jobs for the United States in its trade transactions.

U.S. export data showed considerable income from grain shipments and raw materials, both areas with few jobs and few well-paying positions.

American exports also showed shipments of production machinery and the newest industrial technology to every corner of the globe, producing one-shot export jobs but exporting U.S. long-range jobs as these manufacturing facilities are set in place and overwhelm or displace U.S. products.

Dollar trade statistics in themselves tell little about jobs. The numbers of workers seeking adjustment assistance from import injury reached 377, 308 between April and December last year.

The statement of purposes of the 1974 Trade Act called for full employment, economic growth, fair trade, help for those injured by imports, and new rules of international trade.

The provisions Congress wrote into the law to carry out those purposes were intended, we were told, to meet the problems of the "new ball game" in international economics and politics. But we see neither any evidence of fair play nor a "new ball game."

Organized labor is concerned about the massive prenegotiations concessions made by the administration in reducing tariffs to zero on imports of 2,700 products which went into effect January 1.

These are imports from more than 100 nations and territories including such countries as Romania and Brazil, Mexico and Chile. Multinational corporation producers abroad will now intensify their exports to the United States from the lowest wage areas to wipe out more U.S. producers and American jobs.

The Trade Act permits these so-called preferences or zero tariffs, but the law also requires the President to have "due regard" for their impact on the United States and to receive assurances from beneficiary countries that they would give up certain special trading arrangements with other countries.

By its massive opening of U.S. markets to duty-free products, the administration has ignored the act's stated purpose of "fair and reasonable access to products of less-developed countries in the U.S. market." Government figures show that imports of manufactured goods from

developed countries had already reached about 20 percent of such imports in 1974.

It is obvious that a good deal of the imported manufactured products which will enter the United States duty free were once American-made products that previously provided jobs here.

At a time when this country is trying to get up from the deepest recession since the 1930's, a new barrage of duty-free imported manufactured goods could have devastating consequences.

The act's section which permits this—title V—should be, in our judgment, repealed. Organized labor is concerned over the administration or provisions to relieve unfair import injury. Under title II, "swift and certain" retaliation against unfair trade practices is authorized. But the record of action to meet unfair dumping of foreign products or actions to meet unfair subsidies of foreign nations has been, to say the least, disappointing.

While American workers continue to lose jobs, foreign steel, autos, and products as diverse as knitting machines and tires, cement and bricks, consumer electronics and castor oil, glass and screws, continue to be dumped or subsidized into the U.S. market, while legal technicalities are used more to avoid rather than to assure action by the United States. That does not help the injured.

Under the act's provisions for so-called fair competition, title III gave power to the International Trade Commission to decide whether industries were injured by imports, and if so, to recommend relief.

In 1975 no findings of injury to any industry was made, while American producers and workers were forced out of business or out of jobs.

Let me comment at this point that the Steelworkers are pleased indeed that the Commission finally, on January 19, 1976, recognized the injury in the specialty steel industry.

The Commission recommended stabilization of imports and 5-year quotas to assure that the United States will be able to produce specialty steel.

In making this finding the Commission has recognized the problems which most producing industries and millions of American workers have been confronted by for some years. The Commission's landmark decision in the specialty steel case hopefully indicates that similar relief will soon be available to promptly rectify the widespread economic damage inflicted on other American workers and industries because of imports.

Our trading partners, owned, directed, and subsidized by their governments, stand secure behind their high trade barriers. Their protests of concern about the International Trade Commission decision ring with hypocrisy but we agree on one point: This is a test case.

Serious injury to American workers and the specialty steel industry is fully documented in the ITC study. It is hard to believe that the President will not endorse the Commission's recommendations. In this first major test, we must make the Trade Act work.

The real question, however, is much larger than the specialty steel industry. Virtually every manufacturing industry in the United States is in jeopardy. Other trading nations in the past year have piled up

barriers to trade—quotas in Sweden, in Australia, in Britain, to name a few.

The economic community, the Common Market, and Japan have agreed on limitations of Japanese steel exports.

The Trade Act promised adjustment assistance for American workers if they were injured or threatened by injury from imports.

Obviously, workers would prefer their jobs, but even this aid has not been forthcoming for most workers who petitioned for assistance. Technicalities and inconsistent interpretations avoid helping the injured.

Negotiations are proceeding in a similar fashion. In the fact of all the injury suffered by American industry, the Secretary of Agriculture told the National Farmer's Union in London, England on November 25, 1975, the United States must, "offer concessions in the U.S. industrial market for concessions in the foreign agricultural markets."

High protected U.S. agriculture is exporting more to other countries than ever before in the Nation's history, but even before the detailed bargaining begins, the administration spokesmen offer to lower barriers even further to U.S. markets for manufactured products as the quid pro quo for still more agricultural exports.

We see nothing in the Trade Act of 1974 that authorizes this. The law specifically directs the negotiators to include agriculture in bargaining. Certainly, the United States should have strong farm exports and such negotiations are in order.

Agricultural trade is highly protected everywhere in the world, but tariff and nontariff barriers exist in other countries.

This committee also emphasized sector negotiations in its report on the bill. Section 104 directs the negotiators to try to get a balance of economic opportunities for U.S. exports by sectors.

It seeks equivalent competitive opportunities abroad to those the United States gives to other nations in our market. In making this a "principal negotiating objective," the committee report states that this section was not a "directive for cross-sectorial tradeoffs between agriculture and industry."

But the negotiators have virtually ignored the objective of sector negotiations despite the language of the law. No progress has been made in defining these sectors for such industries as "steel, aluminum, electronics, chemicals, and electrical machinery," as the committee intended.

Bargaining on nontariff barriers was sought and given by Congress so that the U.S. exports could have a fair chance in other markets.

Instead, the limited information available to us shows that the U.S. negotiators are fearful that others will withdraw from the bargaining table, and we are accepting each of their demands—offering first to remove barriers in the United States.

In short, the United States is offering more and more carrots, while other countries are sharpening their sticks.

Title I of the act also sets up a series of advisory committees from the private sector, including labor, on which I serve.

We believe the executive branch has tried to follow this part of the law, but labor is not a major concern of the trade specialists who have been pursuing negotiated agreements in Geneva for many years. The

impact of trade on service employment has been totally ignored by the executive branch.

The meetings of the advisory committees have been larger "educational," more designed to teach us the technicalities of trade and to give us the views of the administration, rather than to get advice on the implications of this enormous trade negotiations for the well-being of the working people of the United States.

For example, after the unions provided advice, they learned that the administration has already acted in Geneva on both a proposed international standards code and on a proposed international subsidies code.

Reports on what the proposals mean are vague and not reassuring to our representatives. After our experience with the establishment of duty-free imports from numerous low-wage countries, effective last January, many labor representatives believe that the burden of proof of potential problems has been placed on the public, or on those least able to know what the negotiated arrangements might be.

The Office of the Special Representative for Trade Negotiations has no labor representatives, or, in fact, any top-level personnel with any knowledge of labor.

The State Department has not published a study by two Cornell University professors, Robert H. Frank and Richard T. Freeman, which conservatively estimates that the U.S. multinationals exported more than a million U.S. jobs between 1966 and 1973.

The Labor Department itself has not completed any serious investigation of the immediate and long-range impact of imports and exports on American jobs.

Only recently, studies have been commissioned to outsiders to determine what effect lower trade barriers would have on some specific industries.

In short, Mr. Chairman, the administration appears to be urging the public to do the Government's work, but it has not done its own homework on the impact of international trade on labor, either before, during or potentially after the negotiations.

There are many other aspects of the enormously complex trade law which call for comment. But these examples show why we do not believe that the administration of the Trade Act has carried out the purposes or the language of the law as the Congress intended.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Packwood?

Senator PACKWOOD. Are we going to question the witnesses one at a time?

The CHAIRMAN. Well, you have four of them before you. Why don't you go at all of them? I think we will limit ourselves to the 10-minute rule.

Senator PACKWOOD. I won't take that long, Mr. Abel. I share most of what you said and I find some of these frustrations among manufacturers in my State.

Let me limit myself to two areas. You made reference to highly protected U.S. agriculture. Yet, in my experience in the past 6 or 7 years, the protection has been going down and down.

The bulk of it is that agriculture is not protected any longer and our feed grains, while they have a minimum price, have been so far above it that the Government has been paying a subsidy.

What do you mean by protected agriculture?

Mr. ABEL. Certainly, we have had, since the Great Depression, all types of assistance programs and protective programs instituted to assist the farmers and keep a good farm industry going, so to speak, and we have done a tremendous job of it.

At the present time there is, as you are aware, I am sure, the great concern on the part of the administration to be constantly exporting our grains for most any cause, you might say, even to the providing of low-interest-rate loans to Russia to buy grain much lower than we would give many people of our own country to build housing or anything else.

In addition, we have the attitude of the administration that it is much more important to our economy to be exporting more and more grains, soybeans as an example, than it is to provide and protect the jobs of the American workers.

We don't think agricultural products should be used as a trade off for the import of foreign-made goods by industry—industry that should be within the United States.

Senator PACKWOOD. By and large, on agriculture products those things exported are not subsidized, yet we subsidize only a few crops left now.

What I am saying is that we import very little wheat and soybeans. Should the farmers be allowed to export as much as they want of feed grains or other agricultural products?

Mr. ABEL. We are all for export of our grains, certainly, or agricultural products. We say that, but we don't think that that should be the whole attitude of Government or that our balance of trade should be looked at only in terms of what we receive from the export of grains or the export of munitions, so to speak.

Senator PACKWOOD. How do we solve this problem? Farming is the one thing we can do better than anybody in the world. The Japanese make excellent cameras, the Germans make good cars, but we have a very, very fertile country in terms of agricultural production.

We can beat the Japanese; we can beat the Germans. Now, we are exporting $22 billion worth of agricultural products last year. In exchange, what do we do to make sure that if these foreign countries are going to buy our grains that they sell things here that they can earn dollars with?

Every time we point to any product, each industry says, "You don't mean us; I mean, gee, fine, let them sell cameras but not in competition with us; let them sell something else instead."

How do you solve that problems?

Mr. ABEL. Well, of course, that is one of the assignments and requirements of our trade negotiators.

I am sure there are many ways that this can be treated. No. 1, the export of American dollars through the multinational corporations which take their technology and their know-how and their plants to other countries, low-wage areas particularly, to manufacture goods that then are brought back here and sold in our high-priced markets; certainly, there can be something done there to curb the export of capital.

Senator PACKWOOD. Assuming we never let them go overseas, kept them here, put up a barrier to American capital being invested over-

seas, how would we rationalize the problem of industrial imports versus agricultural exports if agricultural exports are the things we are best at?

Germany says they want to have Volkswagens over there; the Japanese want to send new cameras. These are not American companies that floated overseas, but foreign companies. What is your answer to that?

Mr. ABEL. I think maybe the best answer is that—and again we touch on it—the law provides and directs our negotiators to negotiate on a sector basis so that we not trade off steel for agricultural exports, but that we set up our trade basis on a sector kind of an approach.

This, of course, has not been done. There hasn't been an effort to do it.

Senator PACKWOOD. Well, the law says to the maximum extent feasible the harmonization, reduction or elimination of international trade barriers will be taken in conjunction with the harmonization, reduction and elimination of industrial trade barriers.

Remember when we had the sector-by-sector argument? If you go on that basis, and you say you cannot say to certain countries that we will allow some industrial imports in exchange for agricultural exports, if it has to be sector by sector, how do you get to bargaining when we have this tremendous agricultural surplus and you can't bargain against the agricultural export for industrial import?

Mr. ABEL. Well, I think you have to take all these things into consideration and maybe at some stage—I don't know, I am not that familiar with it—you don't export as much of this.

Certainly, there comes a point beyond which you cannot go to destroy the industrial basis, so to speak, of this country.

You know those people that talk about America becoming a service nation just don't understand the economics, in my judgment.

Senator PACKWOOD. I agree.

Mr. ABEL. Because we can't live as a service nation. I think we have some examples around the world of what happens when we deliberately destroy our own industries in the name of trade, so to speak.

I think maybe at some juncture our negotiators have to recognize that maybe we export a few less soybeans, or a few less tons of wheat or corn in order to look after the other important sector of our country, notably the workers in American industry.

I would assume, Senator—and again I am not up with all of it or an expert in the field—that our energy crisis is a good example. The tremendous import of oil would be another area in which we work out the balance of our trade arrangements.

Senator PACKWOOD. Let me ask you a philosophical question. In 1962 organized labor supported the Trade Act; in 1974, they opposed it. If we in theory could work out the elimination of trade barriers and the discriminatory non-tariff barriers, would the philosophical position of labor today be toward freer and freer trade, or would there be a reluctance to move in that direction because of tremendous wage differentials?

Mr. ABEL. We are for free trade, Senator. We always have been. It is just in recent years—the last 8 to 10 years—that we have recognized that there has to be something more than free trade; there has to be a measure of fair trade.

That is why we have had to be in opposition to a lot of things that have been taking place. As for me, I was one of the first in the labor movement to oppose some of this free trade, so-called arrangement.

You see, here is the great American basic steel industry that saved the free world from Hilter 40 years ago, which is being dismantled because of unfair competition.

Senator PACKWOOD. I think you are right and I agree with you, but if the trade is genuinely free, can it be unfair, and if so, how?

Mr. ABEL. Senator, if we had fair trade, American industry can compete with any industry in the world. We don't have that.

We can still outproduce any other steel country; we can outproduce in the automobile manufacturing, electrical appliances field, any of those.

Senator PACKWOOD. What we need is to have negotiators who are willing to look at the 1974 Trade Act as to what I think it says and what you think it says and get for American industry a fair shake.

Mr. ABEL. That is correct.

Senator PACKWOOD. You will compete with the Japanese in Brazil or any place else.

Mr. ABEL. That is correct. We are not asking the Government to subsidize our industry or subsidize our workers. We have a token subsidy, you might say, under this act for workers who are injured and, frankly, some of my members are the only ones receiving that consideration.

We prefer not to have that. We want jobs.

Senator PACKWOOD. Thank you very much.

I have no other questions, Mr. Chairman.

Senator HARRY F. BYRD, JR. Mr. Abel, your statement impresses me as an excellent one. Without endorsing every detail, I find myself in agreement with the general thrust of it.

Your comment a moment ago about free trade phrases the dilemma that I have found myself in. Through the years I, too, have favored free trade.

But we have a high standard of living in this country and we want to keep that high standard of living. So you have to temper, it seems to me, what we call free trade so that we don't disadvantage our own people.

Now, your comment that the United States is offering more and more carrots while other countries are sharpening their sticks, that appeals to me a great deal.

As a matter of fact, not just in trade are we doing that, but as I visualize it, our foreign policy, if we have a foreign policy, is doing just that.

My comments now will go back to your more detailed statement rather than the one which you read, and you say that as the committee well knows organized labor did not support the 1974 Trade Act because you felt that in its form and in its administration the trade problems that face America would not be resolved.

I found difficulty in reaching a decision as to how to vote on that piece of legislation. George Meany made a very effective presentation before this committee, I thought. What concerned me about the trade legislation was not so much the form of the legislation, because I think the Senate committee improved it considerably. But at the

time of the vote, and now, I had grave questions as to how it would be administered.

I think that in your address today you point to the fact, also.

Now, you say that about 29 percent of our Nation's industrial capacity is idle.

Mr. ABEL. Correct.

Senator HARRY F. BYRD, JR. Would you indicate which industry is most in that category?

Mr. ABEL. Well, I think it is a pretty general figure. As for steel, the overall basic steel industry is operating at about 70 percent. The specialty steel industry, represented by Mr. Simmons here this morning and, of course, the ITC, which has given us a favorable recommendation, is down to about 60 percent of operation.

Last year at times it was down much lower than that. There were times it operated at about 40 percent.

The automobile industry is up and down. They were in bad straits a year ago. They have improved some but still are far below and I am sure by colleagues here will be able to give the committee a much more accurate figure on that for their industry than I can.

Roughly overall, Mr. Goldfinger's research indicates that about 30 percent of American industry has been idle.

Senator HARRY F. BYRD, JR. All right.

Mr. ABEL. Along with that, Senator, about 8 to 10 million American workers, their skill and muscle has been wasted all this period of time, too, as a result of this.

Senator HARRY F. BYRD, JR. U.S. firms are continuing to export their technology and operations abroad. I think that is a cause for a great deal of this and a point for consideration by this committee.

In your detailed statement you say an important export-import figure missing from these reports is the net gain or loss in jobs for the United States in its trade transactions.

Now, to me, that is a very key point and, as you say, so far as I know that has not been developed by way of a figure.

Mr. ABEL. We raised that, Senator, and you might well be interested that during the course of some of our meetings with the labor sector of the trade negotiations—you know, we were always hearing what exports do for us, so we raised the question, because we have been unable to find the figures: What is the reverse? What damage is done to industry and workers by imports?

We found that the Labor Department, the Commerce Department no one compiled figures on the impact on American workers or American industry stemming from trade.

Now, hopefully, we are on the road to getting something done. Secretary Dunlop and Ambassador Dent both registered quite some concern when this was brought to their attention.

We do have a committee now, I think, set up. You serve on it, don't you?

Mr. GOLDFINGER. It is a technical committee.

Mr. ABEL. A technical committee to look into it to see if we can't now come up with the real facts related to trade and its impact on jobs in American industry and the economy in general.

Senator HARRY F. BYRD, JR. I think that is very important. Not only should the administration be aware of that, but the Congress

should have that information in trying to develop a fair and adequate piece of legislation.

For 5 years I served as chairman of Virginia's industrial development program and my keen interest in that was to try to bring industry to Virginia to create jobs for our people.

I took the view that we could not keep the young high school graduates in our State unless there were adequate job opportunities.

So, I think jobs should be a key to much of the legislation that we enact here and by "jobs" I mean in the private sector.

I am not very keen on building up the public payroll. I would like to see it done in the private sector.

On page 7 of your report, you say, "After our experience with the establishment of tax-free imports from numerous low-wage countries, effective last January," and so forth—would you indicate which countries give you the greater concern in that regard?

Mr. ABEL. We do mention in there, Senator, Brazil and Mexico as two of the countries, and we have had quite a problem for a number of years now, border problems with assembly of parts there, and then, of course, the sale of the finished product in our high-priced American markets.

Mr. Goldfinger tells me there are a number of other countries. Syria, as an example, is one on the list. Over 100, I am told, on this list.

Senator HARRY F. BYRD, JR. Over 100 on the list?

Mr. GOLDFINGER. Yes.

The list, Senator, includes countries like Syria and Egypt. As you know there are political problems aside from economic problems. Included among the areas of economic problems, Senator, would be the countries that Mr. Abel mentioned: Brazil and Mexico, which have a considerable degree of industrialization and a considerable degree of exports of industrial products.

They are also highly protected countries with very high barriers to imports.

Senator HARRY F. BYRD, JR. Is there any clear definition of just what is a developing country?

Mr. GOLDFINGER. No, there isn't any. If those countries were to be listed as developing countries, I think we are in sad shape. I could see some of the countries that are listed as "developing" countries, which are truly underdeveloped—you know, truly underdeveloped.

But, to include countries like Mexico and Brazil, is rather farfetched and unjustifiable in terms of giving them special concessions of zero tariffs on imports of manufactured and semimanufactured goods.

Senator HARRY F. BYRD, JR. Thank you, sir. My time has expired.

Senator HASKELL. I really don't have any questions, so if you would like to go ahead, fine.

I would like to comment, though, Mr. Abel, that I really appreciate your response to Senator Packwood where you said in your view what we need is free trade and also fair trade.

Before you and Mr. Larry and Mr. Simmons were talking about the European situation and it seems to me to be an excellent example where we don't have fair trade.

So, I appreciate your expressed viewpoint here very much.

Senator Byrd, you go ahead and take my time because I don't have any detailed questions.

Senator HARRY F. BYRD, JR. Thank you, sir.

Mr. Abel, in your statement, you express concern about the export of technology, and I will read just a couple of sentences here.

You say, for example:

> The Polish Foreign Trade Agency, in its 1975 economic survey, announced agreements between U.S.-based firms and the Polish Government to combine American technology and Polish labor.
>
> America supplies technology; Poland supplies the labor. The agency announced that Singer, Clark Equipment, and International Harvester have made agreements to transfer U.S. technology and production facilities to Poland, where state-run labor will produce goods for sale in Western European markets.
>
> Thus, the U.S. worker and the U.S. economy will lose heavily, as these products begin to flow from Poland for the benefit of that Communist nation's economy and the short-term profits of the U.S. corporations involved.

I think export of technology to Communist countries and in particular to the Soviet Union should be a matter of concern.

Mr. ABEL. Mr. Chairman, Nat would like to make a comment on that very thing.

Mr. GOLDFINGER. As you know, Senator, we in the AFL–CIO have been extremely concerned about this problem. We have brought this issue to this committee on numerous occasions in the past and I recall a colloquy between you and President George Meany on this very issue.

Senator HARRY F. BYRD, JR. Yes.

Mr. GOLDFINGER. We have been following this. We would like to submit for the record the Polish Government's English translation of its article in a 1975 issue of Polish Economic Survey put out by the Polish Foreign Trade Agency, an article called, "Industrial Cooperation Between Poland and the U.S.A."

That article spells this out in some detail, sir.

Senator HARRY F. BYRD, JR. Without objection, that will be incorporated in the record at this point.

[The article referred to by Mr. Goldfinger follows:]

[From the Polish Economic Survey (1975) Foreign Trade Agency]

INDUSTRIAL COOPERATION BETWEEN POLAND AND THE U.S.A.

(By Tomasz Hermanowski)

As a result of many political and economic measures initiated by the visit paid to the United States by the 1st Secretary of the Polish United Workers' Party Central Committee, Mr. Edward Gierek, conditions advantageous for a successful development of Polish-American trade and industrial cooperation were created. Of major importance was also a recent settling of a prevailing part of controversial financial problems including the matter of Polish bonds issued in the United States prior to the Second World War.

The good atmosphere and high interest in the development of mutually advantageous cooperation already renders concrete effects. Within a relatively short time the American firms have become one of the three leading cooperation partners of the Polish industry in the group of industrialized countries. Worth stressing is the fact that, unlike the Italian or West German firms, Americans have just recently "discovered" the capabilities of the Polish industry and learned that we are able to produce for export modern, complex machines and equipment, the production of which requires highly qualified staff with good technological training. And thus, in spite of that late beginning from a very low level the American firms have within 2–3 years by far outdistanced their com-

petitors who for a long time have had a very strong position on the Polish market and ranked among Poland's oldest partners in cooperation. This fact proves the existence of a huge potential enabling further dynamic development of cooperation contacts.

However, this development has to be considered not only in the aspect of the American market, but also in connection with branch offices of the American firms abroad, chiefly in Western Europe. For the specific trade of Polish-American cooperation is, that the prevailing part of trade is handled by the European agencies of the American companies. The majority of the contracts signed so far have, therefore, a three-sided character embracing Poland, the United States and Western Europe. This strategy enables the best utilization of all elements of each of the partner's economic situation.

The exceptional attractiveness of the three-sided cooperation agreements (the United States—Poland—Western Europe)—results from various factors. In the first place, these agreements take into account the tensions and deficits in the balance of payments. In this respect, both the United States and Poland, are in a similar situation looking for means to maintain long-term stability of that balance in trade with the West European countries. None of the parties is able, at the present moment, to increase substantially exports of its commodities to West-Europe, although each from a different reason: in the United States labour is too expensive, and Poland—in many instances—suffers from shortage of modern technologies. The result is a high degree of complementariness of the two countries as regards availability of the basic development factors. Therefore, the jointly produced goods—combining high quality labour with modern technology—would have a very strong position on West European markets which have a relatively backward technology and expensive labour.

Such a solution would be beneficial for all three parties. For we have to realize that West European countries are by no means interested in the increase of active balance of trade with the United States and Eastern Europe, as this produces more currency troubles on the international scale, deeper inflation on the home market and, finally, a slower increase in trade with two industrially most powerful EEC partners.

The first agreements of this type, in which Polish industry is, or will be one of the partners, have already been signed. These are: the lately signed contracts with American multi-national corporations—Singer Co. (sewing machines), Clark Equipment Co. (excavators) and International Harvester (heavy earth-moving equipment).

The production-commercial agreement signed between "Predom" Precision Industry Union ("Lucznik"—Gen. Walter Metallurgic Works, Radom), and Singer Co., New York is specially noteworthy for many typical features showing the advantages resulting from such cooperation. The "Lucznik" Works has been producing so far about 300,000 good and modern sewing machines annually, while really profitable production begins with 400,000 machines. Further development of production under the technology applied was hard to reach. Cooperation with Singer Co. enables the use of an up-to-date, more effective technology. The extent of technological progress is best illustrated by the fact that, at the expected 40 per cent production increase, labour is to drop by about 50 per cent.

In the production of 4 types of multi-purpose and functional sewing machines fitted out with such devices as, for instance, pneumatic needle threading, Poland is going to cooperate with one of Singer's European branches. The agreement will yield substantial profits for both partners. The American party, with its annual production of about 3 million sewing machines, is unable to manufacture about 200,000-300,000 machines more to meet the annual demand. The agreement on cooperation with Poland enables not only to produce these machines without any new investments, but also to increase cash profits by the payments received for the supplied technological documentation and designs. Using the new technology for modernization of the existing plants, the Polish party can reduce inputs to a minimum (the cost of machines and equipment accounts for 90 per cent of expenses, the remaining 10 per cent being construction and assembly costs). At the same time, the Polish plant can start highly profitable exports of one-third of its production to West-European markets through the intermediary of Singer's commercial agents. Moreover, the American party will currently supply the Polish factory with further improvement of both the design and production technology.

Cooperation agreements signed by the Stalowa Wola Steelworks, with the Clark Equipment Co., International Harvester Co. and Koehring (its West-German branch Menck, Hamburg included) are based on a similar pattern.

Under these agreements Poland gains access to technologies applied by the American firms, and of crucial importance for the American party, is the fact that, instead of building at their own expense a factory in one of the West European countries, it sells its technologies and—partially—also machines, obtaining a reliable source of supplies not threatened by industrial conflicts and prospects for license fees and royalties. Of additional advantage for the American party at the signing of agreement with a Polish enterprise is an almost automatic strengthening of its rank on the CMEA market. In this way it gains a source of spare parts in Poland and a uniform machine park within CMEA.

Two other cooperation contracts have been signed of late on similar principles: by "Metalexport" with the Oxy Metal Finishing International, and by "A. Warskiego" Shipyard with McMullen. Under the "Metalexport"' contract, the Polish party shall receive the newest technologies and machines and equipment for production of a whole family of most up-to-date electroplating automations for the domestic market and for export to Western Europe.

The McMullen contract provides for joint production of stabilizers for "Electrofin"-type ships. The demand for the McMullen stabilizing system is so high that this company, unable to carry out all orders, signed a contract on joint production with the "A. Warskiego" Shipyard. The mechanisms and fins will be produced in Szczecin, while the American partner will supply the hydraulic and automatic equipment.

Following are the characteristic features of the above mentioned contracts:

1. The technical level of production taken up by the Polish industry will not only meet the average West European standards but even surpass it;

2. The transfer of production to Poland means for the American firms a very substantial reduction of costs and coming up with prices competitive on West European markets;

3. The range of the signed contracts is incomparably higher while their number is by far lower than the case of contracts with, for instance, West German or Swedish companies.

All these contracts include all stages of cooperation, from transfer of newest technologies to production and sales. At the same time their range and volume enables modernization and advantageous export specialization of entire plants or branches of the Polish industry. Thus, from the economic point of view, this trend in the cooperation contracts signed by the Polish industry with developed capitalist countries is most advantageous.

Senator HARRY F. BYRD, JR. Thank you.

You also comment on the provisions that allow U.S. firms operating abroad to credit taxes they pay to foreign governments, dollar for dollar, against their U.S. income tax.

You feel that that should be changed to a deduction. I am very much inclined to agree with that view. I recognize, and I am sure you do, that it is somewhat complex, but I think you raise a good point, and as of today, without making a firm commitment for the future, I am inclined to feel that that should be changed from a credit to a deduction.

Do you have additional comments?

Mr. GOLDFINGER. Yes.

Well, we believe that this is a very serious problem because this has provided several billion dollars worth of incentives and encouragement each year for the location of American corporate subsidiaries abroad and the expansion of those subsidiaries abroad, which not only mean the location of foreign subsidiary operations but the use of American technology and equipment abroad.

These subsidiaries then produce goods for sale all over the world, including back to the United States. It is estimated, sir, that the sales of manufacturing subsidiaries of American corporations in recent years are something like two to three times as great as the total value of American exports of manufactured goods, and we think a key aspect of that problem is located in this special incentives—the tax

credit. It should be eliminated and, as Mr. Abel's statement said, it should be replaced by a deduction so that the taxes paid to foreign governments would be treated on the same basis as the taxpayments of a corporation made to a State; that is, to a State within the United States.

Senator HARRY F. BYRD, JR. It would be deducted, as a business expense but would not be credited dollar for dollar against the tax?

Mr. GOLDFINGER. Yes.

Senator HARRY F. BYRD, JR. Another reason for that change would be, it seems to me, that in some cases, take oil, for example; what is a royalty, where does the royalty begin and the tax end, and vice versa?

Mr. GOLDFINGER. That is a crucial problem. I think you know far better than I do that some time back in 1951 or the early 1950's the Treasury Department ruled to consider royalty payments or what most of us would consider royalty payments of the oil companies that were paid to foreign governments as income tax payments which can be credited dollar for dollar.

All of this has encouraged the outflow of American capital, American technology, and the development abroad of American subsidiaries and it seems to us that particularly when American business is talking and the Treasury Department is talking about capital shortages developing at some point in the future, we have to pay much closer attention to our own needs at home.

If we need capital and if there is indeed any degree of capital shortage, let's concentrate more on keeping some capital at home and expanding the capital base here at home and the research and development base and technology leadership that we once had and which we have been losing.

Senator HARRY F. BYRD, JR. Thank you, sir.

Senator Packwood?

Senator PACKWOOD. Let me be sure I understand Mr. Goldfinger's credit argument.

You would change the tax credit to a tax deduction?

Mr. GOLDFINGER. Yes.

Senator PACKWOOD. In essence, that is going to make it taxwise almost economically impossible for these companies to go overseas; is it not?

Mr. GOLDFINGER. It would be a deterrent, sir, and, frankly, we think there should be a deterrent. Up to now there has been a deliberate encouragement of the outflow of capital and an encouragement of the development of foreign subsidiary operations.

Senator, it is true that if we do it the way we have suggested, for many of the subsidiaries it would depend upon the tax rate in each country, but you could get effective tax rates of 60 percent or somewhat higher.

Senator PACKWOOD. I am not saying that American business should be discriminated against or not be allowed to go overseas.

Mr. GOLDFINGER. I am not saying that, no.

Senator PACKWOOD. But without the tax credit that is in essence what is going to happen; isn't it?

Mr. GOLDFINGER. No, no. I don't think so, you see, because they have a whole list of goodies. Now, how long, Senator, can this country con-

tinue to encourage U.S. foreign operations, and the outflows of American technology and capital to foreign countries?

We are convinced that this is the root cause of England's trouble today, that the British back in the days before World War I were exporting about 80 to 90 percent of their total amount of investments in foreign countries and they neglected their home base.

Senator PACKWOOD. But the question——

Mr. GOLDFINGER. In recent years, Senator, the United States had about 20 percent or more of its investment in manufacturing facilities overseas and in addition to that there have been the technology outflows through patent agreements and license agreements. We are convinced that we have been moving headlong, unfortunately, in the direction that the British headed and we are much concerned about the erosion of our industrial base.

Senator PACKWOOD. As a matter of morality why shouldn't a company be allowed to go overseas and invest and get into the German or Austrian market or not?

Mr. GOLDFINGER. We have to decide are we a country or are we not a country. Countries act to protect themselves. I think our first duty is to protect and advance the national interest, the interests of the United States, and the American people, and American workers.

Senator PACKWOOD. That means you are not going to let American citizens invest overseas?

Mr. GOLDFINGER. No: that is not true at all.

Senator PACKWOOD. That is what is necessary under that——

Mr. GOLDFINGER. We are saying eliminate the incentives. There is no sense whatsoever in our judgment for keeping all of these goodies.

Why do we provide $6 to $9 billion a year in tax incentives to these corporations to move their operations abroad and maintain them abroad.

Senator PACKWOOD. Caterpillar Tractor, they have no manufacturing or employees in Oregon, so I have no particular interest in protecting them, but if their foreign tax rate were reduced to being a deduction, their effective tax in the following countries would be at these percentages: Australia, 76; Belgium, 78; Brazil, 73; Canada, 78: and so on.

If that is going to be the effective combined foreign tax rate, naturally, they will come back to the United States and do their investing where the effective tax will be around 40 percent.

What you are saying is almost compelling them to come back here by changing the tax structure.

Mr. GOLDFINGER. I wouldn't be terribly concerned about that. Furthermore, I would like to look at the Caterpillar figures to see to what degree they are accurate.

Caterpillar, to my knowledge, has not provided us with those figures, but we are not concerned, I want to emphasize, about the fact that there is a deterrent involved in our proposal.

We have had now about a quarter of a century of this kind of global operation where we have provided some of our life's blood, the technology in terms of economic lifeblood for the rest of the world, and I think it is high time that we begin to pay some attention to our own needs and our own resources and our own development.

We have been losing our technology leadership in the world. We have been losing our productivity leadership in the world. We have

encouraged, through the Government, the erosion of the American industrial base.

We have lost industry after industry in this country, or sections of industry.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator HARRY F. BYRD, JR. On this same question, if you change it from a tax credit to a tax deduction, there won't be the same advantage, of course, but I see that a company would still be permitted to deduct whatever its expenses are.

Mr. GOLDFINGER. Right.

Senator HARRY F. BYRD, JR. Taxes are a part of the expenses, so it would be deducted as an expense.

Now, whether the Caterpillar Tractor figures took that into consideration, Senator Packwood may know. I don't know whether they did or not.

In any case, as I visualize the change that is being proposed, it would not eliminate deductions; it would permit the deductions but eliminate the dollar-for-dollar credit.

Mr. GOLDFINGER. Right. It would simply put the foreign tax payment on the same basis as the payment that Caterpillar Tractor makes to a State within the United States—as a cost of doing business.

Senator HARRY F. BYRD, JR. If there are no further questions, thank you, gentlemen, very much.

Mr. ABEL. These gentlemen, I think, have statements, Mr. Chairman.

Senator HARRY F. BYRD, JR. Oh, yes. Excuse me.

Mr. SHARMAN. I am Ben Sharman, international affairs representative of the Machinists Union, and I have a short version of the testimony that I handed in on behalf of President Smith.

Senator HARRY F. BYRD, JR. The complete text will be published in the record.

Mr. SHARMAN. Mr. Chairman and members of the committee, I welcome the opportunity to bring to your attention some of the reasons why our members are so deeply concerned with the deteriorating trade situation in the industries where they work, due to the inadequate implementation of safeguard provisions of the Trade Act of 1974.

Also, to express concern that our members' interests are not being adequately considered in the multilateral trade negotiations that are presently taking place in Geneva.

The majority of the members represented by the International Association of Machinists and Aerospace Workers, IAM, are employed in aerospace, metalworking machinery, electrical machinery, and fabricated metal products.

Most of these industries have a much higher rate of unemployment than the national average and have been adversely affected by imports.

In fact, total imports of machinery rose from $4.6 billion in 1969 to $12.1 billion in 1974. Imports of machinery and transport equipment from developing countries alone rose from $409 million to $3.1 billion and imports of machinery from developing countries in east and south Asia rose from $275 million to $1.8 billion during the same period.

Recent figures show that a rise in the level of imports of machinery, except consumer type, between the first 10 months of 1974 and the

first 10 months of 1975 increased from $7.6 billion to $8 billion. This was during a period of severe economic slump when overall U.S. production was low and overall imports of manufactured goods declined. Imports of capital goods, except automotive increased from $8.1 billion to $8.4 billion in the same period.

The December issue of the BLS publication "Employment and Earnings" shows that in November 1975 unemployment in aerospace was 10.1 percent; metalworking machinery, 8.4 percent; electrical machinery, 10 percent, and fabricated metal products, 9.3 percent.

These figures have been given little consideration when relief has been sought from injury caused by import competition and unfair trade practices or when articles have been included on the preference list.

In fact, the only relief we have received has been from adjustment assistance which, under the Trade Act of 1974, has had a dismal record of providing relief in only 50 percent of the cases filed.

Only a few adjustment assistance cases involving our members have been ruled on to date, although several more petitions have been filed and are being processed.

In one of the cases, a real weakness was exposed when workers were denied relief because the product they made was not considered to be directly affected by increased imports.

This case was filed by our laid-off members from Western Supplies Co. in Missouri, a manufacturer of shoecutting dies. It was ruled that even though imports of shoecutting dies had risen slightly during a period when the production of shoes in the United States was decreasing that the decline in shoe production was the reason for the loss of jobs.

Unemployment, it was claimed, had therefore not been due to increased imports of the product manufactured by workers who had lost their jobs.

Another case, involving our members formerly employed at the Rohr Aircraft Corp. in Chula Vista, Calif., shows the inadequacies in the administration of the adjustment assistance program. In this case it was determined that adjustment assistance be granted to those workers who had been employed in the manufacture of certain aircraft parts.

Over 500 members have received assistance to date, but because of technicalities 307 members have been denied relief and have gone through the appeals process before the administrative law judge of the State of California.

The ruling was made that in order to qualify for assistance a worker had to work for a period of 26 weeks, on products for which assistance was granted, without changing classification or department. Time spent on vacations or sick leave was not credited to the 26 weeks.

The main problem was, however, that the union-management agreement has a bumping clause which allows an employee who is low in classification or departmental seniority to take, as an alternative to layoff, work in another classification or department.

If a worker is low on the plantwide seniority list and more layoffs follow, he is then laid off in a situation over which he has no control. Bumping during times of layoff is a common practice at Rohr Aircraft Corp. which has over 200 different job classifications in 10 different departments.

This unfair administration of the act, therefore, jeopardizes and discriminates against people who are willing and anxious to work.

Another situation has come to our attention involving keypunch operators at Rohr Aircraft Co. who are salaried personnel but not IAM members. In this case they were denied adjustment assistance and 12 of them are in the process of appealing the decision.

The work of the keypunch operators was being transferred across the border to Mexico and because it is part of a service industry and no actual product was involved, relief has been denied.

The adjustment assistance examples mentioned, which I understand are not isolated cases, show why most of our members are disillusioned with the program and believe that technicalities are devised in order to deny benefits for workers who lose their jobs due to imports and trade policies.

Even those who are receiving assistance often find it impossible to find comparable jobs and as a result are thoroughly disenchanted with the program.

Recently, at the time of escape clause hearings on the fastener industry, the IAM conducted a survey which showed that 13 percent of our members who had worked in the industry were unemployed. We, therefore, requested, together with the United Autoworkers and the United Steelworkers of America, to be copetitioners with representatives of the industry asking for relief.

In testimony given by the industry on March 31, 1975, it was stated that:

"The world demand for industrial fasteners will continue to increase as production increases in automobile, consumer durable hard goods, rail and aircraft equipment, mining and construction industries.

Clearly, if the U.S. manufacturers are to participate in these markets at home and abroad the trend of imports must be reversed or further jobs will be lost and new capital will not be invested.

Further clouding the future outlook of the U.S. fastener industry is the fact that domestic production has grown at the rate of 0.6 percent over the last 10-year period based on tons produced, while U.S. fastener consumption has grown over 6 percent with imports absorbing practically all of the growth.

U.S. companies have been forced to specialize in high grade materials and products to survive the heavy import pressures.

Of major consequence to the U.S. defense posture is the fact that several important products are now almost exclusively made outside the United States, including: machine screw nuts, ¼ inch and under; wood screws; machine screws, ¼ inch and under; stainless steel fasteners, including hex nuts, machine screws and tapping screws.

Representatives of industry also claimed during their testimony that if major industrial nations, with the exception of Canada, do not reduce their fastener barriers to U.S. levels the U.S. manufacturers will have no export potential above the lower amounts that already exist.

When considering the information from the testimony and the provision in title V of the Trade Act, which states that, "In taking any such action, the President shall have due regard for the anticipated impact of such action on United States producers of like or directly competitive products," it seems inconceivable that fasteners should be eligible items on the list of preferences.

It does indicate that adequate research was not carried out before including them on the list.

The IAM represents workers in a large segment of the handtool

industry where two dumping cases against Japan have been processed recently and relief denied.

Once again, the industry at Trade Commission hearings went to great lengths to show how it was being adversely affected by imports.

Data provided at the hearings on specific items manufactured by the industry should have been sufficient to keep such products off the preference list in accordance with provisions under title V, section 501 of the Trade Act.

IAM members who were laid off from the Crescent Tool Co. in Jamestown, N.Y., have filed an adjustment assistance petition contending that a large part of the work has been transferred to a plant in South Carolina because of difficulty in competing with imports.

When considering that all this information is readily available it indicates that safeguards under the act, as referred to in title V, section 503, have not been implemented and there has been no consideration given to the impact that decisions have on the loss of jobs or the undermining of our industrial base in the United States.

We in the IAM are especially concerned as over 300 products that have been manufactured by our members in industries, where high unemployment is prevalent, are included on the preference list.

One trade problem that is affecting a large number of our members in the aerospace industry, which we believe is not being given serious consideration in trade negotiations, is the local content clause.

A typical example of this is General Dynamics F–16 sales agreement with a consortium of NATO countries which was predicted to provide jobs for tens of thousands of our unemployed members and provide over $2 billion in sales.

A report by the Senate Appropriations Defense Committee indicates that Belgium, Denmark, Norway and The Netherlands, not only bought an advanced fighter with superior avionics and weapons capability, but also bought a free flow of technology relating to the F–16, that would considerably upgrade European aerospace manufacturing capability.

In an attempt to land an order for 76 DC–10's from British Airways, McDonnell Douglass recently offered the British a guarantee that at least 30 percent of the work on those aircraft would be done by British aerospace workers.

Many other examples of local content agreements and pending agreements in aerospace products are available with all our major aerospace firms participating. The corporations are in most instances, already multinational and in a position to profit from any transfer of production.

The loss of jobs and technology and the future impact that transfers of technology and production will have on the industry should, however, convince our trade negotiators that any local content provision of sale should be treated as a nontariff barrier and dealt with accordingly.

We have seen no evidence that this major cause of job losses in the aerospace industry has been recognized by our trade negotiators.

Trade policies in the United States have not been negotiated on a reciprocal basis in the past and, therefore, the United States has a weak bargaining position. Preferences given to developing countries

have not been included as a part of the trade negotiations which has further weakened the United States' position.

In the implementation of the Trade Act of 1974 little consideration has been given to the present or future employment impact. We in the trade union movement believe that employment policies practiced by other countries and the long-term economic welfare of the United States must be given more consideration when developing our trade posture.

The trade policy of the United States during the multilateral trade negotiations should reflect the concerns and interests of workers as they are the ones who will suffer the most if unwise decisions are made.

In the implementation of the Trade Act of 1974 safeguards should be fully utilized to protect job opportunities and industrial capability, especially during this period of severe economic recession and high unemployment.

Senator BYRD. Thank you, sir.

Mr. Collins, in view of the time problem, would you want to summarize your statement and have the full statement put in the record?

Mr. COLLINS. Thank you, Senator, I will take that suggestion. You have my document and it has been circulated. I would like to just take 2 or 3 pages here that sort of focuses the impact of my statement on the electronics industry as we have it.

Senator BYRD. Very good. Thank you.

Mr. COLLINS. The U.S. Department of Commerce has come up with a report on some of the factors that influenced the rise and decline of the U.S. position in the consumer electronics market in the last two decades.

Called the U.S. consumer electronics industry, the report brings together information and observations in a useful way.

The document reviews the steps that led from U.S. dominance of its own market—by far the largest in the world—to the 1974 situation in which imports were fast gaining a 50-percent hold.

First, American firms started using Japanese production and exporting technology to Japan. With the aid of protectionist measures, the Japanese developed their industry till it achieved a competitive edge, after which the U.S. manufacturers built plants in Taiwan, Mexico and other low-wage countries.

Now, after $2 devaluations helped lower prices on domestic goods, Japanese and other foreign firms have started acquiring American production facilities.

The report notes that tariff schedules 806 and 807, which provide duty-free entry for United States-made content of items assembled or finished overseas, was used by U.S. companies to seek the advantage of lost-cost foreign labor.

This added incentive, when combined with the long-term effect of exporting technology, employment and production know-how, contributed to the deterioration of the United States electronics production base.

During this period the U.S. consumer electronics industry took no effective legislative action to counter the import influx or to join the electronics unions in a joint course of action to protect the domestic base of the industry and the jobs of the industry's workers.

The electronics producers, instead, viewed their interest as tech-

nology vendors and as importers of the production from their low wage foreign plants as a more profitable posture.

During this period a number of large-scale producers dropped out of domestic consumer electronics production, either totally or to a near total degree.

Such major producers as Westinghouse and Emerson-DuMont suspended all consumer electronic production. Teledyne and Muntz TV phased out their production. RCA closed down a major color TV plant in Memphis, Tenn., and has now announced its decision to discontinue production of all consumer electronics except color TV. Motorola's TV plants were sold to Matsushita of Japan. Ford-Philco, a pioneer in the field, sold its television operations to Sylvania and transferred other production to Asia and Brazil.

Admiral was sold to Rockwell International and Magnavox was sold to Philips of the Netherlands. More recently, Sanyo of Japan has been reported to be in the process of buying Whirlpool-Sears Warwick TV plants.

U.S. Government agencies have presided over the dispersal of the consumer electronics industry as a matter of high policy.

Basic positions of U.S. foreign policy were attendant to the shift of production to such countries as Taiwan and South Korea and the tolerant attitude to Japanese penetration of the U.S. market from its Government-subsidized base.

Policies administered by the State Department, Treasury and Commerce and the International Trade Commission have encouraged the multinational companies to set up shop in Mexico, South America and Asia.

Programs for electronics production in South Vietnam were in the planning stage before events overtook the program.

Complaints brought by the unions of import dumping and illegal subsidizing of U.S.-bound exports were met by the electronics industry's foot dragging or open hostility.

Legislative efforts for a quota formula to control the flood of imports were opposed by the multinational companies as a threat to their access to the U.S. market from their foreign plants.

If there is to be a viable electronics industry, there will have to be fundamental revision to the Trade Act and a more responsive administration of the terms of a more realistic statute by all Government agencies involved in its performance.

Thank you.

The CHAIRMAN. Any further questions, gentlemen?

[No response.]

The CHAIRMAN. Thank you very much, gentlemen.

[The prepared statements of Messrs. Abel, Jennings, and Smith follow:]

TESTIMONY OF I. W. ABEL, CHAIRMAN OF THE LABOR POLICY ADVISORY COMMITTEE FOR TRADE NEGOTIATIONS, CHAIRMAN OF THE AFL-CIO ECONOMIC POLICY COMMITTEE AND PRESIDENT OF THE UNITED STEELWORKERS OF AMERICA

We appreciate the opportunity to participate in this review of U.S. foreign trade policy and the administration of the 1974 Trade Act.

As the Committee knows, organized labor did not support the 1974 Trade Act because we felt that in its form and in its administraton, the trade problems that face America would not be resolved. We take no satisfaction from the fact, in

our view, that we have been proven correct. We believe that the law is laden with shortcomings and fails to deal with major economic problems. Moreover, we believe also that the Administration has not carried out the spirit or the letter of the law in its implementation.

Organized labor deeply fears that the erosion of our nation's industrial base and the lowering of this nation's standard of living has not been halted or reversed since enactment of the Trade Act. As a consequence of the Trade Act, this erosion is likely to become more acute.

About 20 percent of our nation's industrial capacity is idle. In 1975, approximately one out of ten Americans was unemployed. This nation is suffering the highest unemployment of any major industrial nation.

The American economy is suffering damage from imports—actual and threatened—as other nations seek to export their recessions here and erect barriers at home to protect their economies. U.S. firms are continuing to export their technology and operations abroad to serve their foreign markets and, in many instances, to produce for this market.

Apart from this Committee's concern as expressed by the convening of these hearings, we find the Administration, U.S. multinational corporations and the nation's media showing little alarm about these problems. Instead, great solace is taken from reports that America's trade balance in 1975 had improved, that exports were greater than imports. However, the important export-import figure missing from these reports is the net gain or loss in jobs for the United States in its trade transactions.

U.S. export data showed considerable income from grain shipments and raw materials, both areas with few jobs and few well-paying positions. American exports also showed shipments of production machinery and the newest industrial technology to every corner of the globe, producing one-shot export jobs but exporting U.S. long-range jobs as foreign manufacturing facilities are set in place and overwhelm or displace U.S. products.

Dollar trade statistics in themselves tell little about jobs. The numbers of workers seeking adjustment assistance from import injury reached 337,308 from April through December last year. Moreover, the President's Economic Report tells us that last year's export-surplus is expected to decline all through 1976.

The statement of purposes of the 1974 Trade Act called for full employment, economic growth, fair trade, help for those injured by imports and new rules of international trade. The provisions Congress wrote into the law to carry out those purposes were aimed, we were told, in meeting the problems of the "new ball game" in international economics and politics. But, we see very little, if any, evidence of fair play or a new "ball game."

Organized labor is concerned about the massive prenegotiations concessions made by the Administration in reducing tariffs to zero on imports of 2,700 products which went into effect January 1. These are imports from more than 100 nations and territories including such countries as Romania and Brazil, Mexico and Chile. Multinational corporation producers abroad will not intensify their exports to the U.S. from the lowest wage areas to wipe out more U.S. producers and American jobs. These losses will be felt by Americans at every skill and income level, every race, creed and color.

The Trade Act permits these so-called "preferences" or zero tariffs, but the law also requires the President to have "due regard" for their impact on the United States and to receive assurances from beneficiary countries that they would give up certain special trading arrangements with other countries. By its massive opening of U.S. markets to duty-free products, the Administration has ignored the Act's stated purpose of "fair and reasonable access to products of less-developed countries in the United States market." Government figures show that imports of manufactured goods from developing countries had already reached about 20% of such imports in 1974. It is obvious that a good deal of the imported manufactured products which will enter the U.S. duty-free were once American-made products that previously provided jobs here. At a time when this country is trying to get up from the deepest recession since the 1930s, a new barrage of duty-free imported manufactured goods could have devastating consequences.

The Act's section which permits this action—Title V—should be repealed.

Organized labor is concerned over the administration of provisions to relieve unfair import injury. Under Title II, "swift and certain" retaliation against unfair trade practices is authorized. But the record of action to meet unfair

dumping of foreign products or action to meet unfair subsidies of foreign nations has been disappointing.

The Treasury Department reports that only 2 out of 21 cases, finally decided last year, resulted in the application of countervailing duties by the United States to counter unfair foreign subsidies. Treasury statistics do not include the many petitions, such as on steel subsidized by the European Economic Community, where the Treasury Department has decided not to investigate. One thing is clear—unfair foreign trade subsidies are not receiving enough action. But as delay goes on, thousands of Americans lose their jobs in industries as diverse as glass and castor oil, screws and consumer electronics.

Treasury reports on dumping cases show similar results. Five of six cases reached the end of the legal road, with no action taken by the United States in 1975. Many more cases are pending: Foreign steel, autos and products as diverse as knitting machines and tires, cement and bricks, continue to be dumped or subsidized into the United States market, while legal technicalities are used more to avoid, rather than to assure action by the United States. That does not help the injured.

Under the Act's provisions for so-called "fair" competition, Title III gave power to the International Trade Commission to decide whether industries were injured by imports, and, if so, to recommend relief. In 1975, no findings of injury to any industry was made, while American producers and workers were forced out of business or out of jobs.

Let me comment at this point that the Steelworkers are pleased that the Commission finally, on January 19, 1976, recognized the injury in the specialty steel industry. The Commission recommended stabilization of imports and five-year quotas to assure that the United States will be able to produce specialty steel. In making this finding the Commission has recognized the problems with which most producing industries and millions of American workers have been confronted for some years. The Commission's landmark decision in the specialty steel case hopefully indicates that similar relief will soon be available to promptly rectify the widespread economic damage inflicted on other American workers and industries because of imports.

Our trading partners—owned, directed and subsidized by their governments—stand secure behind their high trade barriers. Their protests of concern about the International Trade Commission decision ring with hypocrisy but we agree on one point: This is a test case.

"Serious injury" to American workers and the specialty steel industry is fully documented in the ITC study. It's hard to believe that the President will not endorse the Commission's recommendations. In this first major test, we must make the Trade Act work.

The real question, however, is much larger than the specialty steel industry. Virtually every manufacturing industry in the United States is in jeopardy. Other trading nations in the past year have piled up barriers to trade—quotas in Sweden, in Australia, in Britain, to name a few. The Common Market and Japan have agreed on limitations of Japanese steel exports.

The Trade Act promised "adjustment assistance" for American workers if they were injured or threatened by injury from imports. Obviously workers would prefer their jobs, but even this aid has not been forthcoming for most workers who petitioned for assistance.

From April through December 1975, petitions covering 337,308 workers were sent to the Labor Department. Reports of positive findings of injury to groups of workers have been issued covering an estimated 56,887. Some of those 56,887 have collected adjustment assistance.

But more than the 337,308 workers who petitioned had their jobs displaced by import injury last year. And less than a tenth of the total number reported has collected anything at all up to this time. Legal technicalities, inconsistent rulings, and varying interpretations of the law have held up certifications in some cases.

Even after certification, the state employment services, already besieged by other unemployed workers, are required to make additional determinations before one dollar can be paid to U.S. workers whose jobs are lost as a result of import-injury. The belief that 56,887 certified workers have received adjustment assistance is therefore not correct. The law seems to mean what the Administration decides it should.

Negotiations are proceeding in a similar fashion. In the face of all the injury suffered by American industry, the Secretary of Agriculture told the National Farmer's Union in London, England, on November 25, 1975, the United States must "offer concessions in the U.S. industrial market for concessions in the

foreign agricultural markets." Highly protected U.S. agriculture is exporting more to other countries than ever before in the nation's history, but Administration spokesmen offer to lower barriers even further to U.S. markets for manufactured products even before the detailed bargaining begins, as the quid pro quo for still more agricultural exports.

We see nothing in the Trade Act of 1974 that authorizes such a view.

The law specifically directs the negotiators to include agriculture in bargaining. Certainly, the U.S. should have strong farm exports and such negotiations are in order. Agricultural trade is highly protected everywhere in the world. Both tariff and non-tariff barriers exist in other countries.

But this Committee also emphasized sector negotiations in its report on the bill. Section 104 directs the negotiators to try to get a balance of economic opportunities for U.S. exports by sectors. It seeks equivalent competitive opportunities abroad to those the U.S. gives to other nations in this market. In making this a "principal negotiating objective," the Committee report states that this section was not "a directive for cross-sectorial tradeoffs between agriculture and industry."

But the negotiators have virtually ignored the objective of sector negotiations despite the language of the law. No progress has been made in defining these sectors for such industries as "steel, aluminum, electronics, chemicals and electrical machinery," as the Committee intended.

As negotiators and as bargainers, trade union leaders know well that it is impossible to fulfill every desire of those who set up the case in advance. In international trade negotiations, we are aware, there are many considerations which are not clear to outsiders. We make these critical points only because they seem to us important to the well-being of the United States, before, during and after negotiations. If the law is to be interpreted only in terms of what other nations want, there will not be any changes in outdated rules that are unfair to the U.S. "Hard bargaining" does not mean giving up, before anyone gets to the nitty gritty.

Bargaining on non-tariff barriers was sought and given by the Congress so that United States exports could have a fair chance in other markets. Instead, the limited information available to us shows that the U.S. negotiators are fearful that others will withdraw from the bargaining table, and we are accepting each of their demands—offering first to remove barriers in the United States. In short, the United States is offering more and more carrots, while other countries are sharpening their sticks.

The law did not set up this approach. Title I specifically authorizes the raising of U.S. tariff barriers in negotiations and the harmonizing of non-tariff barriers, as tools to give this country a fair chance at the bargaining table. Instead, the progress to date shows a willful determination to offer only lower barriers to other nations on top of unilateral, nonnegotiated reductions, while the rest of the world has been adding new barriers on top of old ones.

Title I also states that non-tariff barriers and tariff barriers should be negotiated together, because other nations have often lowered tariffs while raising non-tariffs barriers. We do not see that such negotiations have gone forward.

Title I of the Act also sets up a series of advisory committees from the private sector, including labor. We believe the Executive Branch has tried to follow this part of the law, but labor is not a major concern of the trade specialists who have been pursuing negotiated agreements in Geneva for many years. The impact of trade on service employment, for example, has been totally ignored by the Executive Branch.

The meetings of the committees have been largely "educational," more designed to teach us the technicalities of trade and to give us the views of the Administration rather than to get advice on the implications of this enormous trade negotiation for the well-being of the working people of the United States. For example, after the unions provided advice, they learned that the Administration has already acted in Geneva on both a proposed international standards code and on a proposed international subsidies code.

Some of these preliminary discussions in Geneva, which are always described as far from actual agreement, seem to be far advanced. In the field of standards, of subsidies codes and a variety of other problems of importance to American labor, virtually no consideration of the impact on the jobs of working people in the United States seems to have been given. Reports on what the proposals mean are vague and not reassuring to our representatives. After our experience with the establishment of duty-free imports from numerous low-wage countries,

effective last January, many labor representatives believe that the burden of proof of potential problems has been placed on the public—on those least able to know what the negotiated arrangement might be.

The Office of the Special Representative for Trade Negotiations has no labor representatives, or, in fact, any top-level personnel with any knowledge of labor.

The State Department has not published a study by two Cornell University professors, Robert H. Frank and Richard T. Freeman, which estimates that U.S. multinationals exported more than a million U.S. jobs between 1966 and 1973.

The Labor Department itself has not completed any serious investigation of the immediate and long-term impact of imports and exports on American jos. Only recently, studies have been commissioned to outsiders to determine what effect lower trade barriers would have on some specific industries.

In short, the Administration appears to be urging the public to do the government's work, but it has not done its own homework on the impact of international trade on labor, either before, during or potentially after the negotiations.

There are many other aspects of the enormously complex trade law which call for comment. But these explanations show why we do not believe that the administration of the Trade Act has carried out the purposes or the language of the law as the Congress intended.

The Committee has asked for comments today on other aspects of trade policy. Organized labor is also concerned because so many international negotiations are completed without any reference to the impact on American jobs or the Trade Act. Reports from Brussels, from Moscow, from Rambouillet and from the UN in New York refer to government promises that affect trade, jobs and the U.S. economy.

Co-production agreements are being approved by the U.S. government—agreements which provide for jobs and production abroad to produce much of the final U.S. "sale" to that country. Increasingly, U.S.-based multinationals make co-production agreements with Communist countries. For example, the Polish Foreign Trade Agency in its 1975 Economic Survey announced agreements between U.S.-based firms and the Polish government to combine American technology and Polish labor. America supplies technology, Poland supplies the labor. The Agency announced that Singer, Clark Equipment and International Harvester have made agreements to transfer U.S. technology and production facilities to Poland, where state-run labor will produce goods for sale in Western European markets. Thus, the U.S. worker and the U.S. economy will lose heavily, as these products begin to flow from Poland for the benefit of that Communist nation's economy and the short-term profits of the U.S. corporations involved.

I am not aware of any statement of concern from our government about these arrangements, but our government will bear eventual costs in higher jobless payments, loss of corporate and individual taxes and a further diminishing of our industrial base. I am not aware of any statement by the East-West Trade Board established by the Trade Act that shows concern about the impact of these agreements.

As this Committee knows, organized labor would like the Trade Act of 1974 rewritten, but we are realistic enough to know that a wholesale rewriting of this Act is unlikely in the immediate future. A first-step repeal of the preference provision would at least slow down the import assault on the already hard-hit U.S. economy. It would discourage U.S. firms from expanding production abroad and from moving out more and more production units.

New legislation that does not affect the Trade Act itself can provide great help to cure some of these problems. A direct job-creating opportunity is possible through tax legislation. The tax code can be revised so that U.S.-based multinationals would pay their fair share of U.S. taxes. For example, the provisions that allow U.S. firms to defer paying U.S. taxes on their foreign earnings until the income is repatriated should be repealed. The provisions that allow U.S. firms operating abroad to credit the taxes they pay to foreign governments dollar-for-dollar against their U.S. income tax should be changed to a deduction, similar to the treatment of the firms' taxes to state governments. If these two changes were made, capital would be encouraged to expand in the United States, rather than abroad, and needed plant expansion would take place in this country.

In seeking solutions to these massive problems, we know that the Congress can give help to injured American workers and industries. The U.S. multinational firms cannot be expected to provide policy suggestions for America's well-being at home. Neither can U.S. international law firms working in the interests of

other nations be expected to provide help for the United States. Foreign governments which operate here through various "councils" and "associations" should not be expected to help us. We believe, therefore, that we must seek help from the Congress and that these hearings will represent the beginning of a critical re-examination of U.S. trade policies and the administration of the 1974 Trade Act.

STATEMENT OF PAUL JENNINGS, PRESIDENT OF THE IUE–AFL–CIO

The Senate Finance Committee's oversight hearings on trade policy and the administration of the Trade Act of 1974 are welcomed by the International Union of Electrical, Radio and Machine Workers (IUE–AFL–CIO) as an opportunity to review the trade-related problems of the workers of the electrical-electronic and machinery manufacturing industries.

We support the views of President I. W. Abel in the testimony that he presents here today as responsive in our behalf to the Committee's request for comment on items 1, 2, 3 and 4, detailed in the "notice of hearing" issued on January 19, 1976. Our contribution to the proceedings will be devoted to item # 5: "Are the statutes which provide relief from injury caused by import competition and from unfair trade practices being administered in accordance with the intent of Congress?" Quite naturally we emphasize as an important part of the intent of Congress that part of the purpose of the Act which stresses the need "to promote the economic growth of, and full employment in, the United States."

The workers in our industries have suffered for a long time from the inadequacy of the import safeguards in U.S. laws and regulations. During the period of the Trade Expansion Act of 1962 while foreign imports captured greater and greater share of our markets and thousands of our members were thrown into unemployment, relief that should have been forthcoming was practically non-existence or unavailable.

Our appeals for remedial action under anti-dumping, countervailing duty or "escape clause" provisions were in vain. The employers of the electrical-electronic industry, abdicating their responsibility to the workers of the industry, abandoned American communities and ran away to every low wage corner of the world. Few examples can be recounted of where the employers of our industries effectively joined the unions in presenting a common front seeking remedy under the existing statutes. On the contrary, the electro-industry employers of the United States revealed their true multinational character through opposition to the unions' efforts to gain relief.

Not only have our carporations opened plants overseas but they have exported the technology that could assure an expanding domestic industry. Patent licensing and technology transfers incur an obligation on the licensor to guarantee the licensee the freest and most untrammeled access of the resulting product to a rich market. U.S. electronics multinationals, engaged in a worldwide technology licensing effort, have been the strongest lobbyist for low duty or duty free entry of the foreign produced electronic goods that have captured the American market and caused the loss of our jobs.

Our experience with import adjustment assistance under the TEA of 1962 was one of chagrin and frustration. With benefits meager and mostly inaccessible, this program was fundamentally wrongheaded in concept since it planted illusions of a "solution" which was and is no solution whatever.

But for the heavy volume of imported electronics products of every description, U.S. production of such items would have been capable of supporting a substantial workforce and this sector would have been able to ride out the 1974–75 economic storm. Instead, consumer and other electronics plants were wiped out by layoffs, euphemistically called "inventory shutdowns", and thousands of employees were laid off, probably never to return.

IUE and other electrical-electronic unions have made every effort to utilize the adjustment assistance sections of the Trade Act of 1974.

Despite our frustrating experience with adjustment assistance under the TEA of 1962, we have filed fifty or more petitions for the supplemental unemployment benefits under the Trade Act of 1974. We have petitioned for these benefits for laid off workers formerly producing television sets and parts; semiconductor devices, electronic resistors and capacitors; wire and cable harnesses; electric motors; automotive accessories; lamps, tubes and bulbs and other illumination items; wire and cable; musical instruments; turbines, transformers and switchgear; printing presses; knitting machines; fuel injection systems, and fire arms.

Many of these workers were denied entitlement to supplemental benefits while others were made eligible. Either way, our many petitions in a period of less than a year point up that thousands of our members have lost their jobs in industries where import totals have been climbing even in a period of economic recession.

The combination of increased imports and recission at year-end 1974 knocked out the jobs of workers making television sets, semi-conductor devices and other electronic parts. In these cases, the U.S. manufactures closed down domestic operations and increased production in their plants in Asia, South America and Mexico. These workers, though certified for import adjustment benefits, will probably never return to the industry because imports are capturing even larger shares of the U.S. market.

The zero tariffs of the Generalized System of Preferences under Title V of the Trade Act are already causing hardship and layoffs among our members. Hundreds of metal and electrical products from more than 100 countries and territories are now eligible to enter the U.S. duty free. Experience warns us that the multinational companies will rush to these areas to gain the combined advantage of low wages plus duty free entry into the United States. IUE Local 237 members of Bridgeport, Connecticut, employed at Bridgeport Metal Goods Company, are being laid off now as a result of the importation of flashlights and hand lanterns from Hong Kong at zero tariffs.

The rate of duty on TSUS 68370, flashlights and parts, stood at 35 percent ad valorem. The rate of duty on TSUS 68380, portable lanterns and parts, had been 13.75 percent ad valorem.

This process should be halted before additional thousands of jobs are wiped out in this period of heavy unemployment. We join in the call for the repeal of Title V.

Many sections of the Act have yet to be invoked to protect the jobs of electrical and electronic workers. Title III substantially revised Executive authority under prior laws to respond to foreign unfair trade practices. Authority is also conferred to recommend relief for industries injured by imports. In the Act's first full year no findings of import injury have been made for any electrical or electronic products.

A long delayed action, however, did recently take place. The Treasury Department closed down its six year long probe of the charge of illegal government subsidies of Japanese consumer electronics products with a negative finding. Recent transfers of additional television set production from this country to other Asian countries by U.S. producers can be related to the competitive situation surrounding this decision.

Many sections of the Trade Act and other U.S. laws and regulations are inadequate in concept and administration to protect the jobs of American electrical and electronic workers.

We have pointed out on other occasions that the trade policies of the United States operate to reduce domestic job opportunities in our industry. We are now in a period when we can say that these policies are also causing the loss of job opportunities in new products. The newest technology for such dynamic consumer products as home video recording systems, video games, electronic wristwatches, citizen band broadcast and receiving equipment, calculators, microwave ovens, electronic ignition for automotives and other products still in the laboratory will go the way of radios, tape recorders and black and white TV sets.

To sum up, Congress' intention that the Trade Act should promote domestic economic growth and full employment is not being fulfilled. Corrective legislative action is urgently needed.

STATEMENT OF FLOYD E. SMITH, INTERNATIONAL PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL–CIO

INTRODUCTION

Mr. Chairman and Members of the Committee: I welcome the opportunity to bring to your attention today some of the reasons why our members are so deeply concerned with the deteriorating trade situation in the industries where they work, due to the inadequate implementation of safeguard provisions of the "Trade Act of 1974." Also, to express concern that our members' interests are not being adequately considered in the multilateral trade negotiations that are presently taking place in Geneva.

The majority of the members represented by the International Association of Machinists and Aerospace Workers (IAM) are employed in aerospace, metalworking machinery, electrical machinery and fabricated metal products. Most of these industries have a much higher rate of unemployment than the national average and have been adversely affected by imports. In fact, total imports of machinery rose from $4.6 billion in 1969 to $12.1 billion in 1974. Imports of machinery and transport equipment from developing countries alone rose from $409 million to $3.1 billion and imports of machinery from developing countries in East and South Asia rose from $275 million to $1.8 billion during the same period. Recent figures show that a rise in the level of imports of machinery (except consumer type) between the first 10 months of 1974 and the first 10 months of 1975 increased from $7.6 billion to $8 billion. This was during a period of a severe economic slump when overall U.S. production was low and overall imports of manufactured goods declined. Imports of capital goods, except automotive increased from $8.1 billion to $8.4 billion in the same period.

The December issue of the BLS publication "Employment and Earnings" shows that in November, 1975 unemployment in aerospace was 10.1%, metalworking machinery 8.4%, electrical machinery 10.0% and fabricated metal products 9.3%. These figures have been given little consideration when relief has been sought from injury caused by import competition and unfair trade practices or when articles have been included on the preference list. In fact, the only relief we have received has been from adjustment assistance which under the "Trade Act of 1974" has had a dismal record of providing relief in only 50% of the cases filed. Some of our members have been denied adjustment assistance on technicalities and on the basis of confidential information supplied to the Trade Commission by their employers. Many of those who have received assistance are still unemployed or have been forced to take lower wages in new jobs, which confirms our opinion that the program will never serve as a substitute for employment.

Jobs have been lost by our members who were producing typewriters, pianos, calculators, phonographs, vacuum cleaners and many other products. We are concerned that job losses due to preferences and trade negotiations will continue to increase as corporations take advantage of trade concessions by transferring their operations overseas. We are also fearful that further concessions will be made on manufactured products in exchange for concessions on agricultural products. This would undermine our manufacturing ability in this country and throw more of our people out of work.

In the area of non-tariff barriers, we feel that the interests of our aerospace workers are not being adequately considered and that nothing is being done to counteract sales contracts with local content requirements. These sales contracts with foreign governments and with foreign airlines, fully or partially owned by governments, require as a condition of sale that a large part of the production be done overseas. This practice, not only adds to the unemployment problem in the industry, but also places other countries in a strong competitive situation by providing them with valuable technology which until now has given United States industry its comparative advantage.

ADJUSTMENT ASSISTANCE

Only a few adjustment assistance cases involving our members have been ruled on to date although several more petitions have been filed and are being processed.

In one of the cases, a real weakness was exposed when workers were denied relief because the product they made was not considered to be directly affected by increased imports. This case was filed by our laid off members from Western Supplies Company in Missouri, a manufacturer of shoecutting dies. It was ruled that even though imports of shoe cutting dies had risen slightly during a period when the production of shoes in the United States was decreasing, that the decline in shoe production was the reason for the loss of jobs. Unemployment, it was claimed had, therefore, not been due to increased imports of the product manufactured by the workers who had lost their jobs.

Another case, involving our members formerly employed at the Rohr Aircraft Corporation in Chula Vista, California, shows the inadequacies in the administration of the Adjustment Assistance Program. In this case, it was determined that adjustment assistance be granted to those workers who had been employed in the manufacture of certain aircraft parts. Over 500 members have received

assistance to date, but because of technicalities 307 members have been denied relief and have gone through the appeals process before the Administrative Law Judge of the State of California. The ruling was made that in order to qualify for assistance a worker had to work for a period of 26 weeks, on products for which assistance was granted, without changing classification or department. Time spent on vacation or sick leave was not credited to the 26 weeks. The main problem was, however, that the union-management agreement has a bumping clause which allows an employee who is low in classification or departmental seniority to take, as an alternative to layoff, work in another classification or department. If a worker is low on the plantwide seniority list and more layoffs follow he is then laid off in a situation over which he has no control. Bumping during times of layoff is a common practice at Rohr Aircraft Corporation which has over 200 different job classifications in 10 different departments.

This unfair administration of the act, therefore, jeopardizes and discriminates against people who are willing and anxious to work.

Another situation has come to our attention involving Key Punch Operators at Rohr Aircraft Company who are salaried personnel, and not IAM members. In this case, they were denied adjustment assistance and 12 of them are in the process of appealing the decision. The work of the Key Punch Operators was being transferred across the border to Mexico and because it is part of a service industry, and no actual product was involved, relief has been denied.

The adjustment assistance examples mentioned, which I understand are not isolated cases, show why most of our members are disillusioned with the program and believe that technicalities are devised in order to deny benefits for workers who lose their jobs due to imports and trade policies. Even those who are receiving assistance often find it impossible to find comparable jobs and as a result are thoroughly disenchanted with the program.

Recently, at the time of Escape Clause Hearings on the fastener industry, the IAM conducted a survey which showed that 18% of our members who had worked in the industry were unemployed. We, therefore, requested, together with the United Autoworkers and the United Steelworkers of America, to be co-petitioners with representatives of the industry asking for relief.

In testimony given by the Industry on March 31, 1975, it was stated that: "The world demand for industrial fasteners will continue to increase as production increases in automobile, consumer durable hard goods, rail and aircraft equipment, mining and construction industries. Clearly, if the U.S. manufacturers are to participate in these markets at home and abroad the trend of imports must be reversed or further jobs will be lost and new capital will not be invested. Further clouding the future outlook of the U.S. fastener industry is the fact that domestic production has grown at the rate of 0.6% over the last ten year period based on tons produced, while U.S. fastener consumption has grown over 6% with imports absorbing practically all of the growth. U.S. companies have been forced to specialize in high grade materials and products to survive the heavy import pressures.

Of major consequence to the U.S. defense posture is the fact that several important products are now almost exclusively made outside the U.S., including: 1. Machine screw nuts (¼" and under); 2. wood screws; 3. machine screws (¼" and under); 4. stainless steel fasteners, including hex nuts, machine screws and tapping screws."

Representatives of industry also claimed during their testimony that if major industrial nations, with the exception of Canada, do not reduce their fastener barriers to U.S. levels, the U.S. manufacturers will have no export potential above the lower amounts that already exist. When considering the information from the testimony and the provision in "Title V of the Trade Act" which states that "In taking any such action, the President shall have due regard for the anticipated impact of such action on United States producers of like or directly competitive products," it seems inconceivable that fasteners should be eligible items on the list of preferences. It does indicate that adequate research was not carried out before including them on the list.

DUMPING

The IAM represents workers in a large segment of the hand tool industry where two dumping cases against Japan have been processed recently and relief denied. Once again, the industry at Trade Commission hearings went to great lengths to show how it was being adversely affected by imports. Data provided at the

hearings on specific items manufactured by the industry should have been sufficient to keep such products off the preference list in accordance with provisions under "Title V, section 501 of the Trade Act."

IAM members who were laid off from the Crescent Tool Company in Jamestown, New York, have filed an adjustment assistance petition contending that a large part of the work has been transferred to a plant in South Carolina because of difficulty in competing with imports.

When considering that all this information is readily available it indicates that safeguards under the act as referred to in "Title V, Section 503" have not been implemented and there has been no consideration given to the impact that decisions have on the loss of jobs or the undermining of our industrial base in the United States.

PREFERENCES

We in the IAM are especially concerned as over 300 products that have been manufactured by our members in industries, where high unemployment is prevalent, are included on the preference list.

One trade problem that is affecting a large number of our members in the aerospace industry, which we believe is not being given serious consideration in trade negotiations, is the local content clause.

A typical example of this is General Dynamics F16 sales agreement with a consortium of NATO countries which was predicted to provide jobs for tens of thousands of our unemployed members and provide over $2 billion in sales.

A report by the Senate Appropriations Defense Committee indicates that Belgium, Denmark, Norway and The Netherlands, not only bought an advanced fighter with superior avionics and weapons capability, but also bought a free flow of technology relating to the F16, that would considerably upgrade European aerospace manufacturing capability.

In an attempt to land an order for 76 DC10s from British Airways, McDonnell Douglas recently offered the British a guarantee that at least 30% of the work on those aircraft would be done by British aerospace workers.

Many other examples of local content agreements and pending agreements in aerospace products are available with all our major aerospace firms participating. The corporations are in most instances, already multinational and in a position to profit from any transfer of production. The loss of jobs and technology and the future impact that transfers of technology and production will have on the industry should, however, convince our trade negotiators that any local content provision of sale should be treated as a non-tariff barrier and dealt with accordingly. We have seen no evidence that this major cause of job losses in the aerospace industry has been recognized by our trade negotiators.

CONCLUSION

Trade policies in the U.S. have not been negotiated on a reciprocal basis in the past and, therefore, the United States has a weak bargaining position. Preferences given to developing countries have not been included as part of the trade negotiations which has further weakened the U.S. position.

In the implementation of the "Trade Act of 1974" little consideration has been given to the present or future employment impact. We in the trade union movement believe that employment policies practiced by other countries and the long term economic welfare of the United States must be given more consideration when developing our trade posture.

The trade policy of the United States during the multilateral trade negotiations should reflect the concerns and interests of workers as they are the ones who will suffer the most if unwise decisions are made. In the implementation of the "Trade Act of 1974" safeguards should be fully utilized to protect job opportunities and industrial capability, especially during this period of severe economic recession and high unemployment.

The CHAIRMAN. The next witness will be Mr. W. B. Eberle, president of the Motor Vehicle Manufacturers Association, and former special representative to the trade negotiations.

Senator HARRY F. BYRD, Jr. Mr. Chairman, may I say that Mr. Eberle is almost a colleague on this committee as he spent so much time here during the trade hearings and in the development of the trade bill.

The CHAIRMAN. Yes, that he has.

Senator HARRY F. BYRD, Jr. To my observation, he has the confidence of the committee to an unusual degree.

Senator PACKWOOD. Could I ask a few things? Is there a conference on child care this afternoon?

The CHAIRMAN. I understand it has been called off. It has been postponed to tomorrow.

Senator PACKWOOD. What is your plan in terms of hearing witnesses in view of the vote we have? Are you going to go on straight through now?

The CHAIRMAN. Well, I know we have a quorum call now, but I suggest we hear Mr. Eberle and decide whether to come back later.

Senator PACKWOOD. Thank you.

STATEMENT OF W. D. EBERLE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC., AND FORMER SPECIAL TRADE REPRESENTATIVE

Mr. EBERLE. Mr. Chairman, I am pleased to be with you this morning. I hope that if I may I can just file my full statement for the record and then try to quickly cover some of the main points, if it is all right with you.

Mr. Chairman, I appear here as a former international businessman and former Special Representative for Trade Negotiations. I do, however, intend to comment in my present incarnation as president of MVMA on the United States-Canada Automotive Trade Agreement and the new ITC report because I think they are important.

I will answer any other questions, but I do want to start with the Trade Act and close with the United States-Canada Automotive Agreement.

Mr. Chairman, I think it is probably too early to make as conclusive an assessment of the Trade Act of 1974 as has been suggested here by many of the witnesses today. For example, the question of whether the scope and authority are adequate is yet to be determined by the outcome of negotiations. And we require more experience with countervailing duty and adjustment assistance programs. I can only say there have been more cases filed and more decisions made than under prior legislation.

What I think is important for your committee hearings today in this oversight review is to look at what is going on under this new act. Most of the criticisms voiced this morning really took place prior to December 31 of 1974.

The reason it is important, I think, to have an oversight hearing of this kind is because it focuses the attention of the administration, Congress, industry, and labor, on the adequacy of the existing procedures and the policies themselves.

My theme today is that we need good management in developing and implementing the U.S. trade policy. Let me quickly cover the main points.

The national debate over trade policy obviously did not end with the passing of the Trade Act of 1974. Critics claim there isn't enough

to do in the trade negotiations. That interdependence causes a loss of autonomy, and that Government involvement in and ownership of business abroad undermines the premise of free trade. All these reasons are cited for not proceeding with the trade negotiations.

I don't think protectionism or freer trade are adequate descriptions of what has to be focused on in a fundamental assessment of our trade policy. I think if we have to talk about something here, it is an open and fair trading program for the United States and the world.

The Trade Act of 1974 did not try to set our policy for all time. What it did was to create an appropriate framework, I believe, for the creation and the execution of a coherent trade policy.

Our trade grew from $37 billion in 1962 to almost $200 billion in 1974. It grew from 8 percent to 15 percent of our production over that same period. It is now a major part of our production and cannot be ignored as simply an adjunct, something we can back away from.

The CHAIRMAN. Now, do you mean that exports are 15 percent of our production, Mr. Eberle?

Mr. EBERLE. That is correct.

The CHAIRMAN. I see.

Mr. EBERLE. I think also that it is too often assumed that the national interest in trade policy is related solely to exports. It is really exports and imports because it takes both. Access to supply is often forgotten.

Realizations such as these, I think, led to the development of the Trade Act. I simply wanted to put that into perspective. There are still a lot of trade barriers in the world that need to be reduced, including some of ours, and there is a need for trade reform both in the international arena and domestically, I think this act provided the basis for achieving these.

The act itself only provides the foundation and cannot solve our problems. The problems will be solved by the development of sound policy through a continuing cooperative process among the executive, Congress, and the public. I think these hearings will serve that process and the American people well in the development of a coherent trade policy.

The first challenge we confront is one of management. I think that properly managed, an open and fair trade policy will be self-justifying and self-sustaining. It will require leadership by the United States. And I don't mean leadership in the sense that we must pretend that everything is our idea. I think we should acknowledge good ideas around the world and then work with our trading partners to develop them.

Let me start first of all with the executive branch's challenge. The first thing that has to be done is to create an interchange of information between industry, labor, the public, and the executive branch.

As Ambassador Dent indicated, this requirement has not been fully met. Because progress has been slow in the negotiations, concerns such as those expressed this morning have been voiced over what has or has not happened. There are two areas of concern.

First of all, the U.S. negotiators should indicate to the advisory committees whether the advice they are getting is sound and how it fits in with what the U.S. Government thinks. That has not been done. Second, there has not been sufficient feedback from the negotiations so

that industry and labor can restructure their own ideas. These loops must be completed. I think the intent is there, but the process must be accelerated.

There is a related area, too, and that derives from the fact that negotiations are not only taking place in Geneva. There are negotiations in London in the Wheat Council, in Paris in the OECD; in Geneva and New York in the United Nations, there are the new multilateral commodity conferences as well as the various bilateral trade talks. These have an impact on what goes on in the MTN in Geneva and that same interchange of information I just discussed must apply here as well. There is room for a major step forward here and I think Congress intended it be taken. It should result in better policy.

Another task of the executive branch is to coordinate policy development within the Government and policy execution in the field. Ambassador Dent and Secretaries Simon and Kissinger testified that the interaction process is working today in developing policy. The other side is equally important—do we have the same kind of coordinated process in the field because there are different agencies heading up different negotiations. As an example, you have food reserves being talked about in the Wheat Council which have a direct impact on what goes on in both commodity agreement in Paris and in the grain talks in the MTN in Geneva. All of them are handled by different people with different interpretations.

If we are to maximize our bargaining leverage, we must see that all of these various negotiations are based on a uniform perspective and are executed in a way that brings about a consolidated, coherent result.

Another example of the need to tighten up our coordination in the field is in negotiation of the OECD code of conduct for multinational corporations. This is perceived as an investment issue. And yet United States access to foreign raw materials is almost exclusively handled by multinational corporations. In addition, one key portion of this code deals with restrictive business practices which take trade practices into account.

Then to complicate the whole matter, in another area, the United Nations, we are discussing a code of behavior for these corporations vis-a-vis the host country. Simply as a matter of tactics in negotiation, you cannot negotiate a code for industrialized countries and then turn around and, having already given up everything, start talking about what the third world will accept. They will want to improve it. And we will have no leverage because they know already what we are prepared to give. Meanwhile, they have given nothing and said nothing about how they are going to treat these companies in order to give us access to supply.

I simply say this kind of negotiation must be tightened up. It should be pulled together rather quickly.

Let me now comment on the congressional side. The fact that the Congress itself is not organized to effectively manage its responsibility can also inhibit development of a coherent policy. I would only suggest that the Congress must take a look at establishing clearer lines of committee authority or provide some joint oversight because what is happening is that the executive reports to one committee, thinks it has reported to all committees, and you are having things fall between

the cracks. I think it is an area that must be looked at rather quickly.

Then there are some areas for joint concern between Congress, the Executive, and advisory groups. The first deals with keeping up public interest in the trade negotiations. By that, I don't mean we should be making decisions in ways just to keep the other people at the bargaining table. What I do think is important, though, is that we are now going through a very painstaking process of prenegotiations. This prenegotiation process will, in fact, take another year or maybe 18 months. But by determining what is included, what the parameters are, and what ways the issues will be approached, it will determine the shape and content of the final agreements.

The outcome of these negotiations will, in fact, be determined by much of what is going on now. I think the committees of Congress, your committee, and the Executive must place a much higher priority on what is going on over there and communicate it now. This is the time these negotiations are being shaped. I am concerned that we don't have the kind of interaction among Congress, the Executive, and the advisory committees at this time to see that that gets done.

There is another point that I want to comment on that was addressed by steel industry witnesses, both management and labor, the specialty steel safeguard case. It points up the interaction between the ITC, the executive branch, and Congress. Let me point out briefly that the ITC's charge is to look at the domestic situation of a particular product and sector. That is its charter.

The executive branch (the President's charge when he looks at it) must take into account the total national economic interest including effects on all of industry on consumers and on our foreign obligations.

If the President rejects the ITC recommendation, then it comes to Congress. Congress must decide whether the President's action was consistent or inconsistent with its intent and sustain or override the President's decision.

If the ITC and the President differ, Congress must fully understand the case before it approves or overrides the President's decision. Only such an approach will lead to the development of sound trade policy.

There is another challenge I want to talk about and that is managing our day-to-day trade problems to facilitate long-term solutions to the basic issues they reflect.

I call your attention to an article that I wrote for the New York Times (attached to my written statement). The essence of it is that there are really three basic concerns here. The first is that we must maintain our commitments to our trading partners for access to supply and access to markets. The second is that we must provide our domestic industries and workers with relief from unfair tactics. The third is that, we must sustain the interest of our trading partners to work out these longer term problems. We have to balance these three concerns.

The interesting thing is, I know of no short-range problem that isn't directly tied in its solution to a longer term problem that is a part of some negotiations going on around the world. Mr. Chairman, on page 15 of my statement is a list of the kind of things I am talking about.

The U.S. relief criteria on the short-term side is tied directly to a multilateral safeguard on the long-term side. The DISC, the VAT,

government involvement in business—these are all tied to a long-term treatment of subsidies.

As an example take the specialty steel case. Because we are in the middle of negotiations, this must be handled carefully. Is there some way that we can have either temporary relief under our safeguard with a time limit and instructions to deal with this in negotiations; or do we simply impose quotas for a 5-year period and preclude the opportunity to deal with the basic problem in the negotiations. Mr. Chairman, we must face up to and make decisions on the day-to-day issues. I don't think we should be worried about other people walking away from the bargaining table. I don't think they will walk away from the table if we all keep in mind where we want to go in the long run. Let's carry out our day-to-day decision, but lets make them consistent with where we want to go in the long run so that negotiations can, in fact, go forward.

Those are the essential kinds of things that this act must carry out, and why your committee, in oversight, can see that it does get carried out properly.

If I may, Mr. Chairman, I would like to turn to the United States-Canada Automotive Agreement because the ITC report has just been released by the committee.

Mr. Chairman, the concept of the Automotive Product Trade Agreement between Canada and the United States, our industry feels, is basically sound. We believe both Canada and the United States have benefited from its operation.

I would call to your attention, however, that in 1965, when the agreement was brought before you here, a number of industry witnesses testified that while the U.S. industry had not requested negotiation of the agreement and did not believe it was perfect, the industry considered the agreement a workable plan and an important step in the establishment of freer trade relations between the United States and Canada.

Now, consistent with the objectives of that agreement, the industry has, in fact, rationalized and integrated its operations between Canada and the United States. Product planning and investment decisions have all been consistent with the requirements of that agreement. The U.S. motor vehicle industry continues to believe that the agreement represented a better response to the problems of the automobile industry and automotive trade between the United States and Canada than the alternatives available at the time the agreement was negotiated. Our industry supports continuation of that agreement.

There are a couple of additional comments I want to make. The first concern what the ITC did not say. That was, when the agreement was proposed, there was a threat of a bilateral conflict between the United States and Canada because of Canada's unilateral plan to stimulate the growth of its automobile industry. The agreement defused that threat and retained the openness of that market.

Second, Mr. Chairman, the Commission also did not comment upon the extent to which the objectives set out in the agreement have been achieved. The first two objectives of the agreement were the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production could be achieved and liberalization of the automotive trade with respect to tariff bar-

riers and other factors tending to impede it with a view to enabling the industry of both countries to participate in the expanding total market of the two countries.

The facts, I think, presented in the Commission's report with respect to the integration and rationalization of production and the tremendous growth in bilateral trade, clearly demonstrate progress has been made on the first two objectives.

The third objective was to develop conditions in which market forces could operate effectively to attain the most economic pattern of investment and production and trade. Progress toward this objective has not been as satisfactory. I think that there has been some progress, but today market forces obviously do not effectively operate between Canada and the United States. This raises a question because there seems to be concern that this was supposed to be a free trade agreement. I can only point out that the testimony of the industry in 1965 stated that it would not bring about completely free automotive trade. Since then it has inadvisably been labeled a free trade agreement. Rather, it was a framework within which more trade could be created, but not totally free trade.

The transmittal letter from the Commission majority to you, Mr. Chairman, states that Canada has not fully complied with the agreement by failing to phase out the restrictions.

Mr. Chairman, I cannot find substantiation for this in the Commission report itself. I believe it reflects an unfortunate but long-standing misunderstanding between the Governments of the United States and Canada. The report of the Commission states quite clearly, and I quote from that report, Mr. Chairman, "These restrictions in the agreement itself are not transitional." That is at page 26 of the report. And "The letters of undertaking are still binding according to the terms of the letters themselves." Page 27 of the report, Mr. Chairman.

Mr. Chairman, the U.S. Government considers these restrictions to be transitional and anticipated that they would be phased out. The Canadian Government did not. The industry is caught in the middle. Given the differing perspectives of the United States and Canadian Governments, the automotive industry is doing its best to comply.

Mr. Chairman, our member companies have recommended changes in this agreement as have I in prior testimony. While this may not be the opportune moment to undertake negotiations with Canada, the issues should be addressed. In recent testimony Deputy Assistant Secretary of State Vine indicated the United States and Canada had formed a committee to look at this agreement and study it.

Mr. Chairman, I think this problem presents the kind of situation that we face everywhere and that is that by ducking the hard issues, we don't solve problems. This is a problem that needs to be solved, but it is the kind of problem we can live with. I believe that the agreement should be continued, but I believe it should be amended as we have indicated in the past unless such efforts jeopardize the agreement itself.

Now, speaking for myself and not the industry, I have to say to you that I believe this is only one part of a problem with Canada. Our former Ambassador, Bill Porter, did this country a service by

pointing out the whole range of economic problems between Canada and the United States of which this is one. I am sorry that the Canadian Government reacted so strongly because it points out a lack of sensitivity toward their relationship with the United States.

I suggest that one way to approach the problem of the auto pact is to put it in a broader context—we ought to strive toward greater integration between Canada and the United States. I must say that as I hear many of my good friends in Canada speaking about their concern of living with that big elephant south of the border, that everytime we sneeze they get thrown out of bed, I can't help but think of similar situations. I would point out to you, Mr. Chairman, that there are many small countries, Norway, Austria, Switzerland, with special relationships with the European Community, which is a large elephant. Integration has been highly beneficial to them. I think this is something that our Government and the Canadian Government ought to consider—over a period of 15 or 20 years. I can tell you there is great support for this among the business communities of Canada and the United States.

Mr. Chairman, that finishes my oral statement. I will try to answer your questions.

The CHAIRMAN. I just want to ask you about one thing, Mr. Eberle. It seems to me that when we approved that Canadian Automotive Parts Agreement the understanding was that this was going to lead to a common market in automobiles between the United States and Canada. Isn't that correct?

Mr. EBERLE. I think this has been a serious misunderstanding all along. There was testimony, as I went back and looked at the record, which indicates that it was not intended to be a totally free market, but it was to be a limited free market. What I would comment on though, Mr. Chairman, is that there were three objectives set, one of which was to have a freer market.

The CHAIRMAN. Well, I don't represent an automobile-producing State. We produce a few batteries that somebody could use in an automobile, and that's about all there is to it, and a few tires, I guess, but—and not even much of that. But my thought about all of this is that we ought to say to Canada: Well, by now you ought to be in position to compete on even terms with us in the automobile business and we are willing to have a common market with you, but you have not done what we thought you were supposed to do under the automobile agreement, and from our point of view it was a lousy deal. As far as we are concerned, if you want a common market, we will have a common market, otherwise the deal's off.

Now, that is what I think we ought to do. I was the manager of that bill when it passed the Senate, so it seems to me that we ought to say, either fish or cut bait. If you don't want to trade evenly on automobiles, that's fine. You just have your automobile industry and we will have ours.

Mr. EBERLE. Mr. Chairman, I think that the potential is there for negotiating the reduction of the restrictions, and I think that should be our objective. I think how long it takes us to get there is a different problem.

The CHAIRMAN. Well, so far our Canadian friends just drag their feet and as long as they drag their feet, we get the worst of it.

I just think that as one who supported, debated for it, asked the Senate to vote for it, that we have been victimized long enough on that deal. We ought to say that now it ought to be 50–50, it ought to be even Steven or we ought to just forget about it.

I can recall one time we had two fellows with a tie vote running for class president, so we agreed to make them copresidents. One fellow took all the bows, got all the benefit of the job, and the other fellow got left out so he got another election, and said, vote me in or out! As far as I am concerned, I thought this was going to be 50–50 and it is not, so either kick me out, or kick the other side out, but I refuse to have anything more to do with this because I am getting the worse end of this.

Mr. EBERLE. Mr. Chairman, there are benefits on both sides. There are improvements that ought to be made to get closer to what you are talking about. But I don't want to leave the impression that there are not some benefits for both sides. I think it gives the basis to have a broader integration and to achieve what you want to do, and I think we should with that proceed with the clear understanding that it has to be brought closer to what your thinking is.

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

I have to leave. Senator Roth can preside.

One reason so many Senators left during the course of this hearing is that we have been having rollcall votes. We had one on the nomination of the Secretary of Labor while you were testifying and I would like the record to show, even though I didn't make it, that I would have voted to confirm him as Secretary.

[Laughter.]

The CHAIRMAN. Thank you very much.

Senator ROTH (presiding). I have no questions. Thank you. It is good to see you again.

Mr. EBERLE. Thank you, Mr. Chairman.

[The prepared statement of Mr. Eberle follows:]

TESTIMONY OF W. D. EBERLE

Mr. Chairman, members of the Finance Committee, my name is W. D. Eberle. It is a pleasure for me to be able to discuss with you a subject that is of great personal and professional interest to me, our nation's trade policy. I appreciate the opportunity to share my thoughts with you on several aspects of trade policy, based on my experience as the President's Special Representative for Trade Negotiations and as an international businessman.

It is of course too early to make a conclusive assessment of the adequacy of the Trade Act of 1974 as the legislative foundation for our nation's trade policy. For example, a judgment as to the sufficiency of the scope and authority of our negotiating mandate is not yet possible because the negotiations are still in a very preliminary stage. It is also clear that we will require more experience with the amendments Congress made to our "safeguard" provisions, our countervailing duty statute, and our adjustment assistance program in order to judge whether these changes were adequate and equitable.

I am not suggesting, however, that this review by your committee is premature. To be clear, I believe just the opposite. Your committee's continuing exercise of its oversight responsibilities is essential if our government is to develop and execute a coherent trade policy which serves our national interests. I believe that the mere occasion of these hearings has had a beneficial effect upon

the administration of our trade policy by requiring the executive branch, members of Congress and interested private groups to focus on the adequacy of both existing procedures for developing and executing policy and the policies themselves.

The theme for my remarks today is the need for good management in developing and implementing U.S. trade policy. I intend to touch on trade issues of concern to this committee, whether or not they fall within the purview of the Trade Act of 1974.

THE CONTENT OF U.S. TRADE POLICY

The basic assumptions underlying our trade policy have been challenged increasingly in recent years. The debate that raged over the Trade Act was not silenced by its passage.

Some critics argue that liberalization has progressed to the point where the economic gains from removing remaining trade barriers will be small—too small to justify the costs of domestic adjustments (social dislocation and political conflict) required by further liberalization. The possible loss of autonomy in domestic economic policy making compels other critics to recommend that the process of interdependence which trade liberalization encourages be checked. Still others maintain that growing government involvement in business abroad has undermined the basic assumption upon which the benefits of freer trade are predicated: that market forces will operate to determine the most efficient utilization of the world's resources.

The point of these challenges, Mr. Chairman, is that the traditional dichotomy of trade policy, "freer trade" vs. "protectionism," is no longer an adequate description of the choices we face or a reliable guide to the policy decisions we must make. These critics force us to undertake a more profound assessment of the assumptions behind, and the objectives of, our trade policy. An essential part of this process is hearings such as this one.

Both Congress and the Administration recognized the challenges I described in drafting the Trade Act of 1974. The Act did not try to answer them for all time, but an overwhelming majority in Congress believed, and I still do, that the Trade Act of 1974 created an appropriate framework for the creation and execution of a coherent trade policy.

Let me take a few moments to review the ideas upon which the consensus that motivated the Trade Act was founded.

The realization that trade had assumed a much greater significance for our economy since the last major overhaul of our nation's trade policy in 1962 was instrumental in stimulating the Trade Act of 1974. The value of U.S. exports and imports grew from $37.5 billion in 1962 to almost $200 billion in 1974. In that same period, the ratio of U.S. exports to total production of goods rose from 8 to almost 15 percent. Thus, the significance of trade for domestic employment, income, and inflation—in short, our prosperity—grew.

Trade policy practitioners—and Congressmen—have a tendency to identify our *national* interest in a liberal trade policy with the interests of U.S. exporters, because exports generate income from abroad and create jobs at home. This is only part of the story. Our trade policy is based upon the conviction that our *total* national interest is advanced by the reduction of trade distortions. We now recognize the need for access to foreign sources of supply as well as markets. In addition, the lowering of U.S. barriers also yields benefits: both individual consumers of final goods and industrial consumers of raw materials and intermediary products gain from the price restraining effect of foreign competition.

These facts led to the conclusion that despite six prior rounds of multilateral negotiations to lower trade barriers, real and substantial benefits would still be gained from reducing trade distortions, especially nontariff measures. At the same time, there was a need for a sustained commitment to our open world economy in the recession, to prevent governments from succumbing to pressures to raise barriers, thus jeopardizing the system of trade cooperation that is fundamental to economic prosperity and political order.

The second basic conclusion that led to the consensus behind the Trade Act was that the increased importance of trade required a reform of both our domestic trade-related law and the rules governing international trade. The Trade Act itself accomplished domestic reform by revising the safeguard, the adjustment assistance program, and statutes which cope with unfair foreign

trade practices to make these aspects of our domestic law more responsive to the needs of our people. The Act also provided the President with the authority and the mandate to achieve international reform.

There were two additional motivations, which I would be remiss in not at least mentioning. The first was the desire to fulfill our longstanding commitment to the developing countries to give them preferential access to our market. And the second was our desire to expand our economic relations with non-market economy countries.

Cynics are wont to describe treaties, institutions, and legislation as instruments to solve the problems of the past. The policies embodied in the Trade Act were most assuredly born out of the experience of the past, but they were forged in a clear vision of the problems the nation would face in the future. However, the Act itself provides only a foundation for policy formulation and that alone is not sufficient to solve the problems which the nation confront. These problems must be attacked diligently and imaginatively by our elected officials and their representatives. How they use the Act is the critical issue. That must evolve from a continuing, cooperative process of policy development and execution involving the executive, Congress, and the public. It is a process that is well served by hearings such as this.

THE PRINCIPAL CHALLENGE OF TRADE POLICY TODAY

Perhaps because of my business community background, I see the principal challege of trade policy today as one of management. I believe that a properly managed, open trade policy will be self-justifying and self-sustaining. The benefits accruing to the nation as a whole from the pursuit of such a policy will be clear. The burdens of domestic adjustment will be equitably shared and will not undermine public support for the policy.

I also believe the successful management of that policy, in its several dimensions which I will discuss today, is the key to maintaining U.S. leadership in the international economic arena. By leadership, I do not mean a pretended monopoly of all the innovative ideas in international economic relations or worse, a bid to dominate the evolution of the global economy. Rather, I mean a role in creating the environment and conditions in which the world economy can grow and all its citizens prosper—a role appropriate for the world's largest and most dynamic economy.

THE FIRST MANAGEMENT CHALLENGE

The first management challenge is the development and coordinated execution of a coherent trade policy. Both the executive and Congress have roles to play in this process.

Executive Branch.—One obligation of the executive branch is to listen to, take into account, and respond to, the views (which I admit often conflict) voiced by interested sectors of our economy.

The Trade Act, of course, has established an elaborate and formal advisory committee mechanism to facilitate this process for the Multilateral Trade Negotiations. I serve on the President's Advisory Committee for Trade Negotiations and am familiar with the industry policy (IPAC) and sector (ISAC) committees. To date, I believe the system is working as Congress intended. Our government now has access to more, betted quality data and information than ever before. However, its obligations under the advisory program have not yet been fully met, as noted by Ambassador Dent. First, U.S. negotiators owe the advisory committees an assessment of the advice these committees have given and at least a preliminary indication of the extent to which our negotiators believe the advice being offered is consistent with their own conception of our national interest in the negotiations. Second, sufficient feedback from the negotiations is necessary to enable advisors to restructure their advice or reorder their priorities. Meeting these two obligations will be the critical test of the advisory committee structure. Making the structure work will require patience on the part of advisors and diligence on the part of negotiators.

Trade policy issues are negotiated in many forums besides the MTN in Geneva, however. They include: The OECD; the London Wheat Council; the United Nations (especially UNCTAD); the new North-South "Commissions" in Paris; multilateral commodity conferences (tin, coffee, cocoa, etc.); bilateral commodity negotiations (wheat with Russia).

All of these issues are interrelated and affect one another to varying degrees. Public views must be heard on these issues as well.

Another task of the executive is the coordination of policy development and execution among the several government departments, agencies, and offices that have responsibilities in the trade area. Conflicting or inconsistent positions taken by U.S. officials in different forums are a source of confusion to our trading partners and frustrate the achievement of U.S. objectives. The existence of a structure of interagency committees, however elaborate, proves only that the battleground for policy debate in the government has been established and not that conflicting viewpoints have been resolved in the culmination of a coherent policy. Ambassador Dent and Secretaries Simon and Kissinger have testified that the process is working.

Once agreement in Washington is achieved, unambiguous statements of U.S. goals, objectives, and priorities must be communicated to U.S. negotiators "in the field." There must also be a clear decision on which issues will be negotiated in which forums in order to maximize U.S. bargaining leverage. In addition, it is equally important that in executing policy, the various agencies and departments coordinate and inform one another of progress in their individual areas of responsibility. Our chief negotiator in Geneva must be kept abreast of developments in the producer-consumer conferences in Paris, in the London Wheat Council, in the OECD, and in UNCTAD just as our representatives to those negotiations must be aware of developments in Geneva. Because these issues are interrelated, the management of trade policy must insure its execution in a coordinated manner.

An interesting example of an issue on which U.S. policy development and execution could be better managed today is the work on the OECD code of conduct for multinational corporations. This issue is not even perceived as a trade issue because it falls into the "investment" category. Nevertheless, it has important trade implications. U.S. access to foreign raw material supplies is almost exclusively obtained through multinational corporations. In addition, one key portion of the code deals with restrictive business practices in which trade actions are taken into account. These are both *trade* issues.

One aspect of the handling of this issue which particularly disturbs me is the fact that we are developing this code—planning to pledge (voluntarily) to agree to behave in certain ways—in the OECD, which is composed of industrialized countries, when we ought to be negotiating reciprocal commitments to behave in agreed ways with the developing countries (LDC's). Instead, we are conceding bargaining leverage before the real negotiation even begins. There seems to be no connection between what's going on in the OECD in Paris and the forums in which we engaged the LDC's on such issues.

Congress.—Insuring coordination of development and execution of a coherent trade policy is one role Congress can and must play as part of its oversight responsibilities. While Congress, through the exercise of its oversight function, can facilitate the development of a coherent trade policy, Congress also has the potential for making the achievement of a coherent trade policy more difficult rather than less. I am referring to the great number of Congressional committees and subcommittees, each seeking a "piece of the action," each with a jurisdiction potentially overlapping others, and each calling upon various elements of the executive branch to be responsible to it. Congress has the Constitutional authority to regulate trade policy; it, therefore, must organize itself in a manner to enable it to effectively exercise that responsibility. Congress must establish clearer lines of committee authority or provide for joint oversight to minimize conflicts and sharpen the focus of executive accountability. This is an essential step to insure that the nation will have a coherent trade policy.

Areas of Responsibility.—There are some areas where coordination between Congress and the executive is particularly important.

The first is sustaining public interest in, and support of, the multilateral trade negotiations in Geneva.

On the basis of our experience in past negotiations, we should not be surprised that there have been no agreements returned to Congress for approval to date. This is the nature of the negotiation process: substantial preparatory analysis and the resolution of procedural issues must take place before negotiators can begin to hammer out final agreements.

This process will not be a quick one. The goals established for the trade negotiations at the Rambouillet economic summit are certainly ambitious. I hope

hindsight proves they were realistic as well. However, the issues being negotiated in Geneva will not be resolved easily and the fact that they have survived previous negotiations gives testimony to their intractability. Arbitrary scheduling cannot assume higher priority than the careful, painstaking hammering out of agreements on the basis of which expanding, equitable trade can take place.

This process of "pre-negotiation" is now the focus of work in Geneva, and will be for at least the year to come. It will have an influence on the shape of the final agreements by determining what issues are included and how they are approached. For that reason, it is essential that public interest and participation in the negotiations be sustained. Advisory committee meetings and hearings such as this are useful tools to achieve that goal.

The second area where coordination is particularly important is the execution of the safeguard provision of the Trade Act. Here, an independent government agency, the International Trade Commission (ITC), is involved in addition to the Congress and the executive.

Once a domestic industry petitions the government for relief from injury from imports (remember, under this provision of our law, no foreign unfair trade practice is implied) the ITC must judge the case within the criteria established by the Trade Act, considering only the domestic situation on the industry sector in question.

If the ITC finds injury, the President must accept, modify, or reject the recommendation of the ITC. The President's responsibility is to take the total national economic interest into account, including, among other factors, the impact of his decision on consumers, on other industries, on overall U.S. efforts to promote our long-term international economic interests.

Should the President reject the advice of the Commission, Congress may override him. This role is appropriate for Congress in view of its Constitutional charge to set the nation's trade policy. However, the Act does not spell out the considerations which must guide Congress in its decision. Let me try.

This decision by Congress is as important an aspect of the evolution of a coherent, well-coordinated trade policy as any I have discussed today. The safeguard has a legitimate and needed function in trade policy, yet it must be exercised judiciously and with restraint. Before reviewing a President's decision to reject the advice of the ITC, Congress may want to convene hearings to fully consider the issue. Congress cannot artificially separate its power to override the President from its responsibilities to oversee the development and execution of a coherent trade policy.

The importance of this will become more clear as I discuss the second of the two management challenges confronting us. Let me turn to that now.

THE SECOND MANAGEMENT CHALLENGE

The second challenge is managing our day-to-day conflicts in such a way as to improve, rather than to preclude, opportunities to resolve the basic long-term problems which these conflicts reflect.

Mr. Chairman, earlier this winter, I wrote an article for the *New York Times* on this very theme. It expresses my views more fully than time permits me to elaborate them here today. I am attaching the article, entitled "U.S. Trade Policy: Appearances and Reality" to my statement.

Briefly, three elements are involved. The first is the maintenance of our commitments to our trading partners through international agreements, the integrity of which U.S. exporters depend upon for access to foreign markets. The second is the obligation of the government to provide domestic industries and workers relief from injury due to unfair foreign trade practices as well as to provide admittedly less competitive industries a respite to adjust to the pressures of international competition. The third is the necessity to sustain the interest of our trading partners in working with us in the various international forums such as the MTN, to solve longer term problems to reform the trading system, to promote increased trade, and to improve resource allocation.

The underlying dynamic of the Trade Act is the interplay of these three elements, which should enable diligent and imaginative trade policy practitioners to manage our day-to-day conflicts and still progress toward resolving basic long-term problems. These objectives can be made to be complementary.

The list below, relating day-to-day conflicts with long-term issues, illustrates my point.

Day-to-day conflicts	*Basic long-term issues*
1. DISC, VAT rebate in EC, export finance credits, and government in business.	1. The treatment of subsidies in international trade and the need for injury determinations prior to countervail.
2. U.S. import relief criteria and proliferating voluntary export restraint demands.	2. Multilateral safeguard.
3. EC common agricultural policy; U.S.-Canada automotive agreement.	3. Regional or sector intergration versus global liberalization.
4. Chicken war	4. Need for mechanism for dispute settlement other than retaliation.
5. Arab oil embargo (producer cartels) and U.S. soybean embargo (export restrictions).	5. Access to supplies.
6. United States, EC, Japan exchange accusations regarding use of industrial standards to block imports.	6. Product standards code.

I could discuss several instances where the Trade Act will compel policy decisions in the U.S. government and thus facilitate the international negotiation of both newly emerging issues and old issues that have never been faced head-on and as a result, bring trade policy under attack. Let me briefly elaborate on one such issue from my list.

The subsidies issue is one in which the interplay between day-to-day conflicts and attempts to resolve long-term issues is complementary. Subsidies were found by the U.S. Treasury Department to have been paid upon the production or export of European dairy products and canned hams, the remedy for which is the application of countervailing duties. A Treasury Department determination in each case was required as a result of changes the Trade Act made in our countervailing duty statute. However, due to a special provision in the Trade Act, the Secretary of the Treasury waived the application of the countervailing duty for the period of the trade negotiations.

Hopefully, problems relating to a much wider range of products than canned hams and dairy products will be resolved by the negotiation of an international code on subsidies in the MTN. And since the Treasury determination was not based on a finding of injury to the U.S. industries concerned, our trading partners will want to couple any resolution of the subsidies issue to the resolution of another long-standing issue between us, the absence of an injury test in the U.S. countervailing duty law.

This is a good example of the successful management of short-term conflicts by using them to build a consensus for the resolution of long-term issues. Parties to the negotiation will be spurred on by the threat of the ultimate application of countervailing duties but aided in coming to agreement by the demonstration of U.S. good will in the granting of the waiver.

Mr. Chairman, the Trade Act is responsible for bringing many of these issues to a head and thereby complicating the task of managing our day-to-day policy. Yet in forcing us to acknowledge the seriousness of these conflicts, it also gives us an incentive to seek solutions to the basic issues from which these conflicts arise. The Multilateral Trade Negotiations in Geneva are the ideal forum for dealing with the basic issues. Meanwhile, our work is cut out for us at home. I am confident that we have the managerial resources and talent to meet this dual challenge.

[From the New York Times, Dec. 7, 1975]

U.S. Trade Policy—Appearance and Reality

(By W. D. Eberle)

A number of people have argued this year that United States trade policy is turning increasingly protectionist and that the Trade Act of 1974, the new legislative foundation for our trade policy, carries the potential for implementing that protectionism.

Commentators have based this conclusion on the rash of complaints—which they suggest have been encouraged by the Trade Act—filed in recent months against import competition by American industries and labor. This alleged protectionism has led some of our trading partners most notably in Europe, to come to question the utility of the multilateral trade negotiations, which will resume Tuesday in Geneva. As a firm believer in a more open and equitable trading system, and as one of the architects of the Trade Act, I hope that these fears can be dispelled placing recent developments in perspective.

The Trade Act of 1974 pursued two fundamental goals among its several objectives. First, the act gave the President a mandate to enter into negotiations with other countries to lower trade barriers and to reform the rules of the international trading system. Second, the act reformed domestic trade-related law so our Government could better respond to the dislocations in domestic industry and labor that expanding trade can sometimes cause, and to unfair, illegal or unjustifiable trade practices in which other countries may engage.

A major objective in the minds of all participants in the current trade negotiations is the necessity for establishing new parameters for acceptable government and business behavior in international commerce by revising the rules governing trade. Enactment of the Trade Act assured United States participation in this effort.

The Government recognized that a policy of expanding international commerce depended upon broad domestic support for that policy. That support had eroded to some extent in the 1960's. Important segments of organized labor and the business community had reached the conclusions that temporary relief from injurious import competition was virtually inaccessible and that grievances over allegedly unfair import competition would not be given full or timely consideration in Washington.

The Trade Act amended United States law to create effective grievance procedures, including time limits within which Government decisions must be made. The functioning of this mechanism will not only help restore domestic support for our liberal trade policy but also will encourage our trading partners to be more responsive to proposals for establishing new guidelines for international trade during the negotiations.

The Trade Act, in fact, embodies two traditions basic to the American system of government: separation of governmental powers and an arm's length (and often adversary) relationship between business and government.

The Congressional mandate allowing the President to enter into trade negotiations and the grievance procedure Congress wrote into the new law are fully consistent with the responsibilities of Congress under the Constitution. It is, after all, Congress, not the executive branch, to whom authority to "regulate commerce with foreign Nations" is delegated. Thus, one of the basic tenets of our Republic prevents the President from exercising the administrative flexibility in implementing trade policy which other governments enjoy.

Likewise, our tradition of business-government relations inhibits the quiet development of a consensus among business and Government leaders on how to treat allegedly unfair imports that is the normal practice in other countries. Our system forces the resolution of such questions into open, quasi-judicial administrative proceedings in which the Government hears and weighs the arguments of contending interests and reaches decisions based upon the application of specific criteria laid down in the law. It is not infrequent that the judicial branch of government is ultimately required to settle such disputes.

These traditions, laws and administrative procedures to which they have given rise pertain only to the United States among the world's major trading nations. They have been one cause of many of the misunderstandings between America and its trading partners over United States trade objectives.

Another cause of these misunderstandings and the allegations of a protectionist shift in United States trade policy has, of course, been the recession. When national economies prosper and international economic transactions grow, industries and governments can be pleased with the improvement in their net position and show less concern for the relative distribution of the benefits of this prosperity among nations. Even in good times, however, conflicts can, and do, occur.

The number and intensity of these conflicts increases, however, in periods of economic decline when countries' net positions are improving at a slower rate or actually declining. As the rate of world trade precipitously declined in the past 18 months, the issue of the relative distribution of the gains from trade became

more salient to governments, producers and workers in many countries. Governments came under pressure to curb imports and expand exports. Incipient conflicts that had been smoothed over by growth erupted.

It is alleged that the response to the recession in the United States has been excessively dramatic. Since the enactment of the Trade Act with its revised procedures and criteria for coping with imports, more than 50 complaints involving over $13 billion worth of United States imports—that's more than 12 percent of our total imports and 20 percent of our imports from the European Economic Community last year—have been under investigation by Federal Government agencies.

Foreign officials have worn a path to the State Department in recent weeks carrying protests, both official and unofficial. Two cases in particular have generated vigorous complaints from our trading partners.

These were an antidumping proceeding brought by the United Auto Workers and Representative John H. Dent, Democrat of Pennsylvania, against foreign automobiles and a countervailing duty case brought by the United States Steel Corporation over the rebate of value-added taxes on European steel exports to the United States.

Such investigations draw little attention when they are triggered in small countries, but when the world's largest and most open market appears to be preparing to close its doors to imports, a crisis of major proportions results.

So far, despite the large volume of complaints, few restrictive actions have been taken by Washington. As of last month, 15 of the more than 50 cases being investigated had been concluded. Of these, only one finding, covering some $5 million worth of Polish golf carts, has been decided against foreign interests.

This experience compares favorably with our Government's traditional record in considering such complaints and hardly makes a case for protectionism. From the end of World War II to the passage of the Trade Act of 1974, there were 169 petitions for relief from import competition under the so-called escape clause and only 21 decisions to grant relief. In that same period there were 595 complaints of dumping and only 67 findings of dumping.

This result is not due to any policy on the part of the Administration to be either more or less protectionist; the Trade Act does not permit that kind of discretion. Rather, it is the routine exercise of administrative responsibility to determine whether there is evidence of unfair foreign practices. The lessons to be learned from this are that grievances from business now bring prompt Government decisions and that such complaints do not indicate changes in the Government's trade policy.

We must recognize both the difficulties our trading partners encounter in trying to understand our system and the protectionist pressures to which the recession has given rise in all countries. Despite these obstacles, we must work together to manage the international economy. We can succeed, but success requires the creation of mutual confidence and a will to cooperate that is ill-served by excessive complaints and escalating rhetoric.

The rhetoric in which governments engage serves a useful function as a reminder of the pressures that everyone faces in a recession. Beyond a certain point, however—and we have most assuredly passed it—such rhetoric becomes counterproductive. The place to focus our attention is not on an exchange of accusations, thus artificially inflating the importance of strains in trading relations and complicating their resolution, but on solutions to the basic causes of the strains.

The day-to-day problems must be understood and managed but it is important that we do not let the business of coping with these immediate problems dominate our thinking and distract us from dealing with the larger, systemic issues that negotiators confront in the multilateral trade negotiations, in the International Energy Agency, in the International Monetary Fund, and in the United Nations.

If we examine the daily complaints about trade, we can see they are rooted not only in the worldwide recession but also in a number of basic issues being addressed in the main negotiations:

The United States import-relief law may be too permissive, yet negotiation on reform of the international escape clause remains stalled.

Subsidies and countervailing actions are a constant source of accusations and recriminations, yet an international code on subsidies is still wishful thinking.

Access to supply is a needed adjunct to access to markets, yet no dialogue to start remedying this problem has begun.

Many nations complain of Third World attempts to raise prices unilaterally while the result of these complaints is to forestall discussion on the availability of Third World commodities and on improved access by less-developed countries to the markets of the industrialized world.

The rules of the monetary system are inadequate to service the trade system, yet progress is held up here as well.

The point must be clear: The solutions to these broader issues carry with them many of the remedies for the immediate problems we confront. Many short-term issues could be managed better if there were a real political will among all nations to progress in the trade negotiations. The people of the world need to see their leaders at work on issues that are leading to over-all improvements in the system, and in particular, to the solution of long-standing problems. Further delays in solving the basic international economic issues—trade, monetary and others—will not only stir up more short-term problems but will create more world tension.

Managing the day-to-day strains while negotiating simultaneously to improve the trade system will enable us to build a mutually reinforcing confidence that we need to manage the international economy and that this will mean a better world. Concrete results in providing more open access to supplies and markets will help keep economies operating efficiently and with less inflation. Moreover expanded trade will create more jobs and a more open and balanced trading system will spread the benefits of world trade more fairly.

A better world is within our reach. The Administration understands these issues, but its takes more than one nation to implement them. I believe simultaneous negotiation is the direction in which world leaders should be moving with all possible speed.

W. D. Eberle served as the President's Special Trade Representative in the Nixon and Ford Administrations and as executive director of the Council for International Economic Policy. He is now president of the Motor Vehicle Manufacturers Association.

The CHAIRMAN [presiding]. We will call then Mr. David Dawson.

Senator ROTH. It is a great pleasure to have you here today, Mr. Dawson, as adviser to the U.S. chemical industry.

Mr. Dawson is an old friend of mine and has been a leader of the chemical industry for many years in the State of Delaware.

As you know, you are invited to either read your statement in its entirety or summarize it if you care to.

STATEMENT OF DAVID H. DAWSON, DIRECTOR, Du PONT CO.

Mr. DAWSON. Thank you, Senator Roth. I will make every effort in view of the hour to not waste your time.

As you know, and I guess the public knows, that in testifying on the Trade Reform Act, we and others urged more effective utilization of industrial expertise.

Your committee responded to that by providing that this be done.

Now you are having these overview hearings in large part to estimate the success with which that has been accomplished. I would like to address myself principally to my own reaction to what has been done to date.

There is no doubt at all in our minds the advisory committee structure, which has been devised, is a large and important advance over previous practices.

The opportunity afforded to industry to make inputs to the executive branch regarding individual industry positions on trade policy and objectives to be sought in the multilateral trade negotiations is reasonably close to meeting the intent of the Congress.

One should, perhaps, be loath to criticize. But like any new procedural device, there are almost inevitably flaws which mitigate against

its full usefulness. I believe that some of these should be mentioned:

1. A high degree of secrecy has been required. Although some of the restrictions are due to the need to prevent disclosure to foreign nations, others have been provided due to domestic law and rigid, we believe, interpretations thereof.

Some of us in industry protested the restrictive regulations in the early stage of the committee organizations, and some useful modifications resulted. Nonetheless, the rigidity of the requirements continues to be restrictive and we believe to limit the usefulness of these procedures.

2. The task of determining the scope of each of the 27 ISAC's which have been created was obviously extremely difficult, and probably no completely satisfactory solution could have been devised.

However, one of the consequences is that some of the groupings are so heterogeneous that a clear analysis of critical matters such as "import sensitivity" becomes extremely difficult.

At the other hand, we have the large and complex chemical industry represented in four separate groups, three of them associated with other distinctly different industries.

Since the committees themselves are not permitted to make cross comparisons and are not privileged to know the conclusions of other committees, some confusion is inevitable.

3. Selection of the personnel of these committees was also difficult. Although I would applaud as effective most of the work of the Commerce people, it was made more difficult by emphasis on developing the best balanced committees rather than the most knowledgeable and effective committees.

When compounded with Government insistence on recording all industry inputs, without properly weighting the knowledgeability of their source, clarity and accuracy frequently were sacrificed.

4. Finally, as a consequence of the complexity of the structure devised, the attempt to obtain and record all information available, some reports are so large and detailed that their usefulness to any negotiator must be extremely limited.

Nevertheless, I repeat, great progress has been made in devising and implementing the scheme for obtaining from industry useful inputs on trade policy and objectives to be sought in the Geneva negotiations.

Probably more important to the success of negotiations will be the input supplied to industry by government and industry's reactions back to government, which Mr. Eberle just referred to.

These are already important in the planning stage and they will become increasingly critical as negotiations proceed. It is still too early to estimate the success of the existent committee structure in these efforts.

It is noteworthy that it is in this area that our foreign competitors have been, in the past, most successful. We believe that they are continuing similar procedures, which they used in the past and will again have more effective industry inputs than our negotiators. I have been informed that our Government has been utilizing similar devices to those of foreign governments in our negotiations on commodity agreements.

Particularly in the final stages of the Geneva negotiations, this type of consultation will be critically important in determining the success of our negotiations.

At this early stage it is improper to conclude that our negotiators will not find means to employ industrial knowledge and advice as fully as our negotiating opponents.

I must, however, express concern that the existent committee structure will prove to be too unwieldy to be as fully useful as I believe the Congress wished.

For example, meetings of many of these committees may involve some 15 to 40 committee members and 15 to 20 Government officials.

Some meetings have been held with several hundred committee representatives present. The Government position papers are almost, perforce, presented only in summary form and the opportunity for developing a clearly defined industry point of view is obviously limited.

How our negotiators will obtain through these mechanisms clear understanding of industry's viewpoint on questions of what to give for what received, which is obviously at the heart of the negotiations, is still unclear to me.

I am convinced that Ambassador Dent and his staff are cognizant of these problems, and of the need to be fully responsive to the wishes of the Congress. To accomplish this may, however, require different procedures than those which have thus far been provided.

I should like to speak more briefly to several aspects of our foreign trade policies with particular reference to their administration as the Geneva negotiations get underway.

Let me qualify my position in these matters by emphasizing that the private sector is privy to little of the planning, and to almost none of the negotiations now underway. But we feel, nonetheless, constrained to urge your investigation and consideration of several areas which cause us concern.

First is the matter of the steps to be taken toward GATT revision, as provided in section 121. The act did not require that the revisions suggested be negotiated before other authorized negotiations.

It simply said that such action should be taken "as soon as practical." But it seems obvious to us that in view of the limitations which GATT rules place on our freedom to negotiate, as clearly portrayed in the items listed in section 121, we should be seeking, and perhaps insisting, on negotiating such revisions before, and not after, conclusion of the negotiations now underway.

Two instances might be cited to emphasize the importance of this tactic. Both of them have been referred to earlier today.

Any negotiation of subsidies undertaken under rules that place "value added taxes" out of bounds seems to us to be almost futile, an assumption we think is borne out by the inclusion of item (a)5 in your section 121.

The other instance is the question of the extent of tariff concessions which our country is entitled to in return for the expansion of the Common Market.

Our industry, and many others, felt that the concessions granted us in the negotiations following the entry of the United Kingdom, Denmark, and Ireland into the EEC were grossly inadequate.

We were informed, however, that GATT rules made impossible the obtaining of greater concessions. Similarly, the trade agreements with nonmembers—Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland—with the EEC will importantly decrease our relative freedom of access to these markets compared to our competitors in the EEC; yet compensatory concessions may not be obtainable under the GATT rules.

If one were permitted a cynical appraisal, one could opine that the GATT rules are all too often peculiarly permissive to the expansion of the in-house protectionism of the Common Market.

Our second concern is how our negotiations can pursue the overall negotiating objective, as defined in section 103, in view of practices and techniques firmly established in past negotiations and GATT tradition.

These have required that a fair exchange be determined by equivalence of concession from the trade status quo at that time.

Section 103 of the act provides that the negotiating objectives shall be "to obtain more open and equitable market access." We read this to mean that our negotiators seek to end with "equitable market access" or as close thereto as possible.

Thus, if there is not now "equitable market access" between two competing countries, major concessions must be made by that party with the greater access to foreign markets open to them.

How, then, equivalence of concession can be obtained is unclear to us unless concessions in nontrade areas become involved in the trade negotiations.

A third concern relates to our ability to incorporate into the Geneva negotiations, and perhaps into the GATT rules, the concept of, and progress in obtaining freedom of access to raw materials and supplies, as well as to markets, as provided in section 108 of the act.

I need not remind you of the great disturbance created in the chemical industries throughout the world by the oil embargoes.

We have similar exposure almost as serious from the foreign control of certain other raw materials. We are confident that the Government is equally concerned and is pursuing the objective of section 108. We fear that their success to date has been limited and we feel perhaps this area deserves a higher priority than it seems to have been accorded.

The fourth, looming problem which we would like to call to your attention is that of conforming to section 104, "sector negotiating objective". Public information indicates that our trading partners are rigid in their opposition to our Government's proposals for industrial sectors as specified on pages 78 and 79 of your committee's report, 93–1298, on the Trade Reform Act.

We are concerned also with the reports in the press of statements of our Government officials, intimating a willingness to make important industrial concessions in exchange for an easing of the EEC's rigidity on its agricultural policy.

We are reassured in large part by the provisions of section 104(d) of the act requiring the President to submit to the Congress an analysis of the results of the negotiations by product sectors.

We hope that the Congress will share in the President's determination as to whether competitive opportunities in each product sector

will be significantly affected, and that both the President and the Congress will seek, and heed, the advice of the affected industry in making such a determination.

Finally, I would like to turn to the generalized system of preferences, which was also referred to earlier, title V, and the problems which have arisen.

I must regretfully admit that we, and most other industries, did not foresee these, and consequently, failed to comment regarding title V when this committee was considering the bill.

It was only after plans for its administration were formulated that we perceived some of the consequences and became aware of the extent to which it weakened American industry relative to other industrialized nations.

This has basically arisen, we believe, from the rigidity provided in the law or in its interpretation whereby all qualified developing countries are treated the same as far as tariff-free admission is concerned, and are treated identically in the eligible commodities available to them.

Although, certainly, the many designated developing countries are all "developing", it is clear that they also vary greatly in the extent of their development, and in the degree of development within a single country in various industries.

It, therefore, seems basically wrong not to allow for the inherent differences between, for instance, Mexico and Nepal, or Israel and Upper Volta.

Let me assure you that we are in full agreement with the objectives of title V, and the need for us, as well as for all other industrialized nations to lend assistance in accelerating developments of those poorer nations.

Clearly, our relations with the Third World and the developing nations are exceedingly complex, and trade policy must be only a part of broader policies.

At the same time I believe we must look at the procedures which have been devised by our competitors in Europe and the Far East. We believe that the EEC's equivalent device has been devised to protect their economies from harmful effects from their GSP, and, presumably, without loss of development and the consequent goodwill of the Third World.

We would urge, therefore, that this committee examine the administration of title V in light of such comments, and that, when and if further legislation on trade matters is considered, careful and extended study of the present and alternative GSP devices be taken.

Thank you.

Senator ROTH. Thank you, Mr. Dawson.

If I understand one of the principal thrusts of your testimony is that it appears that the Europeans are doing a better job of negotiating their interests than we are our interests.

Mr. DAWSON. We don't know that, of course, Senator, but we do believe that they have mechanisms which are basically superior to ours.

Senator ROTH. That is right, they put themselves in a position where they are better able to protect their interests.

One question I would like to ask you: In the first section, you discuss, in the first subsection, secrecy.

Do I correctly understand you to say that the secrecy requirements of our country are interfering with the efficiency of these committees?

Mr. DAWSON. I believe that it is.

Senator ROTH. It is just too cumbersome?

Mr. DAWSON. I believe that it is.

The fact is that a committee representing an industry of $80 billion, such as the chemical industry, had 25 representatives on that ISAC, makes it impossible that they have all the necessary information and yet they are severely limited in their ability to discuss with other people the problems which are coming before them and to seek other information and advice.

They must work on the basis of their own knowledge and inputs and this is to me, a very severe limitation.

Please don't ask me what I would do about it. I don't know enough about the laws that restrict them, but nonetheless they act in such a way that again the negotiators for the other countries have a built-in advantage.

Senator ROTH. Well, this concerns me from a number of standpoints, as one who felt very strongly that we should have direct input not only from industry but also from labor and agriculture in these negotiations. It sounds to me as though we have developed a very complicated procedure, time-consuming, cumbersome, and which doesn't really supply the exchange of information and input that is needed when you really get down to the hard negotiations.

Mr. DAWSON. Senator Roth, there is no question that it is cumbersome to my mind and I think that the STR people would agree. It will be difficult. I don't think they are convinced that it will be adequate in providing them information.

I think most people in industry, at least, feel on the basis of experience to date that it probably will not be adequate.

Senator ROTH. Let me ask you, if I may, your understanding of this. When we get to the hard negotiations, and in the closing stages when I suppose some of the tough compromises are going to be made, it is my understanding that the Europeans have right on the scene their advisers from the various interested groups.

Yet, if I understand your testimony we have these large committees, but will they have any representation right on the scene?

Mr. DAWSON. I don't know, and I am not sure that our planning has gotten far enough along to determine how it is going to be answered.

If they must work along the lines of the present mechanism you will be consulting for the chemical industry, for example, 4 committees of 10 to 25 people each.

I don't see how you could possibly, under stresses of time particularly in the negotiating period, be able to achieve the essential input by that sort of a committee consultation.

Senator ROTH. Am I not correct, was it not that lack of information that caused some of the compromises in the Kennedy Round negotiations that turned out to affect industry so adversely?

Mr. DAWSON. That is my understanding, yes.

Senator ROTH. I think you raise a valid point that it is worth further investigation. I can only speak for one Senator but at least it was my

intent that our chief negotiators have full and adequate information from all the interested parties on the spot when we came to that critical stage in the negotiations.

Perhaps it cannot be done this way but I think you raise a very valid point.

I must say that as far as GATT is concerned, it has always been my hope that we would negotiate those changes first.

Mr. DAWSON. I am not unaware of the difficulties that that would present, Senator Roth, but I must say I am a little puzzled why this has not been our negotiating ploy.

Senator ROTH. Yes, I agree with that.

Well, because of the lateness of the hour, I won't ask you any further questions.

It may be that at a subsequent time as we get into consideration of these hearings we will want to come back to your group.

Mr. DAWSON. We would be delighted to come back any time.

Senator ROTH. I appreciate your waiting until the mid-day time here to testify, but you know how Congress functions as well as do I.

Thank you, Mr. Dawson.

Mr. DAWSON. Thank you.

[The prepared statement of Mr. Dawson follows:]

STATEMENT BY DAVID H. DAWSON, CHEMICAL INDUSTRY TRADE ADVISOR

My name is David H. Dawson. I am a Director of the du Pont Company, and since retirement two and one-half years ago as a Senior Vice President of that company, I have acted as advisory to the Chemical industry on trade matters.

My efforts are on behalf of five chemical trade associations. These are the Manufacturing Chemists Association, the Synthetic Organic Chemical Manufacturers Association, The Society of the Plastics Industry, the Dry Color Manufacturers Association and The Fertilizer Institute.

In testifying before this Committee during its consideration of the Trade Reform Act, I emphasized the importance attached by the chemical industry to effective utilization of industry advice and consultation. I should like to repeat the statement I made at that time:

"We urge that provisions be included which will insure full employment of industry advice and consultation and full consideration of industry recommendations during the negotiations. We continue to feel, as we have in the past, that the more effective industrial consultations provided other negotiating governments, particularly Japan and the Common Market countries, have been of inestimable value to their negotiators and as a consequence, to their industries."

Your Committee, in drafting the Trade Reform Act gave proper consideration to this and similar requests from industry and required that mechanisms for consultation with the private sector be provided. Subsequently, the Executive Branch devised elaborate committee structures in an effort to meet these requirements of the Act.

Today, I wish to address myself principally to these efforts and the apparent results to date. Obviously, I can speak only to the industry segments, since I have no knowledge of the results in the Agriculture and Labor sectors.

There can be no doubt that the Advisory Committee structure devised is a large and important advance over previous practices. The opportunity afforded to industry to make inputs to the Executive Branch regarding individual industry positions on trade policy and objectives to be sought in the Multilateral Trade Negotiations is reasonably close to meeting the intent of the Congress.

One should, perhaps, be loath to criticize. But like any new procedural device, there are almost inevitably flaws which mitigate against its full usefulness. I believe that the more important of these are the following:

1. A high degree of secrecy has been required. Although some of the restrictions are due to the need to prevent disclosure to foreign nations, others have been provided due to domestic law and rigid interpretations thereof. Some of us in

industry protested the restrictive regulations in the early stage of the committee organizations, and some useful modifications resulted. Nonetheless, the rigidity of the requirements continues to be restrictive and to limit the usefulness of the procedures.

2. The task of determining the scope of each of the twenty-seven ISAC's which have been created was obviously extremely difficult, and probably no completely satisfactory solution could have been devised. However, one of the consequences is that some of the groupings are so heterogeneous that clear analysis of critical matters such as "import sensitivity" becomes extremely difficult. At the other end, we have the large and complex chemical industry represented in four separate groups, three of them associated with other distinctly different industries. Since the committees themselves are not permitted to make cross comparisons and are not privileged to know the conclusions of other committees, some confusion has been inevitable.

3. Selection of the personnel of these committees was likewise difficult. Although I would applaud as effective most of the work of the Department of Commerce people, it was made more difficult by emphasis on developing the best balanced committees rather than the most knowledgeable and effective committees. When compounded with government insistence on recording all industry inputs, without properly weighting the knowledgeability of their source, clarity, and frequently accuracy, were sacrificed.

4. Finally, as a consequence of the complexity of the structure the attempt to obtain and record *all* information available, some reports are so large and detailed that their usefulness to any negotiator must be limited.

Nevertheless, I repeat, great progress has been made in devising and implementing the scheme for obtaining from industry useful inputs on trade policy and objectives to be sought in the Geneva negotiations. Additionally, there is developing increased use by STR personnel of available industry experts through informal contacts.

Probably more important to the success of negotiations will be the inputs supplied to industry by government and industry's reactions back to government. These are already important in the planning stage, and will become increasingly critical as negotiations proceed. It is still too early to estimate the success of the existent committee structure in these efforts. It is noteworthy that it is in this area that our foreign competitors have been, in the past, most successful. We believe that they are continuing similar procedures, and will again have more effective industry inputs than our negotiators. I have been informed that our government has been utilizing similar devices in our negotiations on commodity agreements. Particularly in the final stages of the Geneva negotiations, this type of consultation will be critically important.

At this early stage it is improper to conclude that our negotiators will not find means to employ industrial knowledge and advice as fully as our negotiating opponents. I must, however, express concern that the existent committee structure will prove to be too unwieldy to be as fully useful as I believe the Congress wished. For example, meetings of many of these committees may involve some 15 to 40 committee members and 15 to 20 government officials. Some meetings have been held with several hundred committee representatives present. The government position papers are almost, perforce, presented only in summary form and the opportunity for developing a clearly defined industry point of view is obviously limited. How our negotiators will obtain through these mechanisms clear understanding of industry's viewpoint on questions of "what to give for what received"—the heart of any negotiation—is still unclear.

I am convinced that Ambassador Dent and his staff are cognizant of these problems, and of the need to be fully responsive to the wishes of the Congress. To accomplish this may, however, require different procedures than those now provided.

I should like to speak more briefly to several aspects of our foreign trade policies with particular reference to their administration as the Geneva negotiations get underway. Let me qualify my position in these matters by emphasizing that the private sector is privy to little of the planning, and to almost none of the negotiations now underway. But, we feel, nonetheless, constrained to urge your investigation and consideration of several areas which cause us concern.

First is the matter of the steps to be taken toward GATT revision, as provided in sec. 121. The Act did not require that the revisions suggested be negotiated before other authorized negotiations—simply that such action be taken "as soon

as practical." But it seems obvious to us that in view of the limitations which GATT rules place on our freedom to negotiate, as clearly portrayed in the items listed in sec. 121, we should be seeking, and perhaps insisting, on negotiating such revisions before, and not after conclusion of the negotiations now underway.

Two instances might be cited to emphasize the importance of this tactic. Any negotiation of subsidies undertaken under rules that place "value added taxes" out of bounds seems to us to be almost futile,—an assumption we think is borne out by the inclusion of item (a)5 in sec. 121.

The other instance is the question of the extent of tariff concessions to which our country is entitled in return for the expansion of the Common Market. Our industry, and many others, felt that the concessions granted us in the negotiations following the entry of the U.K., Denmark and Ireland into the EEC were grossly inadequate. We were informed, however, that GATT rules made impossible the obtaining of any greater concessions. Similarly, the trade agreements of non-members (Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland) with the EEC will importantly decrease our relative freedom of access to these markets compared to our competitors in the EEC; yet compensatory concessions may not be obtainable under the GATT rules. If one were permitted a cynical appraisal, one could opine that the GATT rules are all too often peculiarly permissive to the expansion of the "in-house" protectionism of the EEC.

Our second concern is how our negotiators can pursue the "Overall Negotiating Objective" as defined in sec. 103, in view of practices and techniques firmly established in past negotiations and GATT tradition. These have required that a fair exchange be determined by "equivalence of concession" from the trade status quo. Sec. 103 of the Act provides that the negotiating objective shall be "to obtain more open and *equitable market access*." We read this to mean that our negotiators seek to end with "equitable market access"—or as close thereto as possible. Thus, if there is not now "equitable market access" between two competing countries, major concessions must be made by that party with the greater access to foreign markets open to them. How, then, "equivalence of concession" can be obtained is unclear to us unless concessions in non-trade areas become involved.

A third concern relates to our ability to incorporate into the Geneva negotiations, and perhaps into the GATT rules, the concept of, and progress in obtaining freedom of access to raw materials and supplies, as well as to markets, as provided in sec. 108 of the Act. I need not remind you of the great disturbance created in the chemical industries throughout the world by the oil embargoes. We have similar exposure from the foreign control of certain other raw materials. We are confident that the government is equally concerned and is pursuing the objective of sec. 108. We fear that their success to date has been limited. Perhaps this area deserves a higher priority than it seems to have been accorded.

The fourth looming problem which we would like to call to your attention is that of conforming to sec. 104, "Sector Negotiating Objective." Public information indicates that our trading partners are rigid in their opposition to our government's proposals for industrial sectors as specified on pp. 78 and 79 of your Committee's report (No. 93–1298) on the Trade Reform Act.

We are concerned also with the reports in the press of statements of our government officials, intimating a willingness to make important industrial concessions in exchange for an easing of the EEC's rigidity on its agricultural policy. We are reassured in large part by the provisions of 104(d) of the Act requiring the President to submit to the Congress an analysis of the results of the negotiations *by product sectors*. We hope that the Congress will share in the President's determination whether competitive opportunities in each product sector will be significantly affected, and that both the President and the Congress will seek, and heed, the advice of the affected industry in making such a determination.

Finally, I would like to turn to the Generalized System of Preferences (title V) and the problems which have arisen. I must regretfully admit that we, and most other industries, did not foresee these, and consequently, failed to comment regarding title V when this committee was considering the bill. It was only after plans for its administration were formulated that we perceived some of the consequences and became aware of the extent to which it weakened American industry relative to other industrialized nations. This has basically arisen from the rigidity provided in the law (or in its interpretation) whereby all qualified

"developing countries" are treated the same as far as tariff free admission is concerned, and are treated identically in the eligible commodities available to them.

Although, certainly, the many designated developing countries are all "developing", it is clear that they also vary greatly in the extent of their development, and in the degree of development within a single county in various industries. It, therefore, seems basically wrong not to allow for the inherent differences between, for instance, Mexico and Nepal, or Israel and Upper Volta.

Let me assure you that we are in full agreement with the objectives of title V, and the need for us, as well as all other industrialized nations to lend assistance in accelerating these developments.

Clearly, our relations with the Third World and the developing nations are exceedingly complex, and trade policy must be only a part of broader policies. At the same time, we must look at the procedures which have been devised by our competitors in Europe. We believe that the EEC's equivalent device has been devised to protect their economies from harmful effects from their GSP,—and, presumably, without loss of development and the consequent goodwill of the Third World.

We would urge, therefore, that this Committee examine the administration of title V in light of such comments, and that, when and if further legislation on trade matters is considered, careful and extended study of the present and alternative GSP devices be undertaken.

Senator ROTH. The committee will adjourn and resume these hearings at 9:30 tomorrow morning.

[Whereupon, at 12:51 p.m., the committee recessed to reconvene at 9:30 a.m., Thursday, February 5, 1976.]

OVERSIGHT HEARINGS ON U.S. FOREIGN TRADE POLICY

THURSDAY, FEBRUARY 5, 1976

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

The committee met at 9:55 a.m., pursuant to recess, in room 2221, Dirksen Senate Office Building, Senator Carl T. Curtis presiding.

Present: Senators Long, Gravel, Curtis, Fannin, and Packwood.

Senator CURTIS. The committee will come to order.

We are delighted to have as our first witness today Mr. Lee Morgan, president of the Caterpillar Tractor Co.

Mr. Morgan, we welcome you to the witness chair. The United States has an ever-increasing involvement in foreign aid. It is important that we have all the facts and legislation just as wisely as possible with reference thereto. We know you can make a contribution.

We are delighted to have you here. Please proceed in your own way.

STATEMENT OF LEE L. MORGAN, PRESIDENT, CATERPILLAR TRACTOR CO.

Mr. MORGAN. Thank you, Mr. Chairman.

With your permission I would request that my full statement be placed in the record and that I be allowed to summarize the contents of that presentation.

Mr. CURTIS. Without objection it is so ordered.

Mr. MORGAN. Thank you for that, Mr. Chairman, and thank you for extending me this opportunity to discuss Caterpillar Tractor's views on general U.S. trade policy and the multilateral trade negotiations of GATT.

As you may know, Caterpillar and its subsidiaries are engaged in the manufacture and sale of earthmoving, construction, and materials-handling machinery and equipment around the world. Other products include diesel and natural gas engines.

We manufacture at 14 facilities in the United States and at 13 facilities in other countries. During 1975 our consolidated sales were $4.96 billion of which $2.83, or 57 percent, occurred outside the United States. Of the foreign sales $1.9 billion were exports from the United States.

Based on these export figures, we believe that over 29,000 Caterpillar employees in the United States are dependent upon exports for their jobs.

Our contribution to a favorable balance of payments in 1975—consisting of both payments for exports as well as remittances for earnings abroad—was $1.7 billion. In the last decade, the company has contributed a total of $8.4 billion to a favorable U.S. balance of payments.

The company and its employees have a very substantial stake in continued progress toward the worldwide freer flow of commerce. The reciprocal lowering of trade barriers will benefit our facilities around the world, certainly including those in this country.

In discussing the trade negotiations and other issues of international economic policy, I would like to address the following subjects:

1. What we believe to be the main goals of the GATT negotiations;
2. Problems of sectoral negotiations;
3. Current issues in the East-West trade; and
4. Tax Reform.

MAIN GOALS OF THE NEGOTIATIONS

Based on an exporting experience that goes back to the start of this century—and based on a rising amount of foreign investment, beginning in 1950—Caterpillar strongly supports U.S. efforts aimed at continuing long-term progress toward freer trade. This progress has been a major factor in postwar prosperity among GATT member states.

We recommend that, as this committee conducts hearings and authors legislation, it aims at achievement of three interrelated goals, which express the philosophy of the Trade Act. Those goals are:

1. The elimination or reduction of tariff and nontariff barriers (with the provision of reasonable and controlled safeguards against market disruption).
2. The guaranteeing of free access to supplies as well as to markets.
3. Recognition of the special needs of developing countries, controversy over which has, in many cases, harmed relations between countries which are industrialized, and those which are not.

REDUCTION OF TARIFF AND NONTARIFF BARRIERS

Concerning tariff reductions, we estimated in 1975 that such reductions would increase our exports from this country by $83 million annually. This is a conservative estimate. It is based only on products and sales opportunities for which we could reasonably quantify the favorable impact of substantial duty reductions.

Nontariff barriers have increased in relative significance as tariff rates have declined. Further, there has been an increasing tendency to use NTB's because they are beyond adequate control of GATT regulations.

We estimated in 1975 that elimination of NTB's could add an additional $57 million to our company's annual exports.

FREE ACCESS TO SUPPLIES AND MARKETS

Regarding the second goal of guaranteeing free access to supplies as well as to markets, Caterpillar commends this committee for its initiative in directing U.S. negotiators to undertake to seek an agreement on access to vital supplies.

Recent headline events on the oil embargo, grain, and soybean

"shortages," unprecedented foreign purchases of scrap iron and timber, are symptomatic of a broad resource problem. Unreasonable export controls by this country may result in retaliatory controls by others. Careless use of import controls could result in the more rapid consumption of domestic sources while depriving other nations of dollars to buy American-made goods.

The only rational choice is one of international cooperation, rather than one of confrontation regarding access to supplies and markets.

RECOGNITION OF SPECIAL NEEDS OF DEVELOPING COUNTRIES

The third goal we recommend is recognition of special needs of developing countries. Much of the current world concern over the trade negotiations involves an equitable sharing of wealth with developing countries. Thus the issue deserves serious U.S. attention. The developing states—frequently dependent upon extractive industries for any hope of economic advancement—legitimately fear they will become a mere resource auxiliary for developed nations.

Cooperation on a system of access to supplies is a healthy first step in reaching a creative solution to this monumental problem.

An area of rising concern in relationships with less developed countries is the conduct of multinational corporations. Such concern ought to be expected. After all, multinational corporations are engaged in over one-quarter of the world's production of goods and services.

Too often, though, the discussion has focused on the evils of corporate practices, even though there are some very real examples to which critics can point. But the discussion has largely ignored obligations of national states. For this reason, Caterpillar commends the committee for introduction and passage of Senate Resolution 265. A code of conduct should not, in our opinion, be a one-way street. Rights and obligations pertain not only to multinational business, but also to the nations which exert sovereignty over these corporations at any point in their activity.

Senate Resolution 265 has the value of encouraging recognition of this joint obligation. We believe it to be desirable and useful for multinational corporations to develop their own internal guidelines to business operations and ethics. Our effort to this end, our "Code of Worldwide Business Conduct," published in October 1974, is included with our written statement.

SECTORAL NEGOTIATIONS

Another issue directly pertinent to the Trade Act merits brief mention. Section 104 of the act mandates negotiations on a sectoral basis to the maximum extent feasible. Caterpillar doubts this approach is either desirable or, in many cases, possible. Trade liberalization carries with it the connotation of emphasizing relative efficiencies of production. For this reason, broad cross-sectoral negotiations aimed at achieving benefits of these efficiencies would appear to be the more appropriate target.

In our industry we doubt that direct sectoral negotiations can accomplish the Trade Act objectives of obtaining more open and equitable market access for export of American-made products. The reason for this is that the industrialized states, with the exception of Japan, generally have substantially higher duty rates than the United States on products made by Caterpillar—an average of approxi-

mately 9 percent compared to 3 percent. There is little incentive for our major trading partners to enter into reciprocal tariff reductions on such products when they already enjoy a 6-percent differential, and essentially a free market for their products through low U.S. tariff rates.

EAST-WEST TRADE

Now I would like to address Caterpillar's views on the issues of trade with the Soviet Union and certain other states. Title IV of the Trade Act, in effect, applies discriminatory tariff treatment to certain states which deny the right of emigration (either directly or through imposition of unreasonable taxes or fees).

Caterpillar supports the idea that the existence of human rights everywhere should be of concern to this Government and to its citizens. Business, government—indeed human existence itself—become almost meaningless if we don't have certain minimum standards to serve as guidelines for behavior. However, I believe it is now clear that title IV of the Trade Act has been unsuccessful, and indeed counterproductive. Newspaper reports, for example, indicate the level of Jewish emigration from the Soviet Union has fallen to about one-third of levels existing prior to passage of the act.

It seems logical, therefore, that the Congress which, out of commendable goals, formulated title IV of the Trade Act, now has a responsibility to address this issue since the goals clearly aren't being achieved.

TAX REFORM

I would like now to turn to Caterpiller's views on another issue currently before you—one which also has a major impact on international trade. I am referring to the tax reform bill which you will take up soon. Two items, of critical interest to us, invite comments. The credit for taxes paid abroad, and the deferral of U.S. taxes on foreign earned income prior to repatriation of that income are likely to be considered during your deliberations.

If the foreign tax credit were to be eliminated, Caterpillar's ability to compete with non-U.S. manufacturers would be seriously hampered. Such action would result in unfair double taxation. If Caterpillar could not offset the taxes it pays on income earned in other countries against its U.S. tax bill, the effective tax rate on pretax earnings of Caterpillar would be exorbitant—about 75 percent in the United Kingdom, for example.

Taxation of non-U.S. earnings at rates this high could indeed make an investment overseas economically unattractive. But instead of driving that investment back into the United States, as theorized by those opposed to foreign investment, the effect very likely would be that the investment would not be made at all. In this event the supplemental effect on U.S. exports and U.S. jobs would be lost.

The other issue of concern over foreign source income is that of the "deferral" aspects of taxation of foreign source income. We do not believe taxation of a foreign subsidiary's earnings prior to distribution is justified for a number of reasons.

First, we know of no country that taxes foreign income of its overseas incorporated subsidiaries on a current basis to the extent the U.S. already does.

Second, Caterpillar's investments in manufacturing facilities abroad were not made for the purpose of avoiding taxes. They were made so the company could effectively compete in foreign markets. The beneficial results of such investments for the United States were indicated earlier.

And, finally, the apparent logic behind proposals for current taxation is that the present system favors foreign investment over U.S. investment. Proponents of current taxation apparently overlook the fact that the long-run objective of most investments outside the United States is to earn a reasonable profit and ultimately to return the maximum dividend to the United States. For example, three of Caterpillar's non-U.S. manufacturing subsidiaries are remitting nearly all of their current earnings as dividends, and have been for several years.

Needless to say, these remittances have not only been a healthy part of our contribution to the Nation's balance of payments, but also have played a significant part in the company's large investment program in this country. Therefore, we urge that Congress not impose any additional tax burden on earnings of our non-U.S. subsidiaries, particularly at a time when other major industrial countries have adopted policies designed to encourage exports.

We believe basic changes in the tax credit and deferral provisions would be harmful to the U.S. economy and to U.S. workers. American profits and jobs will suffer, as will job-generating exports.

SUMMARY

In summary, Caterpillar's experience in doing business on a global scale supports the notion that there is benefit to the world—and to this Nation—in continuing to lower the barriers to freer movement of goods and capital.

Again we thank you for the opportunity, Mr. Curtis.

Senator CURTIS. Mr. Morgan, thank you for a very fine paper. I have a few questions as a matter of clarification for the record.

What do you mean by "sectoral negotiations"?

Mr. MORGAN. As I am sure you know, Senator Curtis, the arrangement that is being used by GATT is to negotiate, through the GATT process, on an industry-by-industry basis. In our particular business, for example, this would mean taking the general construction machinery, material-handling industry and negotiating the duties and tariffs abroad vis-a-vis those same tariffs in the United States, and to negotiate on that basis rather than broadly.

Senator CURTIS. And you feel to negotiate across the board would be to the advantage of both parties, particularly the United States?

Mr. MORGAN. Yes. To amplify just a little bit on the situation that is present in our industry, for example, let me point out that while we have an average duty in this country of about 3 percent, we face an average duty on our type of product in other countries of about 9 percent. We feel that there is frankly little opportunity for our negotiators to use a quid pro quo in terms of negotiating those duties downward.

Senator CURTIS I certainly agree with you. That is one of the points that was discussed at considerable length here in the committee when the recent Trade Act was written. Many segments of American industry were strongly for it across the board, including American agriculture.

Mr. MORGAN. Yes.

Senator CURTIS. What nontariff barrier do you run into? Give an example of a nontariff barrier that you run into quite a little in your business.

Mr. MORGAN. We certainly can give you that. As a matter of fact, Senator Curtis, through the process of the ISAC committees that have been established by the Office of the Special Trade Representative, we have submitted some of our experiences in this regard. I have an extract of that material in front of me.

Senator CURTIS. Would you like to insert it in the record?

Mr. MORGAN. We could. We would be glad to.

[The following was subsequently supplied by Mr. Morgan:]

NONTARIFF BARRIERS BY COUNTRY

The following are specific non-tariff barriers encountered by Caterpillar in countries representing significant sales opportunities for U.S. products.

EUROPEAN ECONOMIC COMMUNITY

1. Uplifts are applied to the normal duty value for all products in the following EEC countries: France (1.0%), Germany (1.0%), Italy (5.0%), and United Kingdom (5.0%).

2. Discrepancies in duty classifications are incurred within the EEC on bare track-type tractors. Most countries use BTN 87.01 instead of BTN 84.23, which is believed to be the appropriate classification.

For diesel engines and related products, the following discrepancies are incurred:

Country	Product	Correct classification	Rate (percent)	Applied classification	Rate (percent)
Belgium	Marine generator set	85:01 AII	5	84:06 CIIa Marine prop. unit.	9
Germany	Marine prop. unit	84:06 IIa	9	84:06 CIIb2 Ind. engine	13
Italy	Marine gear	84:63	7	64:06	9
Do	Natural gas engine	84:06 CIb2	12	84:06 CIIb2 Ind. engine	13
Do	Generator	85:01 AII	5	84:63	8

3. Most EEC countries rebate TVA on exports. Also, Italian Law 639 provides a direct export subsidy of approximately 2 percent on earthmoving equipment and 3 percent on replacement parts when such products are sold outside the EEC.

4. The EEC and EFTA negotiated bilateral preferential trade agreements to the exclusion of the United States which will eventually eliminate duties on mutually traded industrial products.

It is estimated that removal of the above NTB's would increase Caterpillar U.S. exports to the EEC by approximately $4 million annually.

5. French noise suppression standards (operator and spectator) are more stringent than U.S. standards. Effect of this NTB cannot be quantified.

BRAZIL

1. Import tax of 15.5 percent is imposed on the following products:
a. Track-type tractors below 120 horsepower and 10,000 kg.
b. Track loaders below 120 horsepower and 10,000 kg.
c. Wheel loaders below 170 horsepower and 9750 lbs. capacity.
d. Wheel tractor scrapers below 398 horsepower and 30 yrds. heaped capacity.
e. All motor graders.
f. All compactors.
g. All diesel engines.
h. All excavators.
i. All off-highway trucks.

These taxes (called ICM) have been classified as "import taxes" since they are discriminately applied only to products with indigenously manufactured equivalents. We believe these are punitive taxes since they are applied only to imported product for which there is a locally manufactured equivalent product. For this reason they cannot be considered as TVA taxes.

2. An import tax of 16.5 percent is also assessed on all imported replacement parts.

3. Import duty is assessed on the manufacturer's suggested consumer's price rather than on the manufacturer's invoice price to its dealer. For Caterpillar, this is the equivalent of a 25 percent uplift in dutiable value.

4. The Brazilian Government is often slow in issuing import licenses for products with domestically manufactured equivalents, resulting in delays and additional interst carrying costs.

5. A special governmental finance plan (FINAME) provides more liberal credit terms for the purchase of locally manufactured earthmoving equipment than is available for imported products.

6. In Brazil, a preferential duty rate of one-half the normal duty rate is used as an incentive to attract engine manufacturers and to encourage them to export from Brazil. Manufacturers are granted preferential treatment on imports of other models equal in value to one-third of the value of their Brazilian exports.

It is estimated that the elimination of the above NTB's would increase the Caterpillar U.S. exports to Brazil by approximately $4.5 million annually.

MEXICO

1. Importation of the following products is prohibited in order to protect indigenous manufacturers:

a. Motor graders.

b. Wheel loaders below the Caterpillar Model 980.

c. Excavators.

It is estimated that removal of this NTB would increase Caterpillar U.S. exports to Mexico by approximately $25 million annually.

ARGENTINA

1. Importation of the following products is prohibited in order to protect indigenous manufacturers.

a. Motor graders.

b. Caterpillar D4 Track-Type Tractors.

c. Wheel loaders of the Caterpillar 966 size class and smaller.

2. An uplift of 5.6 percent applies to the manufacturer's invoice price for assessing duty on all products.

It is estimated that the removal of the above NTB's would increase Caterpillar U.S. exports to Argentina by approximately $20 million annually.

SPAIN

1. Quotas protect locally manufactured off-highway trucks.

2. An uplift of 17.65 percent applies to the manufacturer's invoice price for assessing duty on all products.

3. An import tax of 12–13 percent is imposed on all products.

It is estimated that removal of the above NTB's would increase Caterpillar U.S. exports to Spain by approximately $4 million annually.

JAPAN

1. An uplift of 2 percent applies to the manufacturer's invoice price for assessing duty on Caterpillar products.

The estimated adverse effect on Caterpillar U.S. exports to Japan is only $200,000 annually.

2. The Japanese Government Test (JGTest) is a significant barrier to the importation of marine diesel engines. The crankshaft, turbocharger and camshaft of the first unit of each engine model to be imported must be tensile tested (a destruction test). This test must be repeated every six months. Every marine diesel engine imported must undergo an 8 hour dynamometer test and be completely disassembled for inspection. The estimated costs of these tests amount to approximately 85% of the manufacturer's invoice price.

OTHER COUNTRIES

1. Other areas which apply uplifts to the manufacturer's invoice price for assessing duty on Caterpillar products are Greece (10 percent), Congo (5 percent), Gabon (5 percent), Tschad (4 percent), Kenya (5 percent), Lybia (10 percent), Chile (20 percent), Peru (20 percent), and Irán (10 percent).

2. Other areas affected by improper duty classifications for track-tractors are Finland, Iceland, Portugal, Cyprus, Morocco, Tunisia, Turkey, and many African nations. In all of these cases, the effect of the resulting additional duty on Caterpillar's competitive position is minimized since there are no indigenous manufacturers and all imports face the same barriers.

Senator CURTIS. Tell us about one of those.

Mr. MORGAN. Just citing briefly the uplifts that are applied to normal duty value, for example, we have a number of countries which apply a duty uplift, just an arbitrary increase in the value against which the duty is calculated. This is, we think, a good example of a nontariff barrier. There are a number of countries, as I am sure you know, with import quotas and embargoes which simply make it impossible to import products for almost all companies.

There are rebates to exporters used by other countries, which make it difficult for competition to apply.

The net effect of those, as I believe my statement suggests and as the oral statement cited, was $53 million worth of additional exports from our company alone during 1975 if we could resolve those nontariff barriers.

Senator CURTIS. These barriers are erected rather suddenly and without consistency, isn't that true?

Mr. MORGAN. That is sometimes true. In some instances however many of those are well-established nontariff barriers.

Senator CURTIS. In reference to countries which have resources but haven't developed any manufacturing or job-producing activities, do you think it would be worthwhile to pursue an effort to work out agreements, either by the countries or by the multinational involved, whether by for the right to buy resources you exchange raw products from a unit, that a job-producing business be established in that particular country who is selling us raw materials. Do you think that has possibilities? I have stated it rather crudely.

Mr. MORGAN. The generalized system of preferences which became effective January 1 of this year is, as you know, aimed at helping the less-developed countries of the world compete more effectively for the products which they are most efficient at producing. This is a concession which is made to them. Quite frankly, we are very much in accord and in agreement with that particular concept.

It seems to me that many of those countries do need the help and the assistance which your question implies in order to market the products which they build or which they produce most effectively.

So it seems from our standpoint that this system is a very appropriate way for them to participate in the whole process of foreign commerce and, by that means, purchase the items which they currently do not have the ability to produce, particularly the more sophisticated products in commerce.

Senator CURTIS. What would be the effect on American employment and balance of payments were policies to be adopted that would discourage or discontinue American-based multinational corporations?

Mr. MORGAN. To clarify the question, that would prevent multinational companies from existing?

Senator CURTIS. Yes.

Mr. MORGAN. As we indicated, about one-quarter of the world's commerce is produced by all multinational corporations throughout the world. What percentage of that is done by U.S. multinationals, I am not too sure.

Let me talk to the general end-result of such a process. I am quite convinced that in our particular case most of the 20,000 export-dependent jobs of Caterpillar employees in the United States would disappear.

I think that probably the general doing away with multinationals would suggest that we would probably wind up with export controls and import controls. To that extent I think there is no doubt but that the range of products that is available to be purchased in the United States would be diminished.

Obviously the cost of many things that are used by business and many of the things that are consumed by the individual would increase.

Because of the supplemental effect which investment abroad has upon exports from this country, our balance of payments, in my view, would suffer inordinately. Quite frankly, Senator Curtis, I just can't conceive of the United States performing the total mission in the preservation of our standard of living and of our way of life without this very effective mechanism which has been called a multinational corporation.

Senator CURTIS. In how many countries does Caterpillar or your subsidiary or maiden organization manufacture?

Mr. MORGAN. We have 13 locations abroad. Those are in about 10 different countries.

Senator CURTIS. If those were discontinued, would all that manufacturing be transferred and performed in the United States?

Mr. MORGAN. I would say almost none of it would, because the primary reason that we are there now, and the reason we went there in the first place, was simply because there was no other way of reaching those markets due to tariff/nontariff barriers, high cost of transportation, and reasons of that kind.

Senator CURTIS. In other words, those countries had a policy that if American corporations do not establish the industry there, it will be established by a corporation from some other country?

Mr. MORGAN. I missed the first part of your statement.

Senator CURTIS. The countries where these factories are located have the policy or policies which would lead to some other country establishing those factories if an American corporation did not; is that correct?

Mr. MORGAN. Yes. I think we get back to the very importance of the GATT negotiations and also of the underlying need for the trade bill, which was passed and which was signed into law January 3, 1975.

Because these developed countries particularly have a tendency, again in our industry experience, of building tariff and nontariff barriers as a way of protecting their own indigenous industry, hence the rationale for American companies having to invest in those areas if they want to do business in those markets.

By and large, it is the industrialized countries of the world where the greatest sales opportunities, for our type of product have existed.

Senator CURTIS. I will be brief, because we have quite a list of witnesses.

You made good points in reference to the credit, the foreign tax and deferral. What about the exemption of $25,000 of income earned by U.S. citizens abroad? Do you have any comment on that?

Mr. MORGAN. I don't think I have any meaningful comment, Senator Curtis. I would be glad to supplement your question.

The CHAIRMAN. May I just put a note in at that point because something has been troubling me about this. It seems to me that if we will make it possible for companies like I. Ray McDermott, Brown & Root and various others to go overseas and operate in Saudi Arabia, Iraq, Iran and less-developed nations all over the world, and they go over there trying to develop oil and find oil and help the world meet its energy needs and do all sorts of other things—building plants, build ports, build all these things—if they go, they will use American equipment. They will use Caterpillar tractors. They will use International Harvester engines. They will use steel wire made by American companies. They will fabricate parts and materials over here and they will put them in place over there.

On the other hand, if we don't do that, the Japanese are going to put out every incentive that it takes to get their people in there and the Germans, the Italians and the British will do that and all those people will use their contractors.

What American labor has failed to understand here is that every time you send American labor over there, he provides about five jobs for Americans back home for fabricating and manufacturing the equipment that will be used over there. Doesn't it stand to reason that if that is a Japanese contractor going in there, he is going to use Japanese equipment if he can?

Mr. MORGAN. Yes; it certainly does, Mr. Chairman. Also in terms of the very practical realities of a man living abroad and needing an incentive to live in a new culture, to uproot his family and take them abroad and to go through the process of separation from perhaps parents and people of this kind who are left in this country, most companies do recognize that there needs to be a financial incentive in order to go through that whole process.

Certainly from that standpoint, to the extent that this is an incentive to move abroad, it meets that test and it provides the economic benefits to the United States which you have described.

The CHAIRMAN. Those wages may be high to pay somebody to live out there on those hot desert sands for a year or two, but the companies aren't paying those high wages just because they want to donate their money. They are paying those high wages because they don't get the technicians to go over there without paying them. If we are going to put a big income tax on that money, then the only way they can get those people is by paying them perhaps 50 percent more and then they are no longer competitive to the Germans and the Japanese.

Mr. MORGAN. Yes. There is a big difference between visiting abroad and living abroad. Many people, I am sure, tend to underestimate the real hardships that are involved in living abroad.

The CHAIRMAN. Furthermore, I am not aware of any discrimination in the quality. It is my impression, as far as these companies who go

overseas and do business which, in effect, provides a great deal of jobs to Americans back here, there are a lot of jobs for people who would be out of work even within this country. In other words, here is a fellow who needs a job. When he goes overseas, he vacates whatever he is doing here for somebody else, and if it is a skilled job, it is something that someone else can have.

He goes over and provides jobs for American workers here by using their equipment over there.

I am not aware of any company discriminating against anybody if they are looking for the best-qualified people they can get and sometimes it is hard to get good people to go to places like that.

Mr. MORGAN. Right. To follow that point, Mr. Chairman, I am not aware of any abuses of this practice because, in the first place, most multinational corporations, certainly our own, have a very firm policy and a good track record, we believe in replacing Americans who are needed to go abroad with qualified foreign nationals.

As a matter of fact, our first area of investment was in the United Kingdom in the early 1950's. We have three large plants in Great Britain now. It is interesting to note that all three of the plant managers of those operations are British nationals.

There is no incentive or no abuse of that tax.

The CHAIRMAN. But look what that means to others. Insofar as an American company can do it, even though it is a Britisher who is in command and doing the job, and there is no American doing that job, you are still using a lot of American equipment that purely a British company would never have used.

Mr. MORGAN. That's right. As a matter of fact, let me develop that point with just one bit of data that I have in front of me.

The year that Caterpillar made its first investment in Great Britain, the amount of our exports was $2.3 million. In 1975, after the establishment of three large factories in Great Britain, our exports from the United States to Britain were $60.2 million, an increase of almost 30-fold.

May I say, Mr. Chairman, that in every single country in the world where Caterpillar has made a manufacturing investment, our exports from the United States to those countries have increased. The detail of that, incidentally, is furnished on exhibit 2, which is a part of our written statement.

The CHAIRMAN. I would like to ask that both the charts and the exhibits, as well as the statement, be in the record. I think it is a very fine presentation. It has some information that I would like to have.

Mr. MORGAN. Thank you, sir.

Senator CURTIS. Mr. Chairman, I turn the gavel back to you.

The CHAIRMAN [presiding]. Senator Gravel.

Senator GRAVEL. Mr. Chairman, I am acquainted with Mr. Morgan. I think the committee is particularly privileged to have him here. The record that he has just enunciated certainly speaks to an unbelievable degree of benefits that accrue to us an intelligent policy and intelligent and sophisticated action by our industries.

I would like to ask one or two questions. We have heard a great deal about the code of conduct. I notice that you have submitted yours as an enclosure. I have had occasion to go over this, having received

a copy at an earlier date. Is there anything published with respect to what would be a reciprocal code of conduct by other nations? Would you know of anything that is written that would be a parallel code of conduct to this?

Mr. MORGAN. I am not aware of any such publication, Senator. There are some efforts being made, particularly in the OECD, the Organization of Economic Cooperation and Development, which is now in the process of developing a code of conduct. It has more of a tone of reciprocity than any other writing that I have seen on this subject.

The point that you make is an excellent one. In my view if we are to arrive at something meaningful in world commerce, it must embrace the concept of reciprocity, along with several other very important policies, such as national treatment for foreign companies as compared to the treatment of local companies.

Senator GRAVEL. Are you at all familiar with the bill of particulars put forth by the International Labor Group under Mr. Tersten, the President of West Germanys' labor group? Their offices are in Brussels. Are you at all familiar with that?

Mr. MORGAN. Just vaguely.

Senator GRAVEL. Maybe I will pursue that at another time. I would like to get some evaluation of the particulars.

Mr. MORGAN. I suspect we have a view on this by some of our staff people, which I would be very pleased to make inquiry about when I get back to my office, and furnish to you.

Senator PACKWOOD. Mr. Morgan, the argument was made yesterday that many multinational corporations have taken tax advantages. Do you qualify for this, for tax advantages or low-wage advantages, have you chosen any Caterpillar advantages in this country and moved the manufacturing capacity overseas for those reasons?

Mr. MORGAN. We have absolutely not.

Senator PACKWOOD. Do you export to this country from overseas manufacturing facilities in any significant quantity of Caterpillar equipment or products?

Mr. MORGAN. Practically none, the only exception to that being line of small vehicles which we designed and began to build about 3 or 4 years ago. That particular line, which would represent substantially less than 1 percent of our total production, is sourced for the whole world from Japan, the rationale of that being that, first of all, Japan represents the largest single market for that product and, second, in the economy-of-scale advantages suggested, we could only produce that line in one place in the world.

So we think, quite logically—we sourced that one rather minuscule part of our total business outside the United States for that reason.

Senator PACKWOOD. So you can say, almost unequivocally, the reason for you going overseas was to compete in business overseas and not in any way to compete with your own factories in this country for domestic business in this country?

Mr. MORGAN. Absolutely. To emphasize, in your words, we have not done this for wage reasons or for tax reasons.

Senator PACKWOOD. Thank you very much. I had a chance to read your testimony. I apologize for coming late. I was at another meeting.

I have no other questions.

Senator GRAVEL. [presiding]. Thank you very much, Mr. Morgan. We appreciate your appearance.

[The prepared statement and attachment of Mr. Morgan follow:]

STATEMENT OF LEE L. MORGAN, PRESIDENT, CATERPILLAR TRACTOR CO.

Mr. Chairman and Members of the Committee: I appreciate the opportunity to state Caterpillar's views on U.S. international economic policy, and specifically on the current trade negotiations taking place under GATT auspices.

Caterpillar Tractor Co. and its subsidiaries are primarily engaged in the manufacture and sale of earthmoving, construction, and materials handling machinery and equipment, and diesel and natural gas engines. Consolidated sales in 1975 were $4.96 billion, of which $2.88 billion occurred outside the United States. Of the sales outside the United States, $1.9 billion consisted of U.S. exports. This $1.9 billion represents approximately 47% of our U.S. production.

Worldwide employment exceeded 78,000 at the end of 1975. Over 61,000 of these people were at work in the U.S. In January of this year, about 29,000 of the Caterpillar employees in this country depended on our export business for their jobs.

Besides 14 plants in the U.S., manufacturing activities are carried on in three plants in the United Kingdom, two in France, and one each in Australia, Belgium, Brazil, Canada and Mexico. The company is also a 50% owner of affiliates located in Japan and India. At the end of 1975, Caterpillar had a net investment abroad of about $772 million.

Our contribution to the U.S. balance of payments in 1975 alone . . . consisting of both payments for exports as well as remittances for profits earned aboard . . . was $1.7 billion. In the last decade, the company has contributed a total of $8.4 billion to the balance of payments.

Caterpillar is presently engaged in the most ambitious expansion program in its history. Plans for the three years 1975–1977 call for expenditures totaling $1.6 billion. The great majority of this amount will be spent within this country. As a multinational corporation, we are proud of our American base, as well as our operations outside this country.

The company and its employees have a very substantial stake in continued progress toward the worldwide freer flow of commerce. The reciprocal lowering of trade barriers will benefit our facilities around the world, certainly including those in this country.

Caterpillar agrees this is a most appropriate time for you to be considering the general question of international trade policy. Despite the apparent recovery in the U.S. economy, the strains of the recession—unemployment and inflation—remain vivid memories for most and cruel realities for many. And the U.S. continues to be more dependent than ever on foreign sources for energy needs.

Pressures in this country for solutions to the problems of unemployment, inflation and the energy shortage have frequently resulted in calls for import limitations, restraints on U.S. investment abroad, and export controls. I believe such measures would have harmful effects on this country and the world. They would result in retaliation by our trading partners and economic stagnation.

Looking toward the next round of multilateral trade negotiations, the world waited for legislation here that would enable the U.S. to come to the bargaining table. Thus passage of the Trade Act of 1974 gave momentum to the worldwide movement toward liberalized trade.

But despite this progress, some sources continued to theorize about the value of exports . . . as though exports had an existence independent of any other factor. We must remember that, among other things, exports generate the means to pay for imports that are vital to our national well-being. Furthermore, we must remember that we cannot wholly depend on recurring currency devaluations for adjustments in U.S. trade patterns.

Quite obviously, the post-war system of fixed exchange rates needed change. Efforts to establish a system of floating rates are to be lauded. But exchange rate adjustments must go hand-in-hand with efforts to reduce other trade barriers, wherever they exist.

In discussing the trade negotiations and other issues of international economic policy, I would like to address the following subjects:

1. What we believe to be the main goals of the negotiations.
2. Problems of sectoral negotiations.
3. Current issues in East-West trade.
4. Tax Reform.

MAIN GOALS OF THE NEGOTIATIONS

Let us turn to the current trade negotiations. Based on an exporting experience that goes back to the start of this century—and based on a rising amount of foreign investment, beginning in 1950—Caterpillar strongly supports U.S. efforts aimed at continuing long-term progress toward freer trade. This progress has been a major factor in post-war prosperity among GATT member states.

We therefore recommend that as this Committee conducts hearings and authors legislation, it aims at achievement of three interrelated goals, which express the philosophy of the Trade Act:

1. The elimination or reduction of tariff and nontariff barriers (with the provision of reasonable and controlled safeguards against market disruption).
2. The guaranteeing of free access to supplies as well as to markets.
3. Recognition of the special needs of developing countries, controversy over which has in many cases harmed relations between countries which are industrialized, and those which are not.

Reduction of Tariff and Nontariff Barriers

Caterpillar's representative on the appropriate Industry-Sector Advisory Committee has asked for efforts to achieve tariff reductions for our company's products. We estimated in 1975 that tariff reductions would increase our exports from this country by $83 million annually. This is a conservative estimate. It is based only on products and sales opportunities for which we could reasonably quantify th favorable impact of substantial duty reductions.

The following nontariff barriers have a cumulative impact of real consequence:

(a) Uplifting the import value for duty purposes.
(b) Improperly classifying products in a tariff schedule.
(c) Imposing quotas and embargoes.
(d) Rebating value-added taxes.
(e) Extending preferential duty rates.

Nontariff barriers have increased in relative significance as tariff rates have declined. Further, there has been an increasing tendency to use NTBs because they are beyond adequate control of GATT regulations.

Caterpillar recommends three negotiating objectives in the nontariff barrier area:

1. Remove uplifts . . . by agreeing on a uniform base for the assessing of duty.
2. Eliminate improper product classification . . . by harmonizing the tariff classification system.
3. Revise the GATT rules to also permit tax rebates on exports by countries using a direct taxation system.

We have furnished ISAC with recommendations for the elimination of NTBs. We estimated in 1975 that elimination of NTBs could add an additional $57 million to our company's annual exports.

Free Access to Supplies and Markets

Section 108 of the Act reaffirms the need to recognize a worldwide mutual obligation regarding access to supplies. That we are living in a glass house nationally on this issue is obvious. I note that later today you will be discussing the use of export controls as applied to American grain shipments. And indeed this is an appropriate topic at a time when there is much talk of "using the food weapon." The U.S. must not lose sight of the fact that, while this country is a major world *producer* of food . . . it is a major *consumer* of a host of raw materials vital to our industrial society.

Recent headline events: the oil embargo, grain and soybean "shortages" . . . unprecedented foreign purchases of scrap iron and timber . . . are symptomatic of a broad resource problem. Unreasonable export controls by this country may result in retaliatory controls by others. Careless use of import controls could result in the more rapid consumption of domestic sources while depriving other nations of dollars to buy American-made goods.

In this connection, we are concerned about legislation (S. 1744), currently pending before another committee, that would authorize the administrator of the Environmental Protection Agency to prohibit exports when such exports will ". . . directly or indirectly result in an unreasonably reduction of domestic energy or virgin materials identified by the President to be critical for the national welfare and in actual or potential short supply." Caterpillar believes this proposal reflects a lack of awareness of this country's critical dependence upon others for materials vital to the national welfare. The legislation also inter-

jects an agency with no trade experience into jurisdiction over the free trade area, and under rather ambiguous guidelines.

The only rational choice is one of international cooperation—rather than one of confrontation regarding access to supplies and markets. We commend the Committee for its initiative in recognizing the access to supplies is inextricably to world trade and development.

Recognition of Special Needs of Developing Countries

Much of the current world concern over the trade negotiations involves an equitable sharing of wealth with developing countries. Thus the issue deserves serious U.S. attention.

An atmosphere of confrontation, unfortunately, has characterized recent relationships between industrialized nations on the one hand and less developed countries on the other. The developing countries see the gap between themselves and the technological societies steadily widening. These states—frequently dependent upon extractive industries for any hope of economic advancement—legitimately fear they will become a mere resource auxiliary for developed nations.

Cooperation on a system of access to supplies is a healthy first step in reaching a creative solution to this monumental problem. This cooperation implies that we may have to guarantee access to certain commodities which we produce in abundance—in return for the right to a guaranteed source of vital items which must be imported.

An affirmative action in this direction was implementation, effective January 1, of the United States' Generalized System of Preferences.

Caterpillar endorses the concept of enhancing the ability of less developed states to increase foreign exchange by giving them limited duty preferences. However, we believe that granting preferences to a country would best serve that country's interests if the preferences were limited to the commodities and products for which the exporting country has a natural competitive advantage.

An area of raising concern in relationship with less developed countries over the last few years is the conduct of multinational corporations. Numerous questions and propoals have been raised over regulation of that conduct. Such discussion—admittedly generally critical—ought to be expected. After all, multinational corporations are engaged in over one-quarter of the world's production of goods and services. It is understandable then, that the MNC as an institution, has come under the criticism of developing countries who are seeking to satisfy their very real needs and aspirations.

Too often, though, the discussion has focused on the evils of corporate practices (and we cannot deny there are some very real examples to which critics can point). But the discussion has largely ignored obligations of nation states. For this reason, we at Caterpillar commend Chairman Long, Senator Ribicoff, and the rest of the Committee for introduction and passage of Senate Resolution 265. We agree with the basic rationale contained in that resolution: that a business climate conducive to fair and impartial trade and the most efficient allocation of resources requires mutual commitment. A code of conduct should not be a one-way street. Rights and obligations pertain not only to multinational business but also to the nations which exert sovereignty over their corporations at any point in their activity.

Senate Resolution 265 has the value of encouraging recognition of this joint obligation. We are also optimistic that a favorable procedural impact may result—as fragmented policies affecting MNC operations may be centralized. In the interim, we believe it to be desirable and useful for multinational corporations to develop their own internal guidelines to business operations and ethics. Our effort to this end—our "Code of Worldwide Business Conduct"—published in October, 1974, is attached for your perusal.

SECTORAL NEGOTIATIONS

Another issue directly pertinent to the Trade Act merits discussion. Section 104 of the Act mandates negotiations on a sectoral basis to the maximum extent feasible. Caterpillar doubts this approach is either desirable—or, in many cases, possible. Trade liberalization carries with it the connotation of emphasing relative efficiencies of production. For this reason, broad cross-sectoral negotiations aimed at achieving benefits of these efficiencies yould appear to be the more appropriate target.

In our case, we doubt that direct sectoral negotiations in our industry can accomplish the Trade Act objectives of obtaining more open and equitable market access for export of American-made products. We have two reasons for this belief. First, with the exception of Japan, the industrialized states generally have substantially higher duty rates than does the U.S. on products made by Caterpillar . . . an average of approximately 9% compared to 3%. There is little incentive for our major trading partners to enter into reciprocal tariff reductions on such products, when they already enjoy a 6% differential, and essentially a free market for their products through low U.S. tariff rates.

As to the developing nations, most of them lack indigenous manufacturers of products which would compete with ours in large volume. They too, therefore, have little incentive to trade-off concessions in this sector. We recommend that the Committee, in both its oversight and participative roles, seek concessions for industries such as ours which have demonstrated an ability to compete effectively in the world marketplace.

EAST-WEST TRADE

Now, I would like to turn to the issue of trade with the Soviet Union and certain other states. Title IV of the Trade Act in effect applies discriminatory tariff treatment to certain states which deny the right of emigration (either directly or through imposition of unreasonable taxes or fees).

We recognize that Title VI is well intentioned and consistent with traditional American concern for human rights everywhere. However, we believe this effort must now be regarded as a failure based upon the following:

1. The U.S.S.R. has cancelled the 1972 trade accords . . . thereby clouding the promising framework for trade set out in those accords.

2. The media has reported a much-reduced rate of Jewish emigration from the Soviet Union since passage of the Act.

Statistics for U.S. exports to the Soviet Union showed an increase in 1975. Reportedly, exports are likely to continue to increase as orders for capital equipment placed in 1973 are filled. But there can be little doubt that American firms have lost other business that might have been, and that these losses will be reflected in future trade figures.

For over 10 years, Caterpillar has publicly supported initiatives—by a succession of U.S. Presidents—aimed at attracting the centrally-planned economies into fuller economic exchange with the rest of the world. But the crux of all trade is its multilateral, reciprocal basis. Unless the U.S. is willing fully to pursue this principle and lower the barriers that presently stand in the way of a growing U.S.-U.S.S.R. economic relationship, I believe the U.S. will miss one of its best opportunities for further stabilizing potential relations and lessening international tension. Accordingly, Caterpillar urges the Committee to favorably consider separating the MFN issue from emigration. A policy which so obviously has failed to encourage either the free movement of peoples or of goods should not be allowed to continue to hamper efforts to attain these laudable ends.

TAX REFORM

Now I would like to turn to Caterpillar's views on another issue currently before you—one which also has a major impact on international trade. I am referring to the tax reform bill which I understand you intend to take up soon. Two items of critical interest to us, while not immediately affected by the House-passed version of the bill, invite comments. These two issues—the credit for taxes paid abroad, and the deferral of U.S. taxes on foreign earned income prior to repatriation of that income—are of course likely to be considered during your deliberations.

If the foreign tax credit were to be eliminated, Caterpillar's ability to compete with non-U.S. manufacturers would be seriously hampered. Such action would result in unfair double taxation. If Caterpillar could not offset the taxes it pays on income earned in other countries against its U.S. tax bill, the effective tax rate on pre-tax earnings of Caterpillar subsidiaries overseas would be exorbitant.

For example, the effective tax rate on earnings of Caterpillar's U.K. subsidiary would be 75%, assuming full taxation by the U.S., and assuming the tax paid in the U.K. would only be allowed as a deduction (and not as a credit) for U.S. tax purposes. This high rate would place Caterpillar at a serious disadvantage because its competitors in other countries would be paying a much

lower rate. (Exhibit 1 shows what the combined U.S. and foreign rate would be in other countries where Caterpillar has established facilities, based on the same assumptions.)

Taxation of non-U.S. earnings at rates this high could indeed make an investment overseas economically unattractive. But instead of driving that investment back into the U.S., as theorized by those opposed to foreign investment, the effect very likely would be that the investment would not be made at all.

This would be true in our case because most of our overseas investments have *not* been made to obtain low-cost labor or to avoid taxes . . . but because we could not compete by shipping from the U.S.—due to artificial trade barriers and other reasons.

In every case where Caterpillar has built a plant in another country, its U.S. exports to that country have dramatically increased (see Exhibit 2). Repeal of the foreign tax credit could set forces in motion that would seriously encumber Caterpillar's investment overseas. Instead of producing benefit for the U.S., repeal could, in the long run, lower U.S. tax revenue, reduce U.S. employment, adversely affect the U.S. balance of payments, and in general be harmful to the domestic economy.

Turning to "deferral" aspects of taxation of foreign source income: Caterpillar opposed enactment of the Subpart F provisions in 1962 and is still opposed to them. We do not believe taxation of a foreign subsidiary's earnings prior to distribution is justified for a number of reasons.

First, we believe foreign source income should not be treated the same as domestic income, because non-U.S. investments do not receive the same degree of services, protection, and support from the U.S. government that domestic operations receive.

Second, we know of no country that taxes foreign income of its overseas incorporated subsidiaries on a current basis to the extent the U.S. already does. (Some countries never tax it; some tax it at preferential rates when remitted.) A move by the U.S. to further extend this practice would be detrimental to U.S. businesses and beneficial to competing non-U.S. manufacturers.

Third, Caterpillar's investments in manufacturing facilities abroad were not made for the purpose of avoiding taxes. They were made so the company could effectively compete in foreign markets. The beneficial results of such investments for the U.S. were indicated earlier.

Finally, the apparent logic behind proposals for current taxation is that the present system favors foreign investment over U.S. investment. However, proponents of current taxation apparently overlook the fact that the long-run objective of most investments outside the U.S. is to earn a reasonable profit and ultimately to return the maximum dividend to the U.S. For example, three of Caterpillar's non-U.S. manufacturing subsidiaries are remitting nearly *all* of their current earnings as dividends and have been for several years. Needless to say, these remittances have not only been a healthy part of our contribution to the nation's balance of payments, but also have played a significant part in the company's large investment program in this country.

Current taxation of foreign earnings would also make it more difficult for us to raise sufficient funds internally for more industrial development. This would occur, for example, if one of Caterpillar's subsidiaries needed its earnings overseas for necessary growth . . . yet the parent company had to pay U.S. income tax on the subsidiary's unremitted earnings. This would increase borrowings in the United States to pay the tax, placing more pressure on short U.S. capital sources.

Historically, the concept of paying taxes on earnings only when remitted as dividends is well established. For example, individual shareholders in U.S. corporations are not taxed on the earnings of such corporations until they receive a dividend. We believe this principle should be consistently applied to the non-U.S. earnings of foreign subsidiaries of U.S. companies.

Recognizing that Subpart F has been with us for nearly 13 years, and that the minimum distribution relief provisions were just recently repealed, it is unrealistic to believe that the law will be restored to its pre-1962 status. In Caterpillar's opinion, current provisions of Subpart F and Section 482 (dealing with reallocations of income, deductions, etc., between related companies) adequately deal with whatever abuses there might have been in the past.

Therefore, we urge that Congress not impose *any* additional tax burden on earnings of our non-U.S. subsidiaries, particularly at the time when other major

industrial countries have adopted policies designed to encourage exports. Any such action by Congress would reduce our ability to compete on an international basis. This would also be an undesirable result from a U.S. viewpoint at a time when exports are needed to earn foreign exchange to pay higher and higher energy and raw materials bills. It would seem that a logical question is whether the U.S. Congress will penalize foreign earnings to the point where passage of their Trade Act of 1974 becomes a meaningless gesture.

SUMMARY

In summary, Caterpillar's experience in doing business on a global scale supports the notion that there is benefit to the world—and to this nation—in continuing to lower the barriers to freer movement of goods and capital.

EXHIBIT I.—*Caterpillar Tractor Co.*

COMBINED UNITED STATES AND FOREIGN TAX RATE IF FOREIGN TAX CREDIT WERE REPEALED AND FOREIGN TAXES WERE ALLOWED AS A DEDUCTION

For earnings in:	*Combined U.S. and foreign tax (percent) rate*
Australia	76
Belgium	78
Brazil	73
Canada	78
France	78
United Kingdom	75
Hong Kong	56
India	83
Japan	76
Mexico	69
Singapore	69
South Africa	74
Switzerland	58

EXHIBIT II

[In millions of dollars]

CATERPILLAR EXPORTS TO COUNTRIES WHERE MANUFACTURING FACILITY ESTABLISHED

Australia:	
1954	$10.0
1975	75.9
Belgium:	
1965	3.2
1975	36.6
Brazil:	
1954	10.0
1975	152.4
Britain:	
1950	2.3
1975	60.2
Canada:	
1964	84.6
1975	280.2
France:	
1960	7.6
1975	54.8
Japan:	
1963	1.9
1975	85.1
Mexico:	
1964	10.6
1975	50.1

A Code of Worldwide Business Conduct—Caterpillar Tractor Co.

To Caterpillar Managers:

As you know, large business corporations everywhere in the world are being given increasing public scrutiny.

This is understandable. A sizable economic enterprise is a matter of justifiable public interest—sometimes concern—in the community and country in which it is located. And when substantial amounts of goods, services and capital flow across national boundaries, the public's interest is, logically, even greater.

Not surprisingly then, the growth of multinational corporations has led, among other things, to increasing public calls for standards, rules, and codes of conduct for such firms.

It seems unlikely the world will any time soon agree on a "code" or single set of rules pertaining to all facts of international business. But, nevertheless, we conclude it is timely for Caterpillar to set forth *its own beliefs*, based on ethical convictions and international business experiences that date back to the turn of the century.

This "Code of Worldwide Business Conduct" is therefore offered under the several headings that follow. Its purpose is to guide us, in a broad and ethical sense, in all aspects of our worldwide business activities.

Of course, this code is not an attempt to prescribe actions for every business encounter. It *is* an attempt to capture the basic, general principles to be observed by Caterpillar people everywhere.

To the extent our actions match these high standards, such can be a source of pride. To the extent they don't (and I'm by no means ready to claim perfection), these standards should be a challenge to each of us.

I can think of no document bearing my signature which I consider more important than this one. So I trust my successors will cause it to be updated as events may merit. And I also trust *you* will give these principles your strong support in the way you carry out your daily responsibilities as Caterpillar managers.

W. H. Franklin,
Chairman of the Board.

OWNERSHIP AND INVESTMENT

In the case of business investment in any country, the principle of mutual benefit to the investor and the country should prevail.

We affirm that Caterpillar investment must be compatible with social and economic priorities of host countries, and with local customs, tradition and sovereignty. We intend to conduct our business in a way that will earn acceptance and respect for Caterpillar, and allay concerns—by host country governments—about "foreign" ownership.

In turn, we are entitled to ask that such countries give careful consideration to our need for stability, business success and growth; that they avoid discrimination against "foreign" ownership; and that they honor their agreements, including those relating to rights and properties of citizens of other nations.

We recognize the existence of arguments favoring joint ventures and other forms of local sharing in the ownership of a business enterprise.

Good arguments also exist for full ownership of operations by the parent company: the high degree of control necessary to maintain product uniformity and protect patents and trademarks, and the fact that a single facility's profitability may not be as important (or as attractive to local investors) as its long-term significance to the integrated, corporate whole.

Caterpillar's experience inclines toward the latter view—full ownership—but with the goal of worldwide ownership of the total enterprise being encouraged through listing of parent company stock on many of the world's major stock exchanges.

Since defensible arguments exist on both sides of the issue, we believe there should be freedom and flexibility—for negotiating whatever investment arrangements and corporate forms best suit the long-term interests of the host country and the investing business, in each case.

CORPORATE FACILITIES

Caterpillar plants, parts warehouses, proving grounds, product demonstration areas and offices are to be located wherever in the world it is most economically advantageous to do so, from a long-term standpoint.

Decisions as to location of facilities will, of course, consider such conventional factors as nearness to sources of supply and markets, possibilities for volume

production and resulting economies of scale, and availability of a trained or trainable work force. Also considered will be political and fiscal stability, demonstrated governmental attitudes, and other factors normally included in defining the local investment or business "climate."

We do not seek special treatment in the sense of extraordinary investment incentives, assurances that competition from new manufacturers in the same market will be limited, or protection against import competition. However, where incentives have been offered to make local investment viable, they should be applied as offered in a timely, equitable manner.

We desire to build functional, safe, attractive factories to the same high standard worldwide, but with whatever modifications are appropriate to make them harmonious with national modes. Facilities are to be located so as to complement public planning and be compatible with local environmental considerations.

Facility operations should be planned with the long-term view in mind, in order to minimize impact of sudden change on the local work force and economy. Other things being equal, facilities will give preference to local sources of supply, and to local candidates for employment and promotion.

RELATIONSHIPS WITH EMPLOYEES

We aspire to a single, worldwide standard of fair treatment of employees. Specifically, we intend:

1. To select and place employees on the basis of their qualifications for the work to be performed—without discrimination in terms of race, religion, national origin color or sex.
2. To protect the health and lives of employees by creating a clean, safe work environment.
3. To maintain uniform, reasonable work standards, worldwide, and strive to provide work that challenges the individual—so that he or she may feel a sense of satisfaction resulting from it.
4. To attempt to provide continuous employment and avoid capricious hiring practices. Employment stabilizaiton is a major factor in corporate decisions.
5. To compensate people fairly, according to their contribution to the Company, within the framework of prevailing practices.
6. To promote self-development, and assist employees in improving and broadening job skills.
7. To encourage expression by individuals about their work, including ideas for improving the work result.
8. To inform employees about Company matters affecting them.
9. To accept without prejudice the decision of employees on matters pertaining to union membership and union representation; and where a group of employees is lawfully represented by a union, to build a Company-Union relationship based upon mutual respect and trust.
10. To refrain from employing persons closely related to members of the board of directors, administraitve officers and department heads—in the belief that nepotism is neither fair to present employees, nor in the long-term interests of the business.

PRODUCT QUALITY

Wherever in the world Caterpillar products are manufactured, they will be of uniform design and quality. Wherever possible, parts and components are to be identical. When such isn't practicable, they will be manufactured to the same high quality standard, with maximum interchangeability.

We strive to assure worldwide users of after-sale parts and service availability at fair prices. Wherever possible, such product support is to be offered by locally based, financially strong, independently owned dealers. We back the availability of parts from dealers with a worldwide network of corporate parts facilities.

We acknowledge that the pursuit of product quality is not only a matter of providing the best value in terms of cost, but also of providing products responsive to the public's desire for lower equipment noise levels, compliance with reasonable emission standards, and safe operating characteristics. We shall continually monitor the impact of Caterpillar products on the environment—striving to minimize any potentially harmful aspects, and maximizing their substantial capability for beneficial contributions.

TECHNOLOGY

We intend to take a worldwide view of technology. We locate engineering facilities in accordance with need, and without reference to countries or nationalities involved. We exchange design and specification data from facility to facility, on a worldwide basis, while recognizing local restrictions that may exist.

We desire to raise the technical capacity of employees and suppliers in all countries in which Company facilities are located. And we provide access, as appropriate, to technical competence which we have elsewhere in the organization.

FINANCE

The principal purpose of money is to facilitate trade. Any company involved in international trade is, therefore, unavoidably involved in dealing in several of the world's currencies, and in exchanges of currencies on the basis of their relative values.

Our policy is to conduct such currency dealings only to the extent they may be necessary to operate the business and protect our interests.

We buy and sell currencies only in amounts large enough to cover requirements for the business, and to protect our financial positions in those currencies whose relative values may change in foreign exchange markets. We manage currencies the way we manage materials inventories—attempting to have on hand the right amounts of the various kinds and specifications used in the business. We don't buy unneeded materials or currencies for the purpose of holding them for speculative resale.

INTERCOMPANY PRICING

With respect to pricing of goods and services transferred within the Caterpillar organization, typically from one country to another: such pricing is to be based on ethical business principles consistently applied throughout the enterprise. It is to reflect cost and a reasonable assessment of the value of the good or service transferred. Prices are not to be influenced by superficial differences in taxation between countries.

DIFFERING BUSINESS PRACTICES

While there are business differences from country to country that merit preservation, there are others which are sources of continuing dispute and which tend to distort and inhibit—rather than promote—competition. Such differences deserve more discussion and resolution. Among these are varying views regarding anti-competitive practices, international mergers, accounting procedures, tax systems, transfer pricing, product labeling, labor standards, repatriation of profit and securities transactions. We favor multilateral action aimed at harmonizing or resolving differences of this nature.

COMPETITIVE CONDUCT

Fair competition is fundamental to continuation of the free enterprise system. We support laws of all countries which prohibit restraints of trade, unfair practices, or abuse of economic power. And we avoid such practices in areas of the world where laws do not prohibit them.

We recognize that in large companies like Caterpillar, particular care must be exercised to avoid practices which seek to increase sales by any other basis than quality, price and product support.

In relationships with competitors, dealers, suppliers and users, Caterpillar employees are directed to avoid arrangements which restrict our ability to compete with others—or the ability of any other business organization to compete freely with us, and with others.

Relationships with dealers are established in the Caterpillar dealership agreements. These embody our commitment to fair competitive practices, and reflect the customs and laws of the various countries in which Caterpillar products are sold. The dealership agreements are to be scrupulously observed.

In relations with competitors, Caterpillar personnel shall avoid any arrangements or understandings which affect our pricing policies, terms upon which we sell our products, and the number and type of products manufactured or sold—or which might be construed as dividing customers or sales territories with a competitor.

Suppliers are not required to forego trade with our competitors in order to merit Caterpillar's purchases. Suppliers are free to sell products in competition

with Caterpillar, except in a situation where the product involved is one in which we have a substantial proprietary interest—because of an important contribution to the concept, design, or manufacturing process.

No supplier shall be asked to buy Caterpillar products in order to continue as a supplier. The purchase of supplies shall not be influenced because the supplier is a user of Caterpillar products—unless evaluations of quality, price and service provide no substantial basis for choosing a different supplier.

OBSERVANCE OF LOCAL LAWS

A basic requirement levied against any business enterprise is that it know and obey the law. This is demanded by those who govern; and it is widely acknowledged by business managers.

However, a corporation operating on a global scale will inevitably encounter laws from country to country that are incompatible, and which may even conflict with each other.

For example, laws in some countries may encourage or require business practices which—based on experience elsewhere in the world—we believe to be wasteful or unfair. Under such conditions it scarcely seems sufficient for a business manager to merely say: we obey the law, whatever it may be!

We are guided by the belief that the law is not an end but a means to an end—the end presumably being order, justice, and, not infrequently, strengthening of the governmental unit involved. If it is to achieve these ends in changing times and circumstances, law itself cannot be insusceptible to change or free of criticism. The law can benefit from both.

Therefore, in a world increasingly characterized by a multiplicity of divergent laws at national, state and local levels, Caterpillar's intentions fall in three parts: (1) to obey the law; (2) to neither obstruct nor defy the law; and (3) to offer, where appropriate, constructive ideas for change in the law—based on our worldwide experience with the advancement of the wisest, fairest usuage of human and natural resources.

BUSINESS ETHICS

The law is a floor. Ethical business conduct should normally exist at a level well above the minimum required by law.

One of a company's most valuable assets is a reputation for integrity. If that be tarnished, customers, investors and desirable employees will seek affiliation with other, more attractive companies. We intend to hold to a single standard of integrity everywhere. We will keep our word. We will not promise more than we can reasonably hope to deliver, nor will we make commitments we do not intend to keep.

In our advertising and other public communications, we will avoid not only untruths, but also exaggeration, overstatement and boastfulness.

Caterpillar employees shall not accept costly entertainment or gifts (excepting mementos and novelties of nominal value) from dealers, suppliers, and others with whom we do business. And we will not tolerate circumstances that produce, or reasonably appear to produce, conflict between the personal interests of an employee and the interests of the Company.

We seek long lasting relationships—based on integrity—with employees, dealers, suppliers and all whose activities touch upon our own.

PUBLIC RESPONSIBILITY

We believe there are three basic categories of possible social impact by business:

1. First is the straightforward pursuit of daily business affairs. This involves the conventional, but often misunderstood, dynamics of private enterprise: developing desired goods and services, providing jobs and training, investing in manufacturing and technical facilities, dealing with suppliers, paying taxes, attracting and holding customers, earning a profit.

2. The second category has to do with conducting business affairs in a *way* that is socially responsible. It isn't enough to design, manufacture and sell useful products. A business enterprise should, for example, employ people without discrimination, see to their job safety and the safety of its products, help protect the quality of the environment, and conserve energy and other valuable resources.

3. The third category relates to initiatives beyond our operations, such as helping solve community problems. To the extent our resources permit—and if a host country or community wishes—we will participate selectively in such

matters, especially where our facilities are located. Each corporate facility is an integral part of the community in which it operates. Like individuals, it benefits from character building, health, welfare, educational and cultural activities. And like individuals, it also has citizen responsibilities to support and develop such activities.

All Caterpillar employees are encouraged to participate in public matters of their individual choice. Further, it is recognized that employee participation in political processes or in organizations that may be termed "controversial" can be public service of a high order.

But clearly, partisan political activity is a matter for individual effort. The Company will not attempt to influence such activity in any city, state or nation. Caterpillar will not contribute money, goods or services to political parties and candidates, or support them in any way.

Where its worldwide experience can be helpful, the Company will offer recommendations to governments concerning legislation and regulation being considered. Further, it will selectively analyze and take public positions on *issues* that have a relationship to operations, when Caterpillar's experience can add to the understanding of such issues.

Finally, we affirm that the basic reason for the existence of any company is to serve the needs of people. The public is, therefore, entitled to a reasonable explanation of operations of a business, especially as those operations bear on the public interest. Larger economic size begets an increased responsibility for such pubic communications.

INTERNATIONAL BUSINESS

We believe the pursuit of business excellence and profit—in a climate of fair, free competition—is the best means yet found for efficient development and distribution of goods and services. And we believe the international exchange of goods and ideas promotes human understanding, and thus harmony and peace.

These are not unproven theories. The enormous rise in post-World War II gross national product and living standards in countries participating significantly in international commerce has demonstrated the benefits to such countries. And it has also shown their ability to mutually develop and live by common rules, among them the gradual dismantling of trade barriers.

As a company that manufactures and distributes on a global scale, Caterpillar recognizes the world as an admixture of differing races, religions, cultures, customs, languages, economic resources and geography. We respect these differences. Human pluralism can be a strength, not a weakness; no nation has a monopoly on wisdom.

It is not our aim to attempt to remake the world in the image of any one country. Rather, we would hope to help improve the quality of life, wherever we do business, by serving as a means of transmission and application of knowledge that has been found useful elsewhere. We intend to learn and benefit from human diversity.

We ask all governments to permit us to compete on equal terms with our competitors. This applies not just to the government of a particular country; it also applies to the substantial way such a government can control or impact on the business of a company in *other* lands.

We aim to compete successfully in terms of design, manufacture and sale of our products, not in terms of artificial barriers and incentives.

Senator GRAVEL. Our next witness is a panel made up of Don Woodward, president of the National Association of Wheat Growers. He is accompanied by William Prichard, vice president of the American Soybean Association; F. E. Guthrie, president of the American Rice Growers Association; A. W. Anthony, president of Texas Grain Sorghum Producers Association; and Thurman Gaskill, president of Iowa Corn Growers Association.

Gentlemen, if you please.

Senator CURTIS. Could I say a word here?

I want to welcome these representatives of agriculture to this panel. When I made the suggestion and request that these oversight hearings be held in reference to our trade program, I had in mind primarily agri-

culture. I was disturbed about the interference with the free flow of agriculture exports from this country, as we witnessed last fall.

I am delighted that you men are here. We may be interested at a later time in pursuing some of the questions that I prepared for asking Secretary Kissinger and his replies. I am very glad you are here.

Senator GRAVEL. If you could proceed to read your statements or summarize your statements, whichever you feel most comfortable in doing, then we will treat you as a panel and question you as a panel.

A PANEL CONSISTING OF: DON A. WOODWARD, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS; WILLIAM M. PRICHARD, VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION; JAMES O. WILLIAMS, ASSISTANT SECRETARY, AMERICAN RICE GROWERS COOPERATIVE ASSOCIATION; A. W. ANTHONY, PRESIDENT, TEXAS GRAIN SORGHUM PRODUCERS ASSOCIATION; AND THURMAN GASKILL, PRESIDENT, IOWA CORN GROWERS ASSOCIATION

Mr. WOODWARD. Mr. Chairman and members of the committee, I certainly recognize Senator Curtis' attitude toward agriculture. He has been a friend of agriculture in all the dealings I have known about. Being on the Agriculture Committee, we have come close together many times.

Thank you for this pleasure of meeting with you today to present the views of the National Association of Wheat Growers and of my colleagues on the U.S. foreign trade policy and the administration of the Trade Act of 1974.

I am Don Woodward, president of the National Association of Wheat Growers. Since 1937, I have actually engaged in farming in the Helix area of eastern Oregon, near Pendleton. In that area, I operate a typical Oregon wheat ranch.

With me to assist in this testimony are William M. Prichard, vice president, American Soybean Association; Jim Williams, American Rice Growers Cooperative Association; A. W. Anthony, president, Texas Grain Sorghum Producers Association; and Thurman Gaskill, president, Iowa Corn Growers.

We appreciate the opportunity to appear before your committee today on behalf of producers of wheat, soybeans, rice, grain sorghum, and corn. My statement is brief. Following my statement, each of my colleagues will comment.

We believe that a high level of exports of agricultural commodities is in the best interests of agriculture, the national economy, and the people of the importing countries of the world. The achievement of a high level of exports can be best facilitated through free movement of market forces. Any action to restrict international trade or to retard the adjustment of such trade to changing conditions of supply and demand is detrimental to the welfare of agriculture and the economy of this Nation.

Mr. Chairman, grain producers were very disturbed, and still are, about last year's Government-imposed restrictions on exports of wheat and feed grains and the manner in which trade negotiations were conducted. I refer specifically to the various recent actions taken by

the Federal Government, including the moratorium on sales of grain to the Soviet Union and the October 1975 agreement with the Soviet Union establishing guidelines for Soviet purchases of U.S. grain over the next 5 years, the bypassing of the Special Representative for Trade Negotiations, and the inadequate voice of agriculture in the grain agreements.

There was absolutely no need for an embargo in the face of record crops of wheat, feed grains, and rice. The extension of the embargo from September to October greatly added to the original error. At the time the embargo was imposed, the 1975 production of wheat and other small grains was almost precisely known.

Although the corn harvest was estimated with a greater potential variation than for wheat, additional purchases and shipments to Russia within this market year were pragmatically moot mainly because of the limited capacity of Russian ports to receive more grain. The effect of the embargo was to cause Russia to turn to other countries for her immediate needs. This depressed prices to our farmers, and will increase our more than adequate carryover at the end of the year.

The National Association of Wheat Growers last autumn retained a legal firm, Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C., to make a comprehensive analysis of the recent efforts by the U.S. Government to restrict sales of grain to the U.S.S.R. and other countries. I am submitting to you as an exhibit to this testimony a summary of their report. However, I would like to briefly review their findings as follows:

We have been advised that substantial legal grounds exist for challenging the legality of the October 1975 Soviet grain agreement as well as certain actions arising out of the moratorium on grain sales to the Soviet Union, which was arranged by the executive branch in July 1975.

In this regard, counsel indicated the following legal conclusions:

In their view, the President and other executive branch officials did not have authority under either the Constitution or existing legislation to enter into the Soviet grain agreement.

The "prior approval" system of export licensing put into effect in October 1974 and the moratorium on sales to the Soviet Union in the summer and fall of 1975 were inconsistent with specific provisions of the Export Administration Act, which is the law passed by Congress regarding export controls.

Conduct engaged in by grain trading companies and executive branch officials to implement the 1975 moratorium on sales may have violated the antitrust laws of the United States.

Thus, it is our observation that the administration has used makeshift controls to restrict U.S. grain exports over the past 1½ years for basically domestic political purposes. These steps were of questionable legality and were taken without consultation with farm groups, public input or discussion.

In our view, what our Government should have sought from the Soviet Union was not an agreement regulating grain commerce between the two nations, but rather, an obligation to provide better and more timely exchange of information regarding grain production, crop conditions, supplies, port capabilities, and import requirements. We feel this approach would have led to improved decisionmaking on

the part of farmers and Government, and would have prevented the economic damage which we feel has been produced by the moratoriums on sales and conclusion of the U.S.-U.S.S.R. grain agreement.

During recent months, experience in grain export marketing efforts, including sales to the Soviet Union, have brought into focus several conflicting goals:

1. Grain farmers and exporters are convinced that maximizing exports of agricultural commodities, such as wheat, corn, soybeans, rice and grain sorghum through a free market approach benefits not only the farmer, but all of the 215 million American people. During the present fiscal year, July 1975 to June 1976, U.S. agricultural exports are expected to reach about $23 billion while agricultural imports will be around $10 billion. This means a favorable balance of agricultural trade of almost $13 billion.

Last year, fiscal 1975, farm exports had a net plus of $12 billion. It more than offset the $10 billion deficit in the international trade of nonfarm commodities, including the imports such as oil, foreign cars, TV sets, et cetera. The farm exports pushed the U.S. foreign trade balance into the black by more than $2 billion.

Farm exports help to promote full employment in the United States. The USDA has estimated that every $1 billion of farm exports means another 50,000 jobs for Americans. Thus, the $23 billion of farm exports means more than 1 million jobs for the people of this country—largely labor in our factories, railroads, the shipping industry, seaports, and many other places.

2. Some domestic consumer interests have objected to increases in food costs and have favored export limitations as a way of countering increased foreign demand. Actually the price of wheat to our farmers has very little impact on retail prices of food products. In January 1975 the price of bread averaged 37.2 cents a loaf and the spread was 29.3 cents with farmers receiving 7.9 cents. In December 1975 a 1-pound loaf of bread retailed for an average of 35.3 cents. Farmers received 6.3 cents of this amount. Both farm and nonfarm segments of the bread industry have reduced their returns, with lower priced bread. However, farmers' returns have been reduced by 20 percent, whereas the nonfarm returns have been reduced by only about 1 percent.

3. Some people favor agricultural export restraints as a political weapon, that would enable the United States to use its food export availability to obtain political concessions from other countries. Such people favor the use of grain to extract political concessions from the Soviet Union. This proposition is fallacious for several reasons.

First, if the United States refuses to sell grain to the Soviet Union, they can buy from other large exporters, such as Canada and Australia. Second, if Russia's needs cannot be met directly by the normal exporting countries, purchases of United States grain could be made indirectly through a third country. Third, history indicates that Russia's political decisions are not based upon the contingency of grain imports.

4. Labor groups, during the past year, took action to use U.S. grain export commitments as a bargaining level to achieve economic concessions for their groups. The shortsightedness of those groups should be plainly evident from the above facts which show that the costs to labor through increased unemployment brought about by reduced

exports of grain, plus the costs to labor of a less favorable balance of trade and retardation of our national economy, far outweigh any localized benefits to labor unions.

5. A representative of a large labor union has indicated favoring government-to-government sales of grain. Under this idea the existing private marketing system would be replaced with a Government export agency with responsibility to determine at what prices it would buy from farmers and sell to overseas customers.

The economic impact of such a dual pricing structure and change in the system of marketing on American agricultural productivity and the national economy could be catastrophic. As evidence of this likely impact, I refer to past policies and productivity of Argentina.

A report on the history of the Argentine Republic, by Alejandro Carlos, shows that from the 1930's until the early 1970's Argentina invoked a series of taxes and restrictions to channel revenue from agriculture to other areas of the economy. The resulting low prices to agriculture did much to stifle innovation and investment. Agricultural production actually declined in that country for both wheat and corn, while during the same period in the United States wheat and corn production more than doubled. During the same period marketing of beef and veal in Argentina increased roughly 25 percent, while in the United States such marketings more than trebled.

Thus, we conclude that any attempt to insulate food prices in the United States from world demand will result in sharply lower production of food supplies, increased migration of agricultural workers to seek nonfarm jobs, lower returns to farmers, and substantial weakening of our national economy.

In conclusion, it is the strong feeling of the NAWG that the executive branch did not act in accordance with export control statutes in carrying out its sales moratorium and other restraints on export grain sales, and that the President lacked authority to enter into the 5-year grain agreement with the Soviet Union. In addition, the NAWG and farmers generally feel that their interests were bypassed in the course of recent U.S. foreign agricultural policy developments, and that they have had no input into the commitments made with respect to the commodities they own and produce.

Agriculture must have a significant role in the development of U.S. foreign trade policy, and its views must not be ignored or overridden by policymakers lacking an understanding of agriculture. We urge the committee to clarify the congressional intent of existing legislation dealing with exports, and we urge consideration of actions which would assure agriculture a voice in policymaking decisions.

Now I will call on my colleagues to make a few remarks at this time. First, we will have William M. Prichard, Vice President of the American Soybean Association.

Mr. PRICHARD. Thank you, sir.

Mr. Chairman, I am a farmer from Georgia. I have a written report which I would like to have inserted in the record.

Mr. PRICHARD. I would like to deviate a little bit this morning and give the feelings of farm people about the determination of agricultural policy, both domestic and foreign, and what we think about it.

Observation of the American scene clearly shows that more and

more sectors of our society use militant and arrogant tactics in achieving their wants and desires. Farmers have no inclination or desire to be mean and arrogant except as a last resort on being treated unfairly by our public institutions. At least 300,000 soybean farmers in 14 States contribute checkoff funds for market development in foreign countries.

We believe in self-help for our production. It would appear asinine for us to continue such efforts to help ourselves and the national economy when obstacles such as export controls, licensing, monitoring, and moratoriums are thrown in our path each year after being encouraged to produce from fence row to fence row with assurance by Government of no interference in marketing of our production.

Yes; the national economy needs agricultural exports in order to have a favorable balance of payments. There is no other sector of U.S. industry that can accomplish this. Only agriculture has the efficiency, productivity, and competitiveness to insure our continued ability to pay for the imports necessary for our standard of living.

We in agriculture have no desire to become the American peasantry dictated to by unions, consumer groups and departments of Government which have no understanding of our problems.

It is high time that the American people wake up to the fact their survival depends on the American farmer. If the farmers of this Nation go bankrupt, there will be a rude awakening as the consumer groups, labor leaders, politicians, and bureaucrats berate themselves in dividing up an empty food pot.

The mood of the American farmer is one of frustration and desperation. Faith and hope, former bulwarks of the farmer, are not enough anymore. He wants fair treatment in the marketplace and some appreciation from the Nation for his efforts in supplying the highest priority of human needs.

Agricultural policy cannot be determined by the "instant experts" who have little or no knowledge of the problems of production and marketing of farm products. We think that agricultural policy should be turned back to USDA and the Congress. A profitable agriculture almost surely guarantees our survival as a nation. A cheap food policy may serve the short-term public interest, but will ultimately destroy our most basic industry and our free society.

Thank you, Mr. Chairman.

Senator GRAVEL. Thank you.

Mr. WOODWARD. I would like to call on Mr. James C. Williams with the American Rice Growers Cooperative Association.

Mr. WILLIAMS. Thank you.

Mr. Chairman and members of the committee:

My name is James C. Williams. I am assistant secretary of the American Rice Growers Cooperative Association, which has a membership of some 2,500 rice producers in Louisiana and Texas. I am also assistant secretary of American Rice Growers Exchange, a federated farm supply cooperative; and assistant secretary of American Grain Association, a soybean marketing cooperative. Our headquarters are located in Lake Charles, La., and we serve the farmers of Texas and Louisiana.

I appreciate the opportunity to speak before you and try to present our farmers' views on a certain matter inherent to our survival, U.S. agricultural export policies.

Our cooperative organizations are vitally interested in agricultural exports. The area we serve, Louisiana and Texas, produced over 500 million hundredweight of rice in 1975, which is 40 percent of the U.S. production. The United States produced 127.6 million hundredweight of rice this past crop year and domestic consumption will amount to approximately 29 million hundredweight, which leaves 98.6 million hundredweight available for exporting.

The USDA earlier estimated that 70 million hundredweight would be exported. However, I think they are ready to revise their figures. Therefore, we in the rice industry could be looking at a carryover of 30 to 35 million hundredweight of rice unless additional export markets are developed, or Americans drastically change their eating habits.

A normal carryover of 10 to 12 million hundredweight is a livable condition. As you can see with 77 percent of our production available for the export market, assuming no carryover, the American rice farmers are entitled to a voice in the U.S. export policy.

We could not be more concerned than at the present time, which finds us facing an extremely depressed market with rice prices below production costs in many areas. This is a situation caused by a record U.S. crop as well as record world crop, and the lack of foreign market development which the present administration has been assuring us would develop.

There is 90.9 million hundredweight of the 1975 rice crop still on hand, which is 32 percent higher than at the same time last year, and 74 percent above the January 1, 1974 stocks. Neither the Public Law 480 foreign markets nor cash foreign markets have materialized as the USDA said, thus resulting in this huge stock and low price of rice. Our present economic plight shows what affect the lack of our voice in agricultural export policy can have on the products we produce.

As mentioned earlier I also am assistant secretary of American Grain Association, a soybean marketing cooperative, and assistant secretary of American Rice Growers Exchange, a federated farm supply cooperative. Farmers who placed their beans in the association's pool last fiscal year received a total of $6.50 per bushel. This year they will do well to get $4.50. This drastic drop in soybean prices was caused by a number of things such as: The second largest soybean crop in U.S. history; a large carryover of 186 million bushels from the 1974 crop and an expected record carryover of 365 million bushels this year; the large Brazilian crop; the competition from other oil-producing commodities; and the grain embargo imposed by the administration.

The grain embargo probably had the greatest direct effect on the reduction in grain prices for the 1975 crop. Markets were lost to other nations and to substitute products.

The U.S. produced 1.521 million bushels of soybeans in 1975 and domestic consumption is placed at 867 million bushels, which leaves 654 million available for export. It is estimated that we will export 475 million bushels, thus adding 179 million to our carryover.

Again we are looking at an agricultural industry which must export a very large share—43 percent in 1975—of its production or cut back production to inefficient levels. All of the clamor coming out of Washington is for all-out production rather than cutbacks. We do not agree with this, particularly in the rice industry, and see that it can only

have its advantages to farmers if the demand and markets are there.

We favor agricultural exports and realize that the United States has a definite competitive advantage in our farm products. It is a fact that U.S. farmers are the most efficient producers in the world. Agricultural exports are also critical to our balance-of-payments position and its effect on the value of the dollar. In 1974 our farm exports amounted to $24 billion and almost wiped out the $25 billion that were required to purchase foreign oil. Agricultural exports are also important in maintaining our capacity for the benefit of the American consumer.

Since we realize that agricultural exports are essential for the survival of our present farm structure, we as producers and representatives of farmer associations think that we deserve a voice in the U.S. agricultural export policies.

I have yet to see outsiders involved in collective bargaining with labor unions when their contracts are negotiated. Yet the compensation demanded by such large organizations does affect every American citizen since labor costs, in some instances, comprise the largest share of production costs for many products. Therefore, we as farmers were upset and are still concerned over George Meany's interference in our farm exports and the resulting relinquishment by the administration.

Possibly some good did result. We doubt it, and I should say that it cost us farmers plenty this year. We think that the approach to the United States-Soviet agreement was wrong and fear that a very dangerous precedent may have been activated. The embargo affected all grains. The agreement reached with the Soviet Union involved only corn and wheat.

Agricultural people should be involved in such agreements not just agricultural economists who adhere to the economic textbooks or State Department officials. It appears that our State Department is having more say-so in agricultural export policies than anyone. We do not agree with this since the State Department's interest doesn't or, I should say, seldomly parallels those of farmers.

In closing we admit that farmers are not well organized in comparison to labor or private companies, so we need the help and understanding of Congress and would also like that of the administration. But it seems that the administration is married to the idea of getting Government out of agriculture or, in the Secretary's words, having a "free market."

We contend that the so-called "free market" does not exist outside of the academic textbooks. Just look at the Government's regulations in any and every type of American business. Farmers cannot be steady producers without a profit, and exports are essential for this profit. Therefore, to protect our interest we ask that agricultural export policies involve us.

Mr. WOODWARD. I now would like to call on Mr. A. W. Anthony, Jr. He is president of the National Grain Sorghum Producers Association.

Mr. ANTHONY. Thank you.

I would like my entire statement to be entered into the record, but I would like to summarize it.

Mr. WILLIAMS. We feel that the Government embargo and restrictions have hurt our market prices by at least $1 per hundred points

or 56 cents a bushel. This is a total of $431 million in the 1975 grain sorghum crop alone. This is not only a loss to our farmers, but to the entire U.S. economy.

The Grain Sorghum Producers Association commends you for having these hearings. We trust that you will take action to see that the Government price record actions will not happen again and that the farmers and our foreign customers can regain some of their confidence in the leaders of our Nation.

Senator GRAVEL. Thank you.

Mr. WOODWARD. I now would like to call on Mr. E. Thurman Gaskill, president of the Iowa Corn Growers Association.

Mr. GASKILL. I would also like to have my statement entered into the record. I will just summarize it very briefly and hopefully we can use the time for questions and answers.

My name is E. Thurman Gaskill. I am a corn grower from Corwith, Iowa, and president of the Iowa Corn Growers Association.

My basic concern at this point in time of agriculture and Government is with the President's Economic Policy Board/National Security Council Food Committee, which is made up of the Secretaries of State, Treasury, Agriculture, Labor, and Commerce, the Chairman of the Council of Economic Advisers, the Director of the Office of Management and Budget, the Assistant to the President for Economic Affairs and Assistant Director of the Council of International Policy, the Assistant to the President for National Security Affairs.

My concern is that these people are making the decisions of our country. I would hope at some place along where these decisions are being made that the farmer would have an opportunity to express himself and his concerns.

I will conclude my statement with that and open it up for some questions and answers.

Senator GRAVEL. Thank you very much, gentlemen.

With respect to the action that was taken by the Executive, we heard comment on that before. I am wondering if you would have a contribution to make or an opinion to give us as to how the consumer in some respects could be protected. I can appreciate the desires you have on the side of price, but what happens if you get a monolithic economic force like the Soviet Union which would come in here and purchase at will quantities that could be absolutely horrendous and cause a great shortage, a great shortage which would, either deny our consumers the right to enjoy the fruits of our efficient farm community or would obviously drive up prices.

How do you reconcile this problem?

Mr. WOODWARD. In the first place, you are speaking of the Soviet Union. It would be impossible for them to ship from this country enough wheat to short our market under normal or even less than normal production in the United States.

As far as the price to the consumer is concerned, it is mostly psychological. This is a point, I think, that has to be taken into consideration.

We feel that there are so many more benefits to the consumer from a free and open market where our balance of trade is improved, production, instead of being stifled, would be expanded. There would be more employment. I think the whole overall picture would suggest

of having free and open markets. I think the consumer would receive benefits from this.

Senator GRAVEL. Do we have parity when we have government establishing prices on certain commodities?

Mr. PRICHARD. Tobacco and peanuts in particular, and rice.

Senator GRAVEL. But with wheat or grains it is not the case.

Mr. WOODWARD. Other than influencing.

Senator GRAVEL. I take it that there is no way that the Soviet Union could conceivably purchase quantities that would be injurious to our marketplaces, other than in relation to psychological impact. There was a perception of a shortage and that drove the price up. Is this a fair statement?

Mr. PRICHARD. At the time last year when the moratorium was declared, there was a surplus in about everything. I will soon be 63 years old and there has never been a time in my lifetime that there hasn't been plenty of food. They might not have had the money to buy it, but it was there even during the depression days. I know that as a fact.

Senator GRAVEL. I think I agree with you with respect to the United States as far as the supply problem. But I am concerned with what did happen in the marketplace so that the price was driven up at a time—and I am not speaking of last fall—when the Russians first came in with their purchases. They caused all kinds of reaction in this committee and across the country. That drove the prices right up on the shelf.

We get a reaction from the consumer when we let the Russians come in and buy at will. The reaction of the administration was to go out and negotiate long-term contracts. I don't know if there is any validity to it, but you people are telling me you don't need any long-term contract, since there is nothing they could do in buying that could cause any difficulty to the consumer. That is the message I am getting from you.

Mr. WILLIAMS. I think it is fine to try to protect the consumer, but if you will look at the price of rice, a couple of years ago it was triple what it is now. If you still buy it in the supermarket, you will be paying approximately the same price.

So sometimes there is not a direct relationship between what the consumer pays for it and what the farmer receives. So possibly the consumers' price should be looked at in a little different respect.

Senator GRAVEL. That may well be the case. I voted the other day for opening up the market situation with respect to rice. I feel very strongly about an open market.

Could I pose one quick question? Our ability to export and produce at the levels that we can bring great benefits not only to the farming community, but to the Nation. We have in the world today about a billion people who go hungry, who literally live on the edge of starvation. Our ascribes to the theory that we would not try to limit production in any capacity. This has some tones of immorality when we have the capacity to produce and when we limit our production, and there are hungry people in the world.

The problem is a mechanistic one.

It is how to get the food that we produce to these poor people. Has there been any thought given by the agricultural community as to

how we could figure out ways of transfering capital, money, to these people to buy our food? Do you have any recommendations to make in that regard?

We have hungry people. We have the ability to produce. We can sell and it will add to your prosperity. Has anybody given any thought as to how we get some money into the hands of the hungry people to buy food which we can produce?

Mr. GASKILL. I had the opportunity to be at the World Food Conference. On my way through Tokyo, speaking at the Asian Food Conference and from there into India and Southeast India, on the edge of Bangledesh I witnessed 100,000 people starving. The women were devouring the limbs of the children after they had been diseased.

Perhaps I would have to mentally prepare myself to go back into that area and then proceed on to the World Food Conference in Rome.

I would like to say I have given that a considerable amount of thought. Based on the most economic sector of this country, agriculture, I feel it is going to have to be a long-term program on the principle of the culture, the region, the politics in developing nations of the world.

In the case of India, which just spent $200 million to develop an atomic bomb at that time, if you observe through the country what I did, you hope that perhaps we can provide technology of some kind so that they can begin to help themselves build their economy to the point where their economy is strong enough to purchase products from this country.

Of course, then we start into the cycle—perhaps we have some criticism about it—of developing competition for ourselves. In that case then we have to look at the world as a whole and decide what sector of the world can do the most efficient job, and let them do it.

Pehaps I am too much of an idealist to approach such a large problem that we have.

Senator GRAVEL. In the last decade we have decreased the amount of help to anybody in the world to provide that self-help. So I share your views. But the trend has been going the opposite way. I want to underscore the fact that that trend also operates against potential prosperity of your own areas, the domestic areas in this country.

Mr. WOODWARD. I would like to add to and emphasize what Mr. Gaskill had to say. I agree with him completely, it is a long-term proposition.

I have participated in the marketing branch of the National Association of Wheat Growers organization and have seen Japan—benefit from marketing, and help from the Foreign Agricultural Service. It has been built up, first the Public Law 480 type of gift program, and it worked into the sale of cash wheat. Japan at one time became the largest cash buyer of wheat in the world.

India has also gone through this procedure and at one time was the largest cash buyer of wheat from the United States. These things happen. Really, the way to do it is to increase their economies. Their economies increase when you begin to bring things in to them.

It seems to instill a spirit in them. Then they aren't satisfied with living so low on the hog, you might say.

We are talking about a long-term process. As you just mentioned, Mr. Chairman, we are kind of reducing our food aid type of program.

But this is a mistake because many of these economies that we have helped build, have benefited greatly the P.L. 480 program. There is always a fight for that money, and that money isn't worth what it used to be, so it is actually much smaller than it sounds.

We need these programs. I feel that maybe in using money militarily, maybe some of that should be used in a Food for Peace program and to gain allies in this area. I think there is a tremendous approach in this direction.

Senator GRAVEL. I may have a proposal later in the year that I will be taking to your doorstep for support.

Senator CURTIS. We must get back to the trade matter. I might say in passing that the Public Law 480 program does exactly what the chairman is talking about.

Mr. WOODWARD. Yes.

Senator CURTIS. It enables people to get food without having cash to get it. That was an agriculturally developed program. It has gone on for years. It has done a lot of good for a lot of hungry people around the country. It is not perfect. It is not a complete answer, but agriculture again has come up with the only answer that anybody in our economy has.

In reference to price to farmers and price to consumers, would you agree, Mr. Woodward, with the statement that during the last couple of years or so bread has gone up 11 cents, but only 1½ cents of that can be traced to the price of wheat?

Mr. WOODWARD. That is approximately correct.

Senator CURTIS. I think it has to be considered absolutely morally wrong to seize somebody else's property when they talk about using the force of government to force down farm prices. That belongs back in some previous century of seizure by government and slave labor, and so on.

The Government of the United States does not have authority under our system at all to use the power of government to beat down people's incomes. They don't do it with reference to anybody else, but that is what these embargoes do.

I would like to ask this question and whoever wishes on the panel can respond to it. What impact did the moratorium on grain shipments to the Soviet Union and Poland have on our traditional customers, such as Japan?

Mr. GASKILL. I am sorry, sir. I did not hear the question.

Senator CURTIS. What effect did the moratorium on the Soviet Union and Poland have upon our traditional customers like Japan?

Mr. GASKILL. I should probably let Mr. Prichard answer this in behalf of the soybean people. The Japanese who purchase, I believe around 90 percent of their food outside of the country, turned to Brazil. Mr. Prichard, do you have the figures on the volume that they purchased in that period of time?

Mr. PRICHARD. They originally purchased about 27 million bushels of soybeans a year. Most of them have been coming from the American market, but our percentage has been going down, Mr. Chairman, in the last 3 or 4 years.

Senator CURTIS. In other words, it gives us an image of an unreliable supplier, isn't that right?

Mr. PRICHARD. Yes, sir, everywhere I have been in the world where we have had American development programs, the first thing that hits you when you get there talking to these trade people is "You are not a reliable supplier. We are going to look for a reliable supplier."

Of course, that is costing us some of our markets. That is one of the reasons, of course, during the moratorium that soybeans fell from a price of about $6.05 through the local points to a low of about $4.15. That happened in the course of about 75 days.

Senator CURTIS. These people who advocate curtailing exports of agricultural products for their own selfish aim will be surprised that it doesn't lower the price of groceries to consumers.

Mr. PRICHARD. Right.

Senator CURTIS. Also they are speaking directly in opposition to the general good of the country because it has been established that for every $1 billion worth of farm exports there are 50,000 jobs in this country.

Mr. PRICHARD. That is correct.

Senator CURTIS. Our farm exports amounted to $23 billion in 1975.

Mr. PRICHARD. Mr. Chairman, could I add to that?

Senator CURTIS. Yes.

Mr. PRICHARD. It has always been of some concern to me and to others in agriculture that people engaged in farming in the United States are 50-plus years old at the present time. Young people need to be attracted into the agriculture game to provide a food supply adequate for our future population, say, 15 to 20 years from now.

The only way this is going to be done is through an incentive system.

Senator CURTIS. Through prices.

Mr. PRICHARD. That's right. If it is not there, the youngsters are not going to do it. They are not going to mortgage their souls for 40 or 50 years to provide cheap food to anybody. You can put it in your hat and smoke it, but that is what is going to happen.

Senator CURTIS. We don't need to worry about any shortage in this country. Some people get alarmed about all the dairy farms going out of business. If there is enough profit in it, they will come back.

If you know, or would prefer to submit your answer for the record if you don't, as to the price of a particular commodity you represent. What was the price 6 months before the moratorium and what was it 6 months following?

Mr. PRICHARD. I just gave you the figures on the September prices in our particular area at local markets of $6.05 for soybeans. In 75 to 80 days they had dropped from $6.05 to $4.15 per bushel. Now they are running around $4 or 45 to 50 cents cash at country buying points.

Senator CURTIS. Mr. Woodward, what was the experience with wheat?

Mr. WOODWARD. It was approximately $4.50 and has dropped to approximately $3.50 now.

Senator CURTIS. What is it now?

Mr. WOODWARD. About $1 or a little more drop. It is about $3.50.

Senator CURTIS. What was the situation with reference to corn?

Mr. GASKILL. In central Iowa we ran about $2.69 to about $2.75. Presently we are at about $2.25 to $2.30.

Senator CURTIS. Did any of the rest of you have any experience?

Mr. ANTHONY. For grain sorghum it dropped to $3.70.

Senator CURTIS. Rice is a different situation.

Mr. WILLIAMS. I might add that we also have a soybean market cooperative. Last year the members who placed their beans in our seasonal pool received $6.50 per bushel. This year they will do well to get $4.50.

Senator CURTIS. Were there any shortages of these crops at the time of the moratorium?

Mr. PRICHARD. No, sir, really, we had a surplus.

Mr. WOODWARD. Also the fact, I feel, that the price of wheat, without interference, would have gone up another dollar.

Senator CURTIS. Our experience with the U.S.S.R. may indicate a trend toward market sharing. Do you think this runs contrary to the U.S. foreign trade objectives?

Mr. GASKILL. I didn't understand that, Senator. I am sorry.

Senator CURTIS. It might indicate a trend toward market sharing. Do you think that that is contrary to the U.S. trade objectives?

Mr. GASKILL. I am not that familiar with it. I feel that our trade objective, of course, is to try and operate at full production capacity in this country. The feeling of the administration is that we have the market potential around the world to be able to buy this full production capacity without depressing the prices to American agriculture.

In our own case the price of corn now in central Iowa—I haven't heard the last 3 days since I left—was about $2.25 or $2.30. The USDA cost of producing corn in 1970, the most recent figures I have, is $2.64.

Senator CURTIS. Shippers will receive $16 a ton under the U.S.-Soviet maritime agreement, nearly twice the going market rate. Do you think this excessive shipping rate will inhibit Russian sales once our world supply becomes more ample?

Mr. GASKILL. As you well know, the Russians are good businessmen and they are going to go shopping wherever they can buy the cheapest. That additional shipping rate will be added onto the cost and ultimately we are concerned of shippers pricing our product over and above some of our competitors.

Senator Gravel [presiding]. Senator Packwood?

Senator PACKWOOD. Good morning.

Let me ask you a specific question. Let me also read you something. I think Agriculture was doublecrossed in the treaty negotiations with Russia. I think they were sold down the river for an exchange of grain. I am not on the other side of it. I wish I knew what we got.

I don't see any benefit to Angola or détente or arms or anything else we were supposed to get for the doublecross. Anyway, I will read you a couple of things that you can have for your records.

In 1974 when we passed the Trade Act, we specifically wrote into the section that economic interest groups would be cultivated, that associations would be informed and businessmen and agriculture and everybody was to be involved in discussions that affected their sector.

We even pinpointed sector-by-sector bargaining so that no one would have to be mousetrapped and have something concluded without their at least knowing they were being done in. That was very specifically written into the law.

I will read you a couple questions and answers. This is a question I asked of Dr. Kissinger. After Dr. Kissinger said he agreed with this, I agreed that various economic interests should have an opportunity to be heard.

I asked him this question:

Can you tell me specifically which trade association groups were involved in the long-term grain agreement with Russia?

Secretary KISSINGER. That would not be handled by my Department. Maybe Mr. Bell could discuss this.

Mr. BELL. There was no consultation, Senator——

Senator PACKWOOD. That is what I thought.

Mr. BELL [continuing]. Because of the nature it unfolded in.

Senator PACKWOOD. There was no consultation with any grain trade association in this country, was there?

Mr. BELL. No, sir.

Later on I asked him another question:

Senator PACKWOOD. Mr. Bell, did you use your Agriculture Policy Advisory Committee or the Agriculture Technical Advisory Committee, and Feed and Grain Committee?

Mr. BELL. No, we did not.

Nobody knew about this in the entire farming community, no association, nothing. I can only conclude that this agreement was sprung on this country for some reason that we don't know yet. I don't know what the trade offer was. But you were the goats.

When it comes to export, forget limitations. This was a stronger violation of what Congress intended because the act that we passed, the 1974 Export Control Act says:

The authority conferred by this section shall not be exercised with respect to any agricultural commodity without the approval of the Secretary of Agriculture. The Secretary of Agriculture shall not approve the exercise of such authority with repsect to any such commodity in any period for which the supply of such commodity is determined by him to be in excess of the requirements of the domestic economy.

That was passed after the Russian grain agreement in 1972 and after the soybean export embargo in 1973. Congress knew full well what it was doing when it passed that.

Now we come up to last year. There is no doubt we had so much surplus last year in all commodities that this country couldn't have eaten it, fed it to animals, or burned all the surplus we had last year.

I asked Secretary Kissinger:

Mr. Secretary, when you were faced with this situation, where you looked for a temporary limitation on the export of wheat, the Congress indicated that they did not want to have a limitation unless there was a domestic short supply, and you had to find a way of getting around the congressional intent.

Secretary KISSINGER. It wasn't a question of getting around the congressional intent; it was a question of the President having concluded that a certain course was in the national interest, and talking to American citizens to convince them of the wisdom of this course.

If they had refused, he had no authority to compel them.

He was talking about use, not farmers. He had been talking about voluntary restraints.

Then we find further:

Senator PACKWOOD. Is that what you mean by voluntary restraints?
Secretary KISSINGER. That is correct.
Senator PACKWOOD. They voluntarily agreed not to export the grain?
Secretary KISSINGER. The farmers achieved, in our judgment, all the sales they were going to achieve anyway, and the restraint, the voluntary restraint, was not carried out.

I want you to answer, have you achieved all the sales you were going to achieve, and the embargo makes no difference?

Mr. WOODWARD. We hadn't even finished producing some crops so obviously we achieve all the sales we were going to achieve. There were very few sales compared to the overall picture at that time.

Senator PACKWOOD. Are you convinced you could have made substantially more sales except for this potentially threatened embargo?

Mr. WOODWARD. Very conceivably.

Senator PACKWOOD. And countries waiting around wondering if they can buy from the United States, they had to find supplies someplace.

Mr. PRICHARD. During that moratorium, Senator Packwood, we had to carry over 180 million bushels of soybeans with crop of 1.5 billion coming off at that particular time. What happened was that the Russians, under this moratorium, bought 1.5 million metric tons of beans from Brazil, which we could have sold. We know for a fact, that we could have had that sale.

Senator PACKWOOD. I think Secretary Kissinger decided he shouldn't pursue further the argument that the farmers voluntarily restrain themselves in exporting. The theory he was trying to propound was that it didn't violate the act.

He then shifted gears slightly. I asked this question:

Senator PACKWOOD. In conclusion, what you are saying is this, that there was no embargo, that farmers voluntarily restrained themselves from exporting?
Secretary KISSINGER. I am saying that in working with the grain companies, we achieved a voluntary restraint.

I am rather curious about your statement. According to page 2 you say:

Conduct engaged in by grain trading companies and executive branch officials to implement the 1975 moratorium on sales may have violated the antitrust laws of the United States.

What kind of conspiracy or collusion was there when the executive branch and the grain trading companies achieved this so-called voluntary restraint?

Mr. WOODWARD. Being an Oregon wheat farmer and not a lawyer, I would like to refer that question to my lawyer. Would you like to hear his answer?

Senator PACKWOOD. I would love to hear the answer.

Mr. WOODWARD. Mr. Steve Gibson of Arent, Fox, Kintner, Plotkin & Kahn.

Mr. GIBSON. We conducted the legal analysis that Mr. Woodward referred to looking at the whole range of actions that were taken, the question of legality, the President's authority to enter into an executive agreement regulating trade and the way the moratorium was imposed.

Our conclusions agree very much with the view you have expressed

this morning, that moratorium was inconsistent with the Export Administration Act.

On the question of an antitrust violation or the possibility of an antitrust violation, it seemed to us that no single company would have withheld sales acting alone if his competitors were going to go forward with sales. So there is at least circumstantial evidence of joint action among the companies who were holding sales.

We found nothing in the law or in the judicial precedence that indicates that the President or the executive branch can say it is OK to act jointly in restraint of trade. He doesn't have authority to immunize conduct that otherwise would violate the antitrust laws.

Senator PACKWOOD. Let me ask you further. There is no reason that the grain trading companies would want to stop exports except for some coercion from the executive branch, is there?

Mr. GIBSON. We are outside looking in. We don't really know what is going on, although the heads of Cook and Continental testified before a congressional committee about the 1974 contracts which we were asked to cancel.

One can only speculate, and I am reluctant to do that, about their motives for acting. We do know that the executive branch announced a moratorium and the moratorium was effective.

Senator PACKWOOD. I am convinced that, if not legally, at least morally the executive branch violated the antitrust laws for 1974, that clearly agricultural products are not embargoed short of a domestic supply. I haven't heard a farmer say he wanted to sell America down the river. If we are short, I'm sure they are going to feed America first.

Mr. GIBSON. I would like to make one clarification. We don't have a lawsuit. We have rendered legal advice to the association and that is where it stands.

Senator CURTIS. Would you yield there?

We have a pattern of buying and selling grain in this country. It isn't for the good of agriculture, but it was developed during all the years of surplus under a plan of commodity loans and huge storages and surplus, the grain was always there. Oftentimes the Government owned it.

Consequently processors and other purchasers of grain and other farm products in this country didn't have to buy for the future. They didn't have to invest any money in inventory because it was always there. Fortunately that situation is gone.

There is nothing in the law or any reason why processors and other users of farm commodities can't go in a month ahead of time and buy. It would be to their advantage. It would be to everybody else's advantage. They can buy cheaper sometimes and if they buy ahead of the commodity, they will oftentimes make a good deal for themselves as well as pick up a soggy market.

There could be no circumstance where, if American business is alert—and they always are—that they wouldn't have first chance of everything that is produced.

Senator PACKWOOD. It bothers me that somehow the administration first violates the Control Act and then violates our intent on consultation when they concluded the Russian grain agreement. Yet there is something to come to the fore that was allegedly off. I don't

know what it was, but the farmer got dealt out in exchange for something that I have yet to find a reason for.

I thank you very much for the testimony. I have no more questions.

Mr. GASKILL. Senator Packwood, I would like to comment on one statement you made about the farmer having a voice in decisionmaking which was the basis for my testimony to be placed in the record today.

Under Secretary of State Charles Robinson, who headed the U.S. team that negotiated the grain agreement with the Russians, explained our food policy before the Senate Agriculture Committee hearings on January 22, I belive. He said:

> Balanced decisionmaking is necessary to serve the national interests. We have carefully designed coordinated mechanisms which apply to the key responsible officials to consult and solve problems that involve more than one agency. The major unit is the Economic Policy Board/National Security Council Food Committee.

I have mentioned earlier who these people are from the Government. This unit gave daily instructions to U.S. negotiators in Moscow during the grain negotiations last year and is continuing to monitor closely all aspects of U.S. agricultural production and sales.

The food deputies group is made up of other high-ranking officials of the same agencies, with the addition of a representative from the Central Intelligence Agency. Much of the day-to-day work of formulating food policy is made by this group.

Senator PACKWOOD. But there are no farmers on that group.

Mr. GASKILL. My concern is that the farmer deserves to be consulted. The NSC Food Committee should provide the opportunity for farm input on a regularly scheduled ongoing basis. The committee can hold public hearings around the country. They can report their decisions in the Federal Register, answer to Congress on a scheduled basis.

In summary, the Food Committee must be held accountable is my feeling, Senator. and accountability should start with the farmer. It is his livelihood. It is his future.

The administration has called balanced decisionmaking an essential goal in the formulation of food policy. Balanced decisionmaking in this area is impossible without the input from the American farmer, where it all begins.

Senator PACKWOOD. What you mean is we have bargaining units and we have industrial foundries bargaining units. Everybody isn't happy with the outcome, but they have been consulted and they have a hand in the outcome. This was not true in the Russian grain agreement. It was deliberately held secret from the farmers for reasons I don't know.

Senator GRAVEL. It was kept secret also from the Congress.

Thank you very much, gentlemen.

Mr. WOODWARD. Thank you.

[The prepared statements of Messrs. Prichard, Anthony, Gaskill, and Lawson follow:]

STATEMENT OF WILLIAM PRICHARD, VICE PRESIDENT IN CHARGE OF GOVERNMENT RELATIONS, AMERICAN SOYBEAN ASSOCIATION

There have been three attempts by the government to control agricultural exports. All of these attempts were supposedly made on behalf of the consumer—to keep the price of food from increasing. History now proves that the

desired result was not achieved. In every case, the farmer who produces the food was not consulted. These decisions were made on the basis of political expediency. Must I remind you that decisions based on the future of the politician seldom, if ever, achieve results favorable to the people. The constituents may, at the moment, be led to believe that the action will result in lower food costs or produce some other favorable result; however, neither the politicians nor the constituent have looked far enough down the road to determine the ultimate result—the one that makes the most difference.

To properly set the stage allow me to detail actions by the government that were supposedly made on behalf of U.S. consumers but have actually resulted in less production in this country of a commodity in the food chain that is absolutely necessary for efficient production of meat, the primary source of protein for most U.S. citizens. That commodity is soybeans and it is essential in food production in this nation and around the world. In countries such as Japan, soybeans are both the primary and secondary source of protein. Approximately 27 million bushels of soybeans purchased from the U.S. annually are used as a direct source of protein by the Japanese people. During the soybean embargo of 1973, they kept asking the question, "How can you be so inhumane that you deny our children food because you want to feed it to your livestock?"

The economic impact of the embargo is still being felt not only by soybean farmers but by consumers. It effects farmers in that those nations that had traditionally depended on the United States as their source for protein and oil, started looking at Brazil for soybeans and to Malaysia for palm oil. Soybean production in Brazil has more than doubled since that time because people in other nations think they can no longer depend on the U.S. soybean farmer. But I hasten to remind you that soybean farmers were not consulted on the embargo decision. Malaysia has also increased it's palm oil production tremendously since 1973. We cannot blame the soybean producers in Brazil for expanding their production to fill the gap we left open. We cannot blame the people in Malaysia for planting more palm trees, but the fact remains that politically inspired action by our government has resulted in economic losses to U.S. soybean farmers and a reduction in acres devoted to soybean production this year. While the embargo was the first of such actions, others have followed it serving only to add another straw to the camel's back.

On October 7, 1974, our government imposed a monitoring action on the export market for soybeans and other agricultural products. This action continued until March 6, 1975. During that time and primarily because of that government action, the price of soybeans fell from $8.50 per bushel on October 7, 1974, to $4.72 on March 6, 1975. That's a loss of $3.78, or 44 percent of the farmers' potential gross income from soybeans.

This past year, a moratorium on shipments of soybeans and grains to Russia and Poland was used as a political weapon in trade negotiations. While the effort was not entirely successful because the U.S. failed to get concessions on shipments of Soviet petroleum products, farmers were again the economic victims. Soybeans were priced at $5.73 when the moratorium started on July 24 and had fallen to $4.91 when the misguided effort was abandoned on October 20.

There was absolutely no reason for soybeans to have been included in the moratorium because farmers had a 1.5 billion bushel crop in the field and 185 million bushels left over from the 1974 crop. Although soybean sales were included in the moratorium, they were not included in the negotiated agreement. Again, soybean farmers lost 82 cents per bushel, or a total of $1.25 billion, on the crop they were harvesting at the moment.

To add insult to injury, Russia bought 55 million bushels of soybeans from Brazil. The U.S. could have supplied that amount and still had 300 million bushels left over. That blunder cost the U.S. economy in general, and soybean farmers in particular, about $200 million.

When you consider that the 600,000 soybean farmers in the nation average 90 acres of soybeans each, then government interference in the marketplace has cost each farmer an average of $11,178 in the last two years.

Who is willing to make up the difference to the farmer? Are consumers willing to pay each soybean farmer the more than $11,000 he has lost? Would the administrative branch be willing to make that $11,178 lump sum payment to soybean farmers? After all, they are people who made the decisions that caused the decline in prices. I don't think the administration is willing to take that risk, because the taxpayers would hand them their heads wrapped in an election ballot.

So who has to shoulder the load? The farmers. That money will come straight from the farmer's pocket—the big farmer, the little farmer and the middle-sized farmer. Actually, it's the little farmer who gets hurt the most.

Think with me for a moment. The government asked farmers to plant from fencerow to fencerow last spring and the year before. Farmers responded because they understood that the world needed their food. But both times the government has stepped in to limit or actually prohibit sales of the commodities produced.

This happened after the farmer had his crops planted and they were almost ready to harvest. In other words, he had already invested his money, labor and land. Farmers have been the victims of a crime of such immense proportions that it remains hidden from the eyes of its perpetrators. The bureaucratic officials cannot see the trees for the forest.

American soybean farmers demand that agricultural policy of the United States be determined by administrative officials who understand the problems of agricultural production and marketing. The understanding of production problems and their solutions is sometimes more elusive than the understanding of marketing problems; but the two must go hand in hand. When agricultural marketing policy is determined by officials from the Department of Labor, Department of State or Department of Commerce, those decisions do not reflect the policies necessary for production of food in the future.

Farmers must export or go bankrupt. If the farmer goes bankrupt so does the country, and when all this happens the politicians, the labor leaders and the extreme consumer protest groups should have a field day dividing up nothing.

It has been proven time and time again that government control of agriculture is, in bureaucratic terms, "counterproductive"; in farmer language, that means it doesn't work. It should also be clear to everyone that government meddling in the marketplace does not work. A case in point is the latest USDA planting intentions report, which shows that farmers intend to reduce soybean production by at least 7 percent this year. That reduction is necessary because soybean price are now at or below the break-even point for most farmers. Prices are that low because we will have about 350 million bushels of soybeans left over at the end of this marketing year. We will have that many surplus soybeans because misguided and misinformed bureaucrats did not allow us to have free entry into the world market. Therefore, the end result is that there will be less soybeans next year to help feed a hungry world. It is not only the farmers who are hurt; the consumers suffer also.

STATEMENT OF GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. Chairman and Members of the Committee: I am A. W. Anthony, Jr., a farmer, and President of Grain Sorghum Producers Association. My home is in Friona, Texas.

Mr. Chairman, in behalf of the grain sorghum farmers, I want to express our appreciation to you for holding these hearings, and for the opportunity of appearing before you today. We are looking forward to constructive actions by your committee to prevent future actions by the government from wrecking the grain markets and many farmers as it has during the last three years.

The embargo of sales to Russia, Poland, and other Eastern European countries last summer and fall is the most recent involvement of government interference in the farmer's free access to markets. The results of this action collapsed the grain markets, which forced many grain farmers into bankruptcy.

The national average cost of producing grain sorghum in 1974 was $4.34 per hundred pounds. These are the figures recently released by the U.S. Department of Agriculture in compliance with the Agricultural Act of 1973.

Due to government interference in the free flow of grain, the market prices have been like a roller coaster over the last three years. To illustrate this, in 1973 grain sorghum prices crashed from $4.75 per hundred to $4.00 within four months. After two months, the prices were back to $4.75. By the following June, prices dropped to $3.60 per hundred.

In 1974, prices rose to $5.90, crashed to $4.00, then rose again to $4.75 last August, which was the time of the grain embargo to Russia and Eastern Europe. Since then, prices have not been strong. Last week, grain sorghum sold for $3.70 to $3.80 per hundred, which was at least $0.50 per hundred below the cost of production.

The ups and downs of the grain markets are largely a result of government restriction of export sales through numerous actions, which ranged from the requirement for sales approval by government to an outright embargo. No business can operate under these conditions.

Last year the White House assured our producers free access to the export markets provided they planted "from fence to fence," which they did. But then the White House placed an embargo on export sales. Can farmers no longer have confidence in their government? Can we re-establish our foreign customers' confidence in our government?

To our overseas grain buyers, we feel we have damaged our credibility as a constant and dependable supplier. Such abrupt actions and complete reversal of policies as we saw last year can only lead to distrust. Who can trust us for anything?

If a farmer is expected to produce, he needs dependable access to markets. He must have more stable prices at levels that pay his cost of production. He should be allowed a profit, just as any other businessman expects.

We feel that the government embargoes and restrictions have hurt our market prices by at least $1.00 per hundred pounds or $0.56 per bushel. This is a total loss of $431 million on the 1975 grain sorghum crop alone. This is not only a loss to our farmers, but to the entire United States economy.

The Grain Sorghum Producers Association commends you on having these hearings. We trust that you will take action to see that the government price wrecking actions will not happen again, and that farmers and our foreign customers can regain some of their confidence in the leaders of our Nation.

Thank you for the opportunity of appearing before you today.

STATEMENT OF E. THURMAN GASKILL, PRESIDENT, IOWA CORN GROWERS ASSOCIATION

Mr. Chairman and Members of the Committee: Good morning. My name is E. Thurman Gaskill, a corn grower from Corwith, Iowa and President of the Iowa Corn Growers Association. I would like to thank the Committee for the opportunity to testify, today.

Two weeks ago, the Under Secretary of State for Economic Affairs, Charles W. Robinson appeared before the Subcommittee on Foreign Agricultural Policy of the Senate Committee on Agriculture and Forestry. Mr. Robinson is best known to the farm community for heading up the U.S. negotiating team in Moscow during the grain sale talks.

Mr. Robinson pointed out that consultations have been utilized to achieve the balance decision making necessary to serve the national interest. One of the key coordinating mechanisms to facilitate consultation in the area of foreign agricultural policy is the Economic Policy Board of the National Security Council Food Committee. This committee was created last fall by the President. It includes the Secretaries of State, Treasury, Agriculture, Labor and Commerce, the Chairman of the Council of Economic Advisors, the Director of the Office of Management and Budget, the Assistant to the President for Economic Affairs, the Executive Director of the Council of International Economic Policy and the Assistant to the President for National Security Affairs. Mr. Robinson testified that the committee was "established to monitor sales of feedgrains and wheat to the Soviet Union. It played an important role in formulation instructions to the U.S. negotiators". And Mr. Robinson added "It has a continuing mandate to develop and maintain data on grain and exports".

The Administration's unilateral decision to negotiate a grain agreement with the Soviet Union without any input from agriculture is well-known, though hardly popular with farmers. Neither farmers nor their organizations were consulted in the formulation of the Grain Agreement. Mr. Meany and Labor certainly were consulted. And the U.S.—Soviet Maritime Agreement rewards the longshoremen with $16/ton or nearly twice the going market rate. So much for the past. Mr. Robinson states that the N.S.C. Food Committee "has a continuing mandate." I would like to know what opportunities will there be for the farmer to make any input into this coordinating group?

Dr. Kissinger has stated that high level negotiations need to be exclusive to protect inside information from leaking out. No doubt he would cite this as an

adequate reason for excluding a farmer from the talks in Moscow last fall. However, I would subject that farmers could hardly do worse at "secret keeping" that a good many persons in positions of authority at the present time. This point aside, is there anything wrong with consulting the farmer? Wouldn't the Food Policy Committee benefit from having some input from us?

It hardly asks too much to have an opportunity to be heard before policies which can make us or break us are put into effect. I think the Administration has forgotten who produces the food and fiber in our country. It is not government grain. It is owned by individual farmers. Government intervention with the farmer's access to a free market has a profound effect. The moratorium of 1975 grain shipments to the USSR and Poland forced the Soviet grain buyers into the international markets. They proceeded to purchase 15 million tons of grain and soybeans from competitive export countries at a value of approximately $2.2 billion The moratorium also depressed prices. Corn fell from $3.32/bushel in November, 1974 to $2.33/bushel by November, 1975. The 1975 moratorium dealt the American farmer a staggering blow.

I hope we can all learn from this experience. The farmer deserves to be consulted. The N.S.C. Food Committee should provide the opportunity for farmer input on a regularly scheduled on-going basis. The committee can hold public hearings around the country. They can report their decisions in the Federal Register. Answer to Congress on a scheduled basis. In summary, the Food Committee must be held accountable. And accountability should start with the farmer. It is his livelihood. It's his future. The Administration has called balanced decision making an essential goal in the formulation of food policy. Balanced decision making in this area is impossible without input from the American Farmer.

STATEMENT OF W. D. LAWSON, III, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

This statement is being presented in behalf of the National Cotton Council, an organization which represents all seven segments of the American cotton industry from producers to manufacturers.

At the Council's annual meeting concluded February 3 in Biloxi, Mississippi, our delegates unanimously adopted a resolution relative to export controls. The language follows: "Work for unrestricted sales and shipment of U.S. raw upland in world markets."

The position quoted above is not a new one for the cotton industry. It has been a historic principle that has undergirded programs and policies of the National Cotton Council throughout its thirty-eight years of existence. It was the firm belief in this principle and the recognition of its importance which led the Council in 1957 to establish Cotton Council International as its overseas arm to actively promote and increase world sales of U.S. cotton.

It wasn't until a few years ago, however, that the Council felt it necessary to state in the form of a resolution that which had always been "taken for granted." The reason for doing so now is painfully apparent. Already the agricultural community has seen two embargoes placed on its exports, and while they did not apply to cotton, the implication to our industry is very clear.

Also some organized group support and statements of government officials endeavor to lend credence to export controls and/or international commodity agreements.

Why must U.S. cotton be assured of unrestricted sales in world markets? Let's examine some of the more significant reasons.

First is the matter of production. What kind of incentive does the American farmer have to plant cotton? For the 1976 crop year, the USDA has announced a preliminary loan rate of a little over 37 cents a pound for upland cotton. According to the USDA's own figures, the estimated cost to the farmer of producing that pound of cotton will be from 52 to 57 cents a pound. With this much difference, you can be sure the farmer is not going to plant cotton just because of the loan. He couldn't make expenses if he did. In times past, the farmer had some incentive in the form of payments. But this, too, has been severely limited Today, the only thing that provides any significant incentive to the cotton farmer to produce is the market—one that offers reasonable probability of a profitable price.

Traditionally, some 40 percent of U.S. cotton production has been exported. Unless we can continue to export in this magnitude, cotton farmers will be forced

to cut back their production sharply. They won't—and can't—produce if the market isn't there.

Any move to limit or restrict farm exports needs to be recognized for what it is: a form of price control which reduces incentive and limits production.

In the case of cotton, the foreign world consumes more than it produces. And it needs U.S. cotton to make up the difference. But what happens if U.S. cotton exports are limited? Foreign cotton prices rise above U.S. prices, making the crop more attractive to foreign cotton-growing countries and encouraging them to increase production sharply. Eventually this leads to a loss in markets and a reduced amount of U.S. cotton needed by foreign countries.

Overseas customers who have been buying U.S. cotton also begin to look around and invest in the development of other sources of supply. An example of this is occurring now in soybeans. The Japanese are concerned about the threat of world food shortages, and especially about soybeans since they are used directly for food in Japan. During the past year, the Japanese have made a series of long-term commitments to buy soybeans in Brazil and Argentina and are backing up these commitments by putting Japanese money into shipping and storage facilities in these two South American countries. If cotton exports were to be limited, we could look for similar action.

Cotton's unlimited access to overseas markets is essential to our nation's earnings of foreign exchange to help pay for oil and other import needs. In recent years, cotton exports have been valued at well over $1 billion annually. With the oil cartel's demonstrated ability to raise its prices ever higher, and our import requirements rising, I think we would all agree that this country needs all the help it can get to pay for these imports.

Any consideration of limiting exports also should not overlook what it has cost this country over the years to build up overseas markets for U.S. farm products. In the case of cotton, we have extended billions of dollars in credit, and our government and Cotton Council International have made a substantial investment—some $25 million—during the last two decades to insure that U.S. cotton gets its fair share of world markets. The investment has been expanded and reinforced by foreign cooperators whose contributions more than match our own. As a result of these three-way efforts, U.S. cotton now has comprehensive, market development programs going for it in eight foreign countries, with trade servicing activities embracing 22 additional cotton importing countries.

Research and promotion—not just for U.S. cotton but for all cotton—is another overseas project that represents a long-term investment. Cotton's battle against synthetic fibers is going on all over the world, and other cotton-producing nations have joined us in helping fight this battle, particularly in Europe and the Far East. It was largely because of this united program that cotton was able to make competitive gains over synthetic fibers in these two areas in recent years. Without continued U.S. participation—which depends on our ability to export freely—this type of research and promotion would go down the drain, since the foreign countries alone can't generate enough support for it. If this should happen, cotton would lose vital markets to synthetics and the under-developed countries which produce cotton would suffer irreparable damage.

Restricted farm exports, accompanied by an inevitable lowering of crop production in the U.S., could be expected to set off other repercussions here at home.

Exports allow our farmers to utilize their resources more efficiently and more effectively so as to keep unit costs of production as low as possible. That figure I quoted earlier of estimated costs of cotton production would go significantly higher if exports were to be controlled, because much of our equipment is designed for specific use on cotton and cannot be used for other crops. This in itself would mean that such equipment would be under-utilized, and per-unit costs would increase sharply.

Reduced production on U.S. farms also would add appreciably to the nation's unemployment. Cotton is a major employer in the U.S., providing incomes wholly—or in very substantial part—for about 5 million persons, and affecting the livelihoods of many millions of additional workers and their dependents whose jobs are closely related to the cotton industry. Any action that results in a cutback in cotton production means a cutback in employment. Cotton production requires five to seven times as much labor as oilseed and grain crops.

Any action which cuts down on cotton production means a cut in cotton research and promotion dollars here at home, since much of this money comes from a $1 a bale assessment paid by cotton producers. And in this day of fierce

competition, any lessening of cotton's research and promotion effort would mean further erosion of the domestic market, and additional production and job losses in our industry.

Cotton producers' freedom to produce fully for the market has another advantage for domestic mills. It gives them a wider range of cottons to choose from and enables them to find the specific quality they need—an option which would be less available to them without full U.S. production.

Restrictions on farm exports also pose the danger of a re-alignment of crops in the U.S. If cotton farmers were forced to cut back production, it would mean that some of the highly productive land now devoted to cotton-growing would be released to other crops. In some areas of the country, for example, this would mean more soybean plantings . . . in others, more acreage for grains. This in all likelihood would depress prices of these food crops, thus providing less incentive to grow them.

One further word about an international commodity agreement. It is nothing more than an effort to ration markets. For a trading nation like the United States to consider such a proposal would be less than naive.

Obviously we have to compete in world markets, but we can't compete with restrictions on production and the ensuing inefficiencies that an international agreement would create.

Any discussion of international trade would not be complete without a look at imports. This subject, too, has an effect on the U.S. cotton industry and our delegates also took a position on this subject at the recent annual meeting.

They went on record as continuing "to support appropriate federal action . . . to provide reasonable restraints against excessive imports of products manufactured from cotton and cottonseed, and those commodities directly competitive therewith, to levels which will not cause excessive interference with domestic markets."

The U.S. stance regarding trade with other countries has always emphasized fairness. In the last three decades, our nation has shared its growing internal markets with off-shore manufacturers to an extent matched in few, if any, countries of the world. The cotton industry has insisted, however, that market growth should be shared—not taken over entirely by imports.

In recent years, however, an increasing part of our markets is being taken by cotton textile imports and by palm oil imports.

Regarding cotton textile imports, the cotton industry has worked closely with textile leaders over the years to hold textile imports within reasonable bounds. These joint efforts—developed over a period of 15 years—have resulted in international textile agreements which, if properly administered, can accomplish what is equitable and needed. These agreements are microcosms of what is envisioned under the Trade Act of 1974 and should not be disrupted by negotiations during the Multilateral Trade Negotiations.

We believe that similar treatment should be accorded palm oil imports.

In the past 10 years, palm oil has become the most serious competitive threat faced by the U.S. cottonseed oil industry. Since 1965, this country's palm oil imports have risen from approximately 34 million pounds to more than 900 million pounds in 1975. Most of the imported palm oil goes into baking and frying fats. Its share of this market is now up to 20 percent from a negligible amount in 1968, while cottonseed oil has dropped to 3 percent from 7½ percent in the same period. Production costs of palm oil are far below that of U.S. vegetable oil, and its price advantage is further widened by the fact that palm oil enters the U.S. duty free.

World palm oil production has more than doubled in the last decade, and projections are that it will more than double again by 1985 as palm oil trees already planted reach maturity. These plantings have been financed to a large degree by international agencies which receive a significant part of their funds from the United States. Certainly, the U.S. should have no part in funding any more such plantings, and the financing agencies should be discouraged from it, because a continued increase in production of this magnitude simply cannot be absorbed.

In consideration of world trade matters, it is important that excessive imports be recognized as having the same kind of impact on the U.S. cotton industry as export controls.

We support the basic tenets of the Trade Act of 1974 and understand the difficulties inherent in negotiating truly reciprocal trade agreements in today's world. At the same time, we believe the interests of all the people of the U.S.

and the world community as well are best served by a strong U.S. posture that provides (1) unrestricted access to world markets, and (2) reasonable restraints on imports so that domestic markets are shared and a basic U.S. industry is not undermined.

In the decisions made, the economic well-being of many millions of Americans is at stake.

Senator GRAVEL. Our next witness is Mr. Hughes; he is accompanied by William R. Rhodes, Fred W. Sutherland, and William F. Coles, past presidents of American Chamber of Commerce of Venezuela; Gabriel J. Baptiste, executive vice president, American Chamber of Commerce of Venezuela; and Frank J. Amador, executive director, American Chamber of Commerce of Venezuela.

Will you proceed in the same fashion with your statements, and then we will treat you as a panel for the purpose of questioning.

STATEMENT OF THOMAS L. HUGHES, ESQ., PRESIDENT, AMERICAN CHAMBER OF COMMERCE OF VENEZUELA, ACCOMPANIED BY WILLIAM R. RHODES, FRED W. SUTHERLAND, AND WILLIAM F. COLES, PAST PRESIDENTS; GABRIEL J. BAPTISTE, EXECUTIVE VICE PRESIDENT; AND FRANK J. AMADOR, EXECUTIVE DIRECTOR, AMERICAN CHAMBER OF COMMERCE OF VENEZUELA

Mr. HUGHES. First of all, we would like to thank you very much for the opportunity afforded us today to express our views.

We would request permission to submit a memorandum for inclusion in the record afterward, Mr. Chairman.

We will explain who we are. My name is Thomas Hughes. I am an attorney. I am president of the American Chamber of Commerce of Venezuela, which is now called the Venezuelan-American Chamber of Commerce.

With me are: Gabriel J. Baptiste, industrialist, managing director of Cabel, an affiliate of General Cable Corp., and chamber executive vice president; William R. Rhodes, banker, senior vice president of First National City Bank and immediate past president; Fred W. Sutherland, public accountant, resident partner in Venezuela of Peat, Marwick, Mitchell & Co., and past president; William F. Coles, investor and past president; and Dr. Frank J. Amador, ex-oilman with Exxon affiliates in Venezuela and now executive director of the chamber.

The American Chamber of Commerce of Venezuela is a completely autonomous and independent, self-financed business organization which has 935 members representing 381 business firms operating in Venezuela. The chamber, in existence for 25 years, has its primary goals: (1) The encouragement of increased commerce between the United States and Venezuela; and (2) the promotion of friendly business relations between the peoples and governments of the two countries.

Our organization is associated with the Chamber of Commerce of the United States, the Council of the Americas, and the Association of American Chambers of Commerce in Latin America.

We are hereby today to testify on the problems generated between Venezuela and the United States through application of section

502(b)(2) of the Trade Act of 1974. As you know, this section contains a provision denying the granting of preferential tariff treatment to Venezuela because of its membership in the Organization of Petroleum Exporting Countries [OPEC], even though Venezuela did not participate in the Arab oil embargo against the United States. Accordingly, the President has been required to exclude Venezuela from the list of developing countries to be given preferential tariff treatment [Executive Order 1184, March 24, 1975]. All other developing countries in Latin America with the exception of Venezuela and Ecuador are eligible for such preferential treatment.

This discrimination caused a tremendous public anti-American furor, not only in Venezuela but in all of Latin America as manifested by constant denunciations of the United States by public officials and politicians throughout the area. The single greatest source of irritation in Venezuelan-United States relations is the exclusion of Venezuela from the generalized system of preferences.

As you will recall, the March 1975 meeting of Western Hemisphere foreign ministers was canceled in protest. The permanent council of the Organization of American States, in an extraordinary meeting in January 1975, almost unanimously denounced the discriminatory clauses of the Trade Act and called for the act to be amended.

The crises the United States faces today in many parts of the globe have seemingly relegated Latin America to a back seat, as far as U.S. economic and strategic considerations are concerned. Nevertheless, most authorities acknowledge that the welfare of the United States and of its close hemispheric neighbors is integral and inseparable.

SOURCE OF VITAL RAW MATERIALS FOR UNITED STATES

Venezuela is favored with vast raw material resources that are in close proximity to the United States, the strategic value of which was dramatically illustrated during the 1973 Arab oil boycott. In fact, the distance from Caracas to Miami is slightly more than half the distance from New York City to San Francisco. The two nations have long enjoyed friendly relations and, throughout the years, Venezuela has proven itself a steadfast U.S. ally. Shortly after World War I, it became a reliable supplier to the United States of essential raw materials, originally petroleum and later from ore.

Venezuela faithfully provided vital petroleum to the United States during World War II, the Korean war, the Suez crisis, the Arab-Israeli wars and Vietnam. Most importantly, although a member of OPEC, it did not participate in the Arab oil embargo against the United States. Instead, during the peak period of the embargo—fourth quarter of 1973—oil exports to the United States from Venezuela and offshore refineries in Curacao and Aruba were substantially increased to 2.1 million barrels per day, as against 1.6 million during the comparable 1972 period—an increase of over 25 percent [see attached Annex A].

In 1975, Venezuela continued as the No. 1 foreign source of U.S. crude oil and oil-produce imports. It shipped an estimated average of 1.1 million barrels per day of oil and oil products to the United States during the first 6 months of 1975, including products refined

from Venezuelan oil in Curacao and Aruba, which altogether represented 18.5 percent of total U.S. oil imports and one-fourth of all oil consumed in New England. These shipments to the United States are equivalent to 44.1 percent of total Venezuelan oil production during this period.

In addition, Venezuelan shipments of oil to the Canadian east coast—Venezuela's second biggest market—have permitted western Canada to supply oil and natural gas to our western and central States.

Venezuela also shipped 12.3 million tons of iron ore to the United States in 1975, which constituted 51.2 percent of total Venezuelan production.

Lamentably, and we believe unintentionally, the 1974 Trade Act fails to distinguish between those countries which participated in the OPEC embargo and those which did not. Venezuela has never held back shipments of its vital nonrenewable oil and iron ore resources. The President of Venezuela and the Foreign Minister have consistently repeated at home and in the international forums that Venezuela will never reduce oil exports as a political weapon. It will continue to supply oil products.

VALUABLE BUSINESS PARTNER AND CUSTOMER

In addition to being a faithful supplier of vital raw materials, Venezuela is a valuable business partner of the United States. It is America's best cash customer and third largest overall client in Latin America, after Mexico and Brazil. In 1976, the U.S. Department of Commerce estimates Venezuela will replace Brazil as the number two customer.

The Wall Street Journal recently stated that capital goods demands of the oil-producing countries such as Venezuela helped cushion substantially the effect of the recession on U.S. suppliers of capital goods.

U.S. Department of Commerce statistics show that Venezuelan imports of U.S. goods during the year 1975 totaled $2.4 billion, up 38 percent over the comparable 1974 period, which, in turn, had increased 71 percent over 1973. These exports, produce for the United States a large number of jobs in the export trade. It affords a market for components for U.S.-produced goods in Venezuela.

Moreover, U.S. nonoil holdings in Venezuela are reliably estimated at about $3 billion. The return on these investments contributes favorably to U.S. balance of payments.

Another significant Venezuelan economic contribution to the United States is tourism. Venezuelan tourists, individually, according to the U.S. Travel Service, spend more in the United States than any other foreign visitors. Excluding bordering nations, Venezuela ranks fourth—after Japan, U.K., and Germany—in the number of tourists visiting the United States annually.

Finally, Venezuela has launched a crash educational program to train technicians and professional needed in national development. Of a total 5,000 university students studying abroad, 3,200, or 64 percent, are studying in the United States, at a cost of $17 million annually.

VENEZUELA HAS BEEN A FAITHFUL SUPPORTER OF THE DOLLAR

Traditionally, the Central Bank has maintained almost all its international reserve currency in U.S. dollars and Eurodollars. At year-end 1975, Venezuela's total foreign time deposits alone stood at the equivalent of $5.7 billion. Of these, $5.1 billion, or 89.5 percent, were in U.S. currency. Significantly, when the dollar was threatened by foreign speculators, Venezuela continued to maintain its reserves in the Continental United States, thereby supporting the dollar.

VENEZUELA ASSUMING FOREIGN AID LOAD, RECYCLING PETRO DOLLARS

Although Venezuelan oil income has peaked and is now declining, nevertheless the nation has committed an astoundingly generous amount to foreign aid and international lending programs. These funds are in large part dedicated to relieving the burden of increased fuel prices faced by lesser developed nations, while at the same time channeling that money into agriculture and infrastructure to finance more rapidly economic development in Latin America.

Since the increases in oil prices, Venezuela's total foreign aid commitment reached $2.8 billion, more than one-third of her trade surplus and about one-tenth of her whole GNP. It has been stated by one American specialist that this is more public money than the United States ever committed to the Alliance for Progress.

Major Venezuelan commitments are shown in attached annex B.

VENEZUELA ASSUMING FOREIGN AID LOAD, RECYCLING PETRODOLLARS

For the past 60 years, Venezuela's economy has depended almost entirely on petroleum—a nonrenewable and dwindling resource. Conscious of this overwhelming reliance on a single disappearing source of national income, to avoid the boom and bust of the Brazilian rubber exports at the turn of the century, Venezuela is striving to diversify its economy through industrialization. An essential objective in this process is the expansion of nontraditional exports.

To accomplish these worthy goals requires enormous expenditures for basic infrastructures. According to governmental estimates, the bill for essential projects over the next 5 years will total more than $40 billion. The economy permitting, this money will be spent on agriculture, housing, education, health, communications, transportation, electric power generation, and industry. Assuming these investments materialize, a large part of the capital goods requirements would—as past records show—come from the United States, provided good relations are maintained between the two countries.

Considering Venezuela's long-proven record as a strategically located reliable raw materials supplier to the U.S. market, particularly its loyalty to the United States during the Arab oil embargo—it is understandable why Venezuela should resent being excluded from GSP benefits.

Venezuela regards this discrimination as a "gratuitous slap in the face," because currently the volume of potentially GSP-eligible Venezuelan exports is negligible, virtually nil. In addition, this is an affront to one of the few functioning democracies in Latin America.

It is not so much the current economic benefit of GSP to Venezuela, as it is a political irritant to intercountry relations.

In view of the aforementioned considerations, our Chamber respectfully recommends that section 502(b) of the Trade Act of 1974 be amended to make it possible for those countries such as Venezuela which have not participated, and do not in the future participate, in an embargo of vital commodities to be designated by the President as eligible to receive GSP tariff preferences. Specifically, our Chamber supports the legislative proposal under consideration by the House Ways and Means Subcommittee on Trade [H.R. 5897], known as the Green bill, which has its counterpart in the Senate introduced by Senator Brock, which would make it possible for the President to designate Venezuela and other countries as "beneficiary developing countries" for purposes of the generalized system of preferences in the Trade Act of 1974, so long as such countries do not participate in any action, the effect of which is to withhold supplies of any vital commodity resource from international trade. An alternative solution would be adoption of Senator Bentsen's bill, which would provide that to be excluded a country would have to be not only a member of OPEC, but also have participated in an embargo, or legislation excluding Western Hemisphere countries from the anti-OPEC clause, such as the bill introduced by Senator Kennedy.

In this way, such countries as Venezuela which did not participate in a boycott or embargo of the United States, would not have to suffer the punitive restrictions called for in the present language of section 502(b)(2) of the Trade Act of 1974. Such an amendment, if promptly adopted, would, we believe, reverse the recent marked deterioration of friendly relations between the United States and Venezuela and, in fact, all of Latin America. Furthermore, it would strengthen the U.S. economic and historical ties with Venezuela, which has proven itself a faithful ally in times of crisis, and a dependable source of supply for both petroleum and iron ore over the years.

Thank you very much for granting us this opportunity to express our views.

If there are any questions which we can answer, we would be happy to do so.

Senator GRAVEL. I think you have been most articulate. I think you are well aware of the posture of the committee in correcting what I think is a very sad problem. Somebody acting irrationally with regard to the embargo and took a brush and painted a lot of people with some injustice. I am glad you came forward and articulated the injustice. I think you will see this committee go on very strong record to correct that situation.

Mr. HUGHES. Thank you very much.

Senator PACKWOOD. I think not only was it with no sense of malice, but I don't recall any discussion of non-Arab OPEC countries when we passed this limitation. I don't think we intended to omit Venezuela, and the other OPEC countries who did not participate in the embargo. We will soon rectify this.

Mr. HUGHES. We thank you very much. Needless to say, since it is a constant irritant, we would appreciate if the action can be taken as promptly as possible.

Senator GRAVEL. I think you will see that will be the case. You can carry back at least a certain contriteness on the part of some of us.

Mr. HUGHES. Thank you very much.

Senator PACKWOOD. Thank you.

Mr. HUGHES. Thank you very much, Senator.

[The following material was submitted by VENAMCHAM:]

ANNEX A

VENEZUELAN/NETHERLANDS ANTILLES EXPORTS TO THE UNITED STATES

	4th quarter, 1972		1st half, 1973		4th quarter, 1973		Year 1973		1st half, 1974	
	Percent [1]	Millions of barrels per day	Percent [1]	Millions of barrels per day	Percent [1]	Millions of barrels per day	Percent [1]	Millions of barrels per day	Percent [1]	Millions of barrels per day
Crude	27	391	28	414	37	396	32	409	23	399
Products	73	1,231	71	1,248	89	1,474	75	1,306	.....	1,078
Total exports to the United States	51	1,622	51	1,622	64	2,070	55	1,805	.....	1,477

[1] Percent of total Venezuelan exports.

Note: During critical 4th quarter 1973 when Arab embargo was at peak, total Venezuelan/Netherlands Antilles exports to United States were sharply up versus 4th quarter 1972 (2,070 mb/d versus 1,622 mb/d, or over 25 percent up) and also up sharply as percent of Venezuelan/Netherlands total Antilles exports (64 versus 51 percent.)

Source: Lagoven Oil Co. [See also MMH October 1975 publication].

SOURCE MATERIAL INDEX

1. Ministry of Mines and Hydrocarbons of Venezuela.
2. CVG-Ferrominera del Orinoco.
3. Office of Economic Studies.
4. U.S. Travel Service.
5. Mariscal de Ayacucho Foundation.
6. Office of Economic Studies.
7. Venezuelan Investment Fund.
8. Venezuela's Fifth National Plan—Cordiplan.
9. Office of Economic Studies.
10. "The Absorptive Capacity of the OPEC Countries", U.S. Treasury Department.
11. "The Absorptive Capacity of the OPEC Countries", U.S. Treasury Department, and MMH of Venezuela.
12. MMH of Venezuela.
13. AmCham and MMH of Venezuela.
14. MMH of Venezuela.
15. CVG-Ferrominera del Orinoco.

Senator GRAVEL. Our next witness is Mr. Thomas Dechant, president of the National Farmers Union.

Mr. Dechant, I pronounce it as a French name because it looks like a French name.

STATEMENT OF TONY T. DECHANT, NATIONAL PRESIDENT OF FARMERS UNION AND PRESIDENT OF INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

Mr. DECHANT. It is. You are close.

Senator GRAVEL. Proceed, please.

Mr. DECHANT. Thank you, Mr. Chairman. I have a more complete statement with three exhibits which I would like to put into the record.

Senator GRAVEL. They will be accepted.

Mr. DECHANT. I will deal with a summary for just 10 minutes.

Mr. Chairman, and members of the committee, I appear here today as spokesman for the National Farmers Union of which I am the president. I also wish to identify myself as the president of the International Federation of Agricultural Producers. The IFAP is the only global association of farm producer organizations, the only organized voice of producers.

I believe that the policy recommendations of IFAP will be of some interest to the committee because much depends on the climate for economic cooperations which prevails around the world. This worldwide association of farmers in 45 countries, counting some 35 million producers, does help reflect the attitude toward problems in farm trade.

Having conferred with farm leaders and farmers of many countries over 20 years, I think I have a good reading of their readiness for a fair and orderly global economic system. If anything, the farmers of the world are well ahead of political leaders in their grasp of the kind of world in which we live, and the importance of moving ahead in this increasingly interdependent world.

If the views of the farmers of the United States and the European Community had been actively consulted, there would need not to have been the waste of a whole year in procedural quibbling. Even now, with an apparent compromise on procedural matters, there is still no

ANNEX B
MULTILATERAL AND BILATERAL VENEZUELAN LOANS

[U.S. dollars in millions]

	Agency	Commitments			Cumulative disbursements	
		1974	1975	1976	1974	Estimated January–December 1975
Multilateral:						
1. International monetary fund	CB	SDR—450	SDR—$200		US$—302.0	US$—269.
					SDR—302.4	SDR—264.
2. World Bank	FIV	US$—400			US$—250.0	US$—150.
		Bs.—430			Bs.—430.0	Bs.—430.
3. Inter-American Development Bank	FIV		US$—400			US$—80.
			Bs.—430			Bs.—43.
4. Acuerdo de Cooperación Económica con Centroamèrica	FIV	US$—450 [1]				US$—72.
						Bs.—310.
5. Central American coffee retention	FIV	US$—46 [1]				
6. Central American Bank for Economic Integration	FIV	US$—40				US$—10.
7. United Nations emergency fund	MRE	US$—100			US$—50.0	US$—23.
8. Andean Development Corp	FIV		US$—60			
9. Banco de Desarrollo del Caribe	FIV		US$—25			US$—2.
10. Banco de Desarrollo del Caribe	MH	US$—10			US$—5.0	US$—5.
11. OPEC development fund	FIV			112		
Bilateral:						
1. Bolivia	MH		US$—17			
2. Costa Rica	CB	US$—20			US$—20.0	
3. Honduras	CB	US$—4				
4. Perú	FIV		US$—65			US$—15.
						Bs.—65.
5. Jamaica	FIV		US—$50			US$—13.
6. Nicaragua	CB	US$—3			US$—3.0	US$—3.
Subtotal		1.763	957	112	1.032.4	1.243
Total			$2,832			$2,275.4

[1] Estimated total commitment.

Source: Venezuelan Investment Fund.

Note: Agency abbreviations: CB: Central Bank/FIV: Venezuelan Investment Fund/MRE: Foreign Affairs Ministry / MH: Ministry of Finance.

evidence whatever that the Governments of the United States and the European Community are ready for agreement on basic issues.

My own experience tends to substantiate very fully the conclusions which were reached by Chairman Long, along with Senator Ribicoff, during their talks in Western Europe with authoritative business leaders and trade officials. Their report, "Consensus or Confrontation," presents a realistic look at what is often wrong with our diplomatic style, that we frequently tend to negotiate with confrontation, rarely encouraging cooperation, but instead causing hostility and polarization.

Along with being negative in our approach to our trading partners, we have, in recent years, lacked coordination in the expression of policy views on trade.

The White House and the State Department make noble initiatives and appear to aline themselves with goals of world economic cooperation, yet their positions are often contradicted by other administration spokesmen. It is clear that in the current administration, spokesmen for the Departments of Agriculture, Treasury, and Commerce often disagree with administration policy when it comes to food reserve policies or other measures for commodity stabilization.

There has been no progress in the trade talks in Geneva, and the world food reserve discussions in London because of the negative U.S. stance on basic issues. If the talks in Geneva and in London are to get off dead center, there will have to be a turnaround in U.S. attitudes on international economic cooperation comparable to the turnaround in U.S. diplomatic style at the U.N. during the 7th Special Assembly last September.

Despite the noble words at the U.N. and our commitment to the goals of the 7th Special Assembly, in the Tokyo Declaration and our own Trade Act, the real U.S. posture is still being established by negotiators who disdain measures to take the boom and bust out of the world food situation. Without this change in course, the trade talks will probably drag on another 3 years without any results.

As an example, an official of one agency will say the United States will sign the cocoa agreement, another says not so. One official favors the pending coffee agreement, another spokesman is reluctant. Go down the list of commodity pacts and you can find administration officials on both sides of the issue.

This leads us to a principal recommendation we would like to make here today, that the Congress should take a stronger role in giving direction to the establishment and conduct of our trade policy negotiations.

It seems to us that the aims of the Trade Act of 1974 are specific enough to commit U.S. policy to seeking an orderly basis for world trade. The Tokyo Declaration, which we signed, calls for the improvement of an international framework for the conduct of world trade. The Tokyo Declaration also states that the negotiations should include, as regards agriculture, an approach to negotiations which, while in line with general objectives of the negotiations, should take into account the special characteristics and problems of this sector.

The thrust of U.S. policy has not been for an international framework for orderly cooperation, but a simple refuge in an international free market which, for practical purposes, does not exist.

Unfortunately, our negotiators are paying relatively little attention to the goals of the Trade Act or the Tokyo Declaration, ignoring the clear intent of the Congress, and not even doing a thorough job of getting input from the affected sectors of the economy.

At least in agriculture, the very clear intent of the law, that the Advisory Committee and the technical committees be representative of all industry, labor, and agricultural interest is being ignored.

My organization, the Farmers Union, has been studiously excluded from the technical committees where this substantive work is being done. Few, if any, people are functioning on the agricultural technical committees who are not closely alined with the narrow, negative, and doctrinaire views of Secretary Butz.

In our written statement, we address ourselves to the six questions posed in the announcement of this hearing. We believe that the fourth question, referring to the role of commodity agreements and export controls, deserves special elaboration.

Unfortunately, at the present time commodity agreements have only a minor role in agricultural trade, although many nations favor the approach and the U.N. food and agricultural organization has specialist groups working in 10 commodity areas. Official U.S. policy is cold to commodity agreements, particularly any with pricing or stabilization features.

On the other hand, export controls have had a drastic effect upon several occasions in the past 3 years, depressing markets and turning our customers to other suppliers.

The export limitations in 1975 alone are estimated to have reduced U.S. crop values by as much as $2 billion. Worse than that, export controls are now institutionalized in the 5-year Russian Grain Agreement and will be used to hold down farm prices over the next 5 years, although USDA officials strangely contend that this agreement will forestall imposition of export controls.

I said earlier that Congress should give more direction to the process. I said it should adopt the sense of the Senate resolution directing the executive branch to actively cooperate in and support the development of an international grains arrangement or agreement with pricing provisions.

The Senate should prohibit any trade agreement inconsistent with the farm parity objective.

The Senate should also urge the administration to amend its proposal for an international grain reserve system, to include price and markets stability provisions, elements which are sought by other major grain exporters.

An international grain reserve should have safeguards to prevent the dumping of government-controlled surpluses on the market to break farmers' prices.

The Senate should also urge the executive branch to recognize the special characteristics of agriculture and give recognition to the importance of conducting agricultural negotiations under the U.N. so that Soviet Russia and mainland China are involved as participants. Thus, the U.N. should summon a negotiating conference on grains under the International Wheat Council so that all important importers and exporters are parties to the discussions.

In regard to the Export Administration Act, under which export controls have been imposed in recent years and which expires at the end of September of this year, we recommend that agriculture be removed from the purview of this law. If it is considered that an export licensing law is needed on agricultural products, it should be enacted as part of a comprehensive, integrated national food policy so that our farm producers are not punished pricewise by capricious export control actions.

In conclusion, Mr. Chairman, I want to associate myself with Senator Long's statement, and I quote:

> We need an overall concept of how we want to get on with other nations to assure stable relations, orderly growth of world markets, and orderly supplies and prices to our whole economy.

Thank you very much for this opportunity to appear. I would be glad to try and answer any questions.

Senator GRAVEL. Thank you, Mr. Dechant. For a person who doesn't represent a large agricultural constituency, could you give me an idea of how large your organization is?

Mr. DECHANT. Yes. We have a quarter of a million independent owner-operators in about 40 States.

Senator GRAVEL. How does that compare with the group that we had before us before, the National Wheat Growers? Do you represent an overlap or is this a different group of people? Is this two organizations?

Mr. DECHANT. Yes. Many of the members that are in the Corn Growers Association or Wheat Growers Association or soybean people are also members of the Farmers Union. I don't have any idea of the numbers of their organization, but I think I could safely say that I represent more wheat farmers in one State than the National Association would represent nationally.

Senator GRAVEL. Are you the largest farm organization in the country?

Mr. DECHANT. No. The Farm Bureau is the largest farm organization.

Senator GRAVEL. How do you compare in size with that?

Mr. DECHANT. I don't like to talk about my competitors. My argument is always that their membership has a large number of nonfarmers in it. And they don't deny that, by the way. I like to say that I represent independent owner-operators who live and farm the land. I will not get into the numbers game with any competitors.

Senator GRAVEL. I was a little disturbed with a sentence in your statement, and it was brought out earlier, about these immediate negotiations with the Soviet Union over grain, that there was no consultation with the Congress. We sort of expect that. But I was surprised to find out there was no consultation within the farm community. The other gentleman testified to that end and, obviously, you are saying the same thing.

What I am even further distressed about it that you made a statement in your summary that you had been excluded from general farm policy in the country, not just this one agreement. I wonder if you might elaborate on this for the committee? One, why is it that your organization is not consulted under the law when you are supposed to be?

Mr. DECHANT. Thank you, Senator. I would like very much to elaborate on it.

I was invited by the White House to serve on the Advisory Council for Trade Negotiations, which consists of some 45 members. I declined that invite.

The reason I declined goes back to many months before that, in fact, goes back to 1974 when I was advised in a letter dated March 13, 1974, by the then Special Representative for Trade, Hon. William Eberle. I would like to quote two paragraphs, Senator, if I may:

> Since the Public Advisory Committee is not exempt from the provisions of the Public Advisory Committee Act, the more specific negotiating objectives and strategies cannot be dealt with in this group. The private sector advisory committees, which will be more homogeneous in make up and will also be exempt from the nonconfidentiality of deliberations and document provisions of the Public Advisory Committee Act, will provide the vehicle for input from the private sector with respect to negotiating positions, objectives, and strategies.
>
> Within the agricultural sector, there would be an agricultural policy committee, APC, and a number, tentatively nine, of technical committees. It is expected that the general farm organization would participate in the APC and in those commodity committees in which they had an interest.

Following the invite by Mr. Eberle, I submitted the names of nominees for the technical committee, the quantities committee, as well as the policy advisory committee. None of the Farmers Union nominees were selected, although over 150 people were named to these committees long before any indication was given to me that I might serve on this overall committee which meets only twice a year. The APEC met four times in 1975. May I say Farmers Union was excluded from having any participation in the negotiations that are going over in Geneva at this time.

Senator GRAVEL. Thank you very much. I can't answer that. We have a simple problem.

Senator PACKWOOD. Is the general objective of the Farmers Union to reach international commodity agreements in trading throughout the world and, in addition, to protect domestic farmers here with some kind of a price guarantee so that there is no great fluctuation in prices?

Mr. DECHANT. Yes.

Senator PACKWOOD. Would that also entail limitation of farmers' easy access to export and the domestic market, and you would be limited to the number of crops you can grow?

Mr. DECHANT. No.

Senator PACKWOOD. You can grow as much as you want if you guarantee a price?

Mr. DECHANT. Let me say, Senator Packwood, that it has to be a total program. First of all, an international program is only an extension of a good domestic program. We in the Farmers Union believe that, in order to have the abundance of food and fiber that this Nation and, indeed, the world needs, you have to have a loan rate program set high enough for the basic commodities. We propose 90 percent.

Senator PACKWOOD. 90 percent of what?

Mr. DECHANT. 90 percent of parity loan rate for the basic commodities. This would give the farmer the incentive, the floor, the ability to produce ample supplies for this Nation.

Senator PAKWOOD. Could they produce all they wanted? There is no limit on how much they could produce?

Mr. DECHANT. Yes. We would say they ought to produce all they want until, and I can't foresee this—there was a situation where we were inundated by commodities and we could conceivably have to use some kind of a supply management feature.

Senator PACKWOOD. On these commodity agreements, are these prices fixed at a parity price also?

Mr. DECHANT. We, in the Farmers Union, would think that they ought to be in a general support range. We would hope it could be at 90 percent, using the U.S. parity figure, going to maybe 110 percent. You have to have a ceiling as well internationally to protect consuming nations. We see nothing wrong with this.

I would like to remind you, Senator Packwood, that if it had rained in Russia last June, we would have a tremendous oversupply situation in the United States today. We have ample supplies on hand now, as the previous witness has testified. We have rather large supplies on hand. We may have very heavy supplies on hand again next fall. This is why we in the Farmers Union believe there ought to be an orderly approach to marketing, not only domestically, but internationally as well.

Senator PACKWOOD. Under any circumstances, it is not a free market approach domestically or internationally? Is that correct?

Mr. DECHANT. I don't see anything wrong with it. Why wouldn't the market be free if we have a loan rate? We presently have a loan rate under wheat and corn. It is wholly inadequate. If we ever got down to it, we would have bankruptcy in this country.

Senator PACKWOOD. I agree with you. But what you are suggesting is fixed domestic parity prices and that is it?

Mr. DECHANT. Of course. Because in the real world in which we live there isn't any such thing as a free market. In our international dealings, most of the time we are dealing with governments. We have our private trade industry here dealing with Russia and with China, so this so-called free market really doesn't exist. This is why we need to have a game plan internationally which all the nations would observe. I think they would.

For example, we have had international wheat agreements, as you know, for over 25 years and at times Russia has been a signatory to those agreements. At the moment, we have a situation where we are over in Geneva under GATT negotiating, but two of the key communities of the world aren't there. Russia and China aren't in Geneva. They are not signatories to GATT.

If we are going to have any order in the world market, I think it is time to get all of the major importers and exporters around the table to talk about supplies and price. I thought that was what we were trying to do on the energy front. I maintain if it was good on energy it ought to be good in agriculture as well.

Senator PACKWOOD. I have no other questions.

Senator FANNIN. I did not hear your testimony. I appreciate very much your being here.

Mr. DECHANT. Thank you, sir.

Senator FANNIN. I am sorry I did not have the advantage of hearing

you. I will read your testimony and it certainly will be available to all the members of the committee.

Mr. DECHANT. Thank you, sir.

Senator FANNIN. I do appreciate your being here with us.

Mr. DECHANT. Thank you, sir.

[The prepared statement of Mr. Dechant follows:]

STATEMENT OF TONY T. DECHANT, NATIONAL PRESIDENT OF FARMERS UNION AND PRESIDENT OF INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

Mr. Chairman, I must commend you as chairman of the Committee on Finance and Senator Ribicoff, as chairman of the Subcommittee on International Trade, for the excellent and well-reasoned report, "Consensus or Confrontation", which you issued last November upon your return from consultations with many authoritative trade officials and business leaders in Western Europe.

We were particularly impressed with your assessment of the world economy, the need for a new economic strategy and the need for us to find better ways to lead towards a consensus.

I could not concur more fully than with your statement that "the time has come to work together with other industrialized nations, in an atmosphere of candor, trust and cooperation."

I can concur with you too in your finding that "U.S. methods of dealing with other nations rarely encourage cooperation in finding solutions and often embarrass leaders of other nations."

Our habit of negotiating by confrontation creates hostility. It is a style, which as you say, "makes headlines at home and trouble abroad."

As the President of the International Federation of Agricultural Producers (IFAP) and a participant in talks among farmers and farm organization officials of other countries over more than 20 years, I think I have a good reading on what they are thinking and how they view the problems of agricultural trade.

I can testify that farm groups from the more than 45 nations which make up the IFAP are able to reach general agreement on policies regarding trade in farm products. IFAP has made and continues to make workable suggestions for creating stable and orderly conditions in world commerce in agricultural commodities.

Government of virtually all nations which are important in agricultural exports are ready for serious discussions of measures to create a context and a code of conduct in which commerce can expand and thrive—that is all governments, but the United States. The door is open, but we will not respond.

I can understand that you were puzzled, Mr. Chairman, as you said "at the apparent continuation of old arguments between the U.S. and Europe over agricultural trade policy," and the impression "that the U.S. and Europeans are both dug into trenches, fighting the last war instead of preparing together for the next."

Your concern that "negotiators primarily spend their time on procedures and on what committees will be allowed to discuss what issues, with minimal attention to what they want to say about the substance," concerns us, too, for if it were up to the farmers fo the United States and the European Community, a whole year would not have been wasted in procedural quibbling.

You are right, Mr. Chairman, when you observe that "politically, it would seem that the time is right now for new ideas and a more cooperative approach to agriculture—conditions have never been better for progress."

Finally, your conclusion as to the need for strategy is most appropriately stated: "We need an overall concept of how we want to get on with other nations, to assure stable relations, orderly growth of world markets and orderly supplies and prices to our own economy. If we do not want foreign developments in food markets, raw material markets, export markets or investment markets to shock our home economy, we shall have to work harder with other nations to develop a fair and orderly global economic system."

The farmers who make up the National Farmers Union and the farmers who are represented in IFAP are anxious for a "fair and orderly global economic system" to be developed, as you may discern from the recommendations attached to this statement (Attachment I) which were adopted at the 21st General Conference of IFAP held last November in Washington, D.C.

Mr. Chairman and members of the committee, I wish to respond at least briefly to the questions raised in the announcement of these hearings, and then to devote time to the fourth question which dealt with commodity agreements and export controls.

In responding to the first question which referred to U.S. goals in the Geneva negotiations, it is useful to recall that the Tokyo Declaration, to which we were signatories, declares that the negotiations shall aim to:

(1) Achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world, objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade and The Improvement of the International Framework for the Conduct of World Trade. (Emphasis added).

(2) Secure additional benefits for the international trade of developing countries so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade, taking into account their development needs, (etc.).

The Tokyo Declaration says further that "the negotiations should include, as regards agriculture, an approach to negotiations which, while in line with general objectives of the negotiations, should take account of the special characteristics and problems of this sector."

It was the intent of the signers of the Tokyo Declaration that the negotiations should be concluded in 1975, but the delay in passage of the U.S. trade act stalled negotiations into early 1975, and the refusal to come to terms on agricultural negotiations have delayed progress to this date. The goal for completion is now 1977.

In regard to the progress which has been made in achieving the negotiating goals established by the Trade Act of 1974, the results are skimpy because negotiations have not yet begun in earnest.

In response to the third question relating to administration of trade policy, the Trade Act of 1974 appears to vest the responsibility for negotiating the liberalization of trade barriers in the President, and in the Executive Order of March 27, 1975, the Special Representative is designated as the chief representative. The responsibility for coordinating the work of the cabinet-level agencies involved in trade questions also is conferred upon the Special Representative for Trade Negotiations. In actual operation, the coordination appears to be weak and spokesmen for the State Department, Agriculture, Commerce, Treasury and Labor, seem occasionally to take policy stances inconsistent with the goals of the Trade Act and the GATT talks or in conflict with each other.

In regard to the fifth question pertaining to relief from injury, the procedure for actions to be initiated by injured groups seems to be workable.

There have been about 40 countervailing duty actions and more than 25 antidumping actions brought in 1975 under the procedures of safeguarding American industry and labor against unfair competition. In regard to access to U.S. markets for developing countries, the President in November, 1975, issued an executive order Implementing Generalized Preference for 137 developing countries and territories, providing duty free entry for some 2,700 articles.

Unfortunately, the Trade Act does not make this recourse available to farmers, specifically limiting it to industry and labor.

In response to the sixth question on East-West trade, it is our opinion that negotiations with Socialist state-trading countries should, as far as possible, be approached through multilateral talks. Thus, it would have been much preferable, rather than to negotiate on grain on a bilateral basis with Russia and Poland, to have sought a general grains arrangement including all major exporters and importers, it being essential that Russia and Mainland China be involved.

In regard to the directive of the Trade Act for the input of interested groups to be received by the office of the Special Representative for Trade Negotiations, the intent and spirit of the statute has not been well followed, at least in the agricultural sector. It was the clear intent of the law that the advisory committee and the technical committees be "representative of all industry, labor or agricultural interests." Yet, in the committees pertaining to agriculture, appointments have not been broadly representative—in fact, virtually all appointments have been of persons closely aligned to the narrow, negative and doctrinaire views of Secretary Butz. Farmers Union has been totally excluded from technical committees where the substantive work is being done.

In the remaining time, we wish to respond to the fourth question relating to the role of commodity agreements and export controls in U.S. trade policy.

Unfortunately, in our view, commodity agreements have only a minor role in agricultural trade while export controls have had a decisive and drastic effect upon five occasions in the past three years.

Export controls have been applied on one or more commodities in response to fears and hysteria rather than on the solid basis of fact. It has been estimated that the 1975 export limitations on U.S. grain have resulted in a loss of crop value of more than $2 billion.

Export controls are now institutionalized in the form of the Russian grain agreement and will apparently be with us for the next five years, although USDA officials strangely contend that this agreement will forestall imposition of export controls.

In the Farmers Union, we recognize that for the sake of both domestic and export customers, we should have a national food policy based on assured abundance. If we had such a policy of abundance, we would not have to be faced occasionally by the distasteful choice of having to decide between domestic and export buyers.

As a part of a policy of abundance, there should be, for the sake of alleviating consumer worries, a standby export licensing system so that actions could be taken to prevent shortages in the domestic market. However, such an export licensing system should be tied to a farm support system which would prevent farmers from being punished price-wise by export control actions.

We believe that international commodity agreements, if designed in a sound fashion, can be extremely useful in stabilizing international prices and supplies of farm commodities which are heavily traded. Our rationale for commodity agreements is attached herewith in policy statements, Attachment II.

In conclusion, we are suggesting some steps which the Congress might consider:

1. The Export Administration Act, under which export limits have been established, is due to expire at the end of September, 1976. We believe that this statute should either be allowed to expire totally, or that at least any provisions relating to agricultural commodities should be eliminated if the statute is extended. An export licensing system pertaining to agricultural commodities should be incorporated in a comprehensive food policy statute, assuring farmers that the abundant production which they provide for society will have price reduction and that their markets will not be destroyed by arbitrary and capricious application of export controls.

2. The Trade Act of 1974 does not include farmers under the provisions under which labor and industry can seek relief from injury due to unfair competition. Ideally, agricultural trade provisions should be part of a comprehensive national food policy and undue stress upon farm markets and prices could thereby be averted. Failing this, however, the 1974 Act should be amended to extend the relief from injury procedures to farmers.

3. The U.S. Senate should adopt a "Sense of the Senate" resolution directing the executive branch to actively lead and cooperate in development of international commodity agreements with pricing provisions. The price range in the international agreements should be related to a 90 to 110 percent of parity price range on the commodity in question in a domestic U.S. support system. The Senate should prohibit any trade agreement inconsistent with the parity objective.

4. The Senate should urge the Executive Branch to recognize that the special characteristics of agriculture should be taken into consideration in the trade liberalization discussions and recognition given to the importance of conducting agricultural negotiations under the UN so that Soviet Russia and Mainland China are involved as participants. Thus, the UN should call a negotiating conference under the International Wheat Council or other agency.

5. Since some confusion exists on the manner in which trade pacts which are negotiated shall be referred for committee consideration, the situation should be clarified so that the Committee on Finance, House Ways and Means and the Agricultural and Foreign Relations Committees shall be assigned the study of phases of the agreements which are appropriate to them.

6. The Senate Finance Committee should explore the situation regarding export credits in Section 402 of the Trade Act to determine whether the U.S. is at a competitive disadvantage with other major grain exporters because of the denial of export credits to certain Socialist countries.

7. Farmers Union views on import-export policy are detailed in the testimony presented to the U.S. International Trade Commission, April 9, 1975, which is included with this statement as Attachment III.

8. Adoption of a "Sense of the Senate" Resolution urging the Administration to amend its proposal for an International Grain Reserve System to include price and market stability provisions, as desired by other grain exporter such as the European Community, Canada and Australia. An International Grain Reserve System should be consistent with a parity objective in U.S. policy and should have safeguards to prevent the dumping of government-controlled surpluses on the market to break farmers' prices.

ATTACHMENT I

International Grains Arrangements and Their Relationship to World Food Reserve Objectives

Statement of International Federation of Agricultural Producers (IFAP), adopted November, 1975, Washington, D.C.

The purpose of this statement is, on behalf of the world agricultural producers in IFAP, to emphasize as strongly as possible the necessity of obtaining recognition of the vital relationship between current world food security objectives, and international arrangements for orderly marketing and pricing of world trade in grains. Urgent action by governments should be aimed at integration of the policies and organizational structures required for the achievement of these objectives.

In respect to reserves policy, the necessary integration of reserves policies for world food security, on the one hand, and international arrangements for the orderly marketing of grains on the other, requires some elaboration. By "world reserves" we mean not specific holdings earmarked for emergency food aid purposes, but the aggregate of world stocks over and above "pipeline requirements," which are required to meet shortfalls in annual production. These reserves should be systematically replenished when crop outturns are favourable.

A world reserve of this nature must be defined in quantitative terms, as related to careful analysis of the amounts likely to be required to provide a defined degree of security of supply to international market needs, commercial and concessional. On such an analysis the required reserves would represent levels of stocks which, in the 60's, would have been regarded as a very serious surplus. The point is twofold: first that adequate reserves will be intolerably price depressing unless combined with assurances of adequate prices through grains arrangements; second that world food reserve requirements are very large by past standards, and will grow progressively larger over the years.

Having an adequate reserve requires that nationally held stocks be accumulated, drawn upon, and renewed. This must be done on the basis of internationally agreed rules. Such decisions must clearly be related to pricing criteria and aimed at a desired balance in demand and supply. It is not difficult to see that an adequate reserves policy therefore should be part and parcel of an international grains arrangement, and administered as such.

The essential elements of an international grains arrangement upon which the farmers represented in IFAP agree are these:

(i) Prices: An arrangement must establish effective lower limits below which prices of grains traded internationally will not be permitted to fall. Maximum prices are a usually expected reciprocal assurance to importers. Given minimum price security and a period of successful initial opinion, a degree of security of supply should in the operation of some be achieved which would not require the setting of maximum prices as a protection to importers. Such protection, however, would in any case probably be initially required and indeed will very likely be considered by many to be a necessary ingredient of any arrangement. If so, there is no reason this could not be negotiated, though the basis of the negotiations regarding costs of stockholding may be affected.

(ii) Minimum price guarantee cannot be assured under an arrangement unless there is an effective mechanism to protect against excessive pressure of supplies on the market when these may be surplus to requirements. Such a mechanism inevitably involves, in some form, arriving at an accommodation of the available market and, as a corollary, as to the assumption of responsibility for holding the excess stocks and as to the rules for the re-entry of those stocks on the market. Whether this accommodation can best be achieved by direct market sharing allocations and provisions incorporated into an arrangement, or

by agreements on consultative mechanisms and procedures for dealing with the problem as it arises, is a question on which views differ, both as matters of principle and of practicality as negotiations are approached.

(iii) Special mention should be made of the question of minimum and reference prices. IFAP well rocognizes the serious problems encountered in enforcing prices at the minimum, fairly and tolerably, for all grades and types of grain when there is pressure of excess supplies on the market. The fundamental answer is to relieve this pressure by reducing offerings on the market. Indeed, it would be preferable to take measures early enough to avoid prices reaching minimum levels at all, with action on stocks being triggered as prices approach that level.

(iv) Stocks: Given year-to-year fluctuations in both demand and supply, it is inevitable that an arrangement for market stability will require the holding of stocks, and it is the view of IFAP that the responsibility and cost of such holdings must devolve on government. The basic interest of importers in an arrangement requires assurance of supplies, and stocks must be built up to a point that adequately provides such security.

(v) Besides normal security of supply to importers party to the agreement, there is the question of reserves for disasters and emergencies, wherever they occur, and stocks to ensure regular supplies for programs of food aid. The latter requirement should hopfully be transitional, and as long as required, related both to nutritional and developmental needs of the recipient countries. Arrangements can be adapted to either of these requirements. It is a matter for governmental decision, always of course representing the producer interest in security of returns in the face of proposals for stock accumulation for whatever reason.

(vi) Stocks must be held nationally as a matter of practicality, economy, and adaptability to marketing arrangements. However, it is clear the systems of obligations of nations or groups of nations for meeting cost of stockholding for various purposes and under varied circumstances must be established on an equitable basis. It is recognized that in previous agreements the burden of such cost, as well as of effecting necessary price restraint in practice, lay with a fair or workable arrangement. The details of a system of financial obligations cannot be fully defined here. It would seem clear, however, that stocks for emergency reserves and supplies for food aid involve costs that must be directly shared by intergovernmental agreement, as is partially attempted in the Food Aid Convention to the current Agreement. However, in the case of stocks required for normal market security, or which threaten to become excessive, it is likely the cost should be assigned to those nations holding them. For needed and normal commercial stocks the cost may be considered a normal expense of each country under an effectively functioning agreement. For excess stocks, the cost can represent a valuable discipline in national production policies.

These proposals relate to arrangements covering wheat and the major cereal feedgrains. It would seem to be most unlikly that at this juncture an arrangement related to wheat alone would meet the world's orderly marketing needs. Many if not most of the considerations involved here apply also to the problems of rice marketing, and this could well be given close study, especially as regards the need for stability and security of stocks, and opportunities for useful reserve and food aid policies.

ATTACHMENT II

National Farmers Union Views on International Commodity Agreements and Grain Export Controls

Testimony of Tony T. Dechant, President, to Senate Committee on Foreign Relations, November 10, 1975

The United States should resume and revitalize the policy of supporting and providing leadership in international cooperation on economic problems

For a quarter-century following World War II, the United States was the leader in world economic policy, achieving the longest span and highest degree of economic growth and prosperity in history among the developed countries which are our primary trading partners. The war-devastated economies of both allies and former enemies were rehabilitated and expanded to the highest level of prosperity ever known on earth. Some of the developing countries also—notably South Korea, Taiwan, Singapore, Hong Kong, and Israel—likewise became integrated with and shared in the prosperity of this trading system.

But within a few months after taking office, the Nixon Administration abruptly reversed America's leadership role in international cooperation. The International Grain Agreement of 1967 was deliberately torpedoed by paying export subsidies to the grain trading companies to enable them to under-cut the minimum price in the Agreement by 30 cents a bushel and thereby wreck it.

This reversal of America's leadership role in international cooperation contributed directly and massively to the near-collapse of the world economy that has now occurred. If agricultural price support and reserve policies such as we recommended had been followed instead, the entire world food crisis that has caused such disruption and grave danger in recent years would have been avoided. We would have had ample stocks of grain to supply all the needs that have materialized in the USSR and in developing countries alike, at market prices that would easily have fully compensated the United States for the cost of having maintained reserve stocks.

In my opinion, the oil exporters' cartel would never have materialized in that form if the United States Administration had not already demoralized the spirit of international cooperation in the world by its own abrupt reversal of America's traditional leadership and commitment. The International Grains Agreement, and other commodities agreements that had been developed or proposed with American support and encouragement, all provided for negotiation and cooperation between exporting countries and importing countries, between buyers and sellers. If the Administration had helped to maintain the climate of cooperation and negotiation in world economic affairs, I think it is highly doubtful that the oil exporting countries would have attempted to establish a one-sided producers' cartel. Instead, I think we might have expected the oil producing countries to have approached the major oil importing countries to seek a negotiated agreement taking appropriate account of the needs and interests of all countries. The oil exporters' cartel which developed instead reflects the very spirit and tactic which the Nixon Administration mistakenly substituted for America's traditional leadership in international cooperation.

U.S.S.R. agreement

The five-year agreement on grain recently concluded by the Administration and the U.S.S.R. is a dangerous departure from the policy of multilateral negotiation and cooperation in which the United States has traditionally been a leading force since World War II.

Taken by itself, the agreement with the U.S.S.R. is undoubtedly better for American consumers, for the American economy, for the Soviet Union, for our other export customers, for our competitors, for grain exporting companies, and for the U.S. public. But it is not better for American farmers. The minimum quantity of grain which the Soviet Union is committed to buy annually is somewhat less than actual average purchases over the past four years. The most significant feature of the Agreement is the commitment by the United States to closely control export sales of grain to the U.S.S.R. for the next five years. The power to control exports is the power to control and depress farmers' prices.

The U.S./U.S.S.R. Grain Agreement raises other fundamental questions. In the long run, it makes the Russians second-class customers for U.S. farmers—with the threat of repeated export embargoes throughout the next five years. It thereby establishes export embargoes on agricultural commodities as a regular fixture in the economic landscape. This may encourage the USSR, and it has already encouraged Japan and other export customers of American farmers, to seek long-term contractual arrangements for supplies from other sources, perhaps from competing new agricultural industries financed with oil profits or other funds in Brazil, Northern Africa, and other countries, as the Japanese are already doing in respect to soybeans in Brazil. And we cannot yet begin to measure the influence this bilateralism might have upon other countries to engage in similar two-way barters in place of the pattern of multi-national cooperation and open trading we have always favored in the past.

Immediate initiatives to negotiate and carry out an international grains agreement is an essential and urgent first step needed to reassert American leadership in international economic cooperation and development.

The Farmers Union has taken a leading role with farm organization leaders in other major grain exporting and importing countries in developing a proposal for a modified and improved international grains agreement.

In brief, the agreement would be in the form of a multilateral treaty, under which exporting countries and importing countries would assume reciprocal obligations to each other, in exchange for benefits from the other.

Exporting countries such as the United States would be assured of markets during times of abundant grain supplies at prices not lower than the minimum price provided in the Agreement. The extent of the guaranteed market for each exporting country would be determined by its actual performance during the preceding period in supplying grain to the respective importing countries.

This would establish an incentive for exporting countries to serve as reliable suppliers to their customers in times of short supply, in order to be assured of access to markets in periods of ample supply or surpluses.

Importing countries would be assured of guaranteed supplies during times of shortages at no more than the maximum price provided in the Agreement. This would establish an incentive for importing countries to conduct their grain purchases in an orderly manner, and to buy grain in times of ample supplies and surpluses from those sources which are likely to be reliable suppliers during times of scarce supply.

With such an Agreement in effect, countries which shift from importing to exporting grain from year to year, like the USSR, would be confronted with a powerful incentive to stabilize their own grain requirements, or face the risk of having to wait at the end of the line during times of shortages until the exporting countries' regular customers' needs were fully supplied. This would work to the advantage of the entire world community. In these cases, and generally as well, it would permit the cost of maintaining reserve supplies to be distributed fairly among all consumers of grains, primarily by paying prices for imported grain at levels sufficient to cover the cost of maintaining reserves in exporting countries. Under some circumstances, it would also encourage some importing countries, particularly those having irregular production from year to year like the USSR, to store their excess during good years instead of dumping it on the world market to depress the prices received by producers in exporting countries.

The primary mechanism in the Farmers Union proposal for maintaining prices within the agreed range is a provision for each national government of an exporting country to regulate the flow of grains into the world market. The use of such a mechanism is extremely important. It would completely avoid the troublesome problem of fixing price differentials between the various types and grades of wheat, which was the source of most of the specific objections to operations of the International Grains Agreement of 1967. It would be necessary only to relate the Agreement maximum and minimum prices to one or two or three types of wheat, and then to allow the market to function freely and in a normal manner to reflect changes in supply and demand of the respective qualities and types of wheat. The inclusion of feed grains along with wheat in such an Agreement would require the establishment of similar reference prices, perhaps relating to corn of a specified grade from the United States.

Prompt action on the conclusions set forth here is urgently required. We will be doomed to continuing disruption, insecurity, and waste in our food and agricultural economy unless measures such as we have proposed are taken soon. Moreover such measures would give powerful impetus to the recovery of the world-wide economy, and to the beginning of a new generation of continuing economic growth, prosperity, and peaceful progress.

ATTACHMENT III

STATEMENT OF ROBERT G. LEWIS, NATIONAL SECRETARY OF THE FARMERS UNION, WASHINGTON, D.C.

IMPACT ON AGRICULTURE OF FUTURE INTERNATIONAL TRADE AGREEMENTS

The forthcoming multilateral trade negotiations are of extraordinary importance to the agriculture of the United States.

Contrary to the usual view, the most significant potential advantage to U.S. agriculture that could be realized from the trade negotiations lies in the expansion of imports.

The present huge export market for U.S. agricultural commodities that has developed in the decades since World War II is based almost entirely and exclusively upon the overall expansion of world trade that has occurred during that period under the leadership of the United States. Very little, if any, of the increase in volume and value of U.S. agricultural exports since World War II

can be attributed to "liberalization" of the specific terms of trade in agricultural commodities. Indeed, the shoe has been precisely on the other foot. What "liberalization", in terms of agricultural trade has occurred, has been the result of the need in importing countries for increased supplies of U.S. farm commodities to satisfy the swiftly-growing demand generated in their economies as the result of the expansion of their own export commodities for manufactured goods.

Rising prosperity boosts farm exports

Canada is our largest agricultural export market. Our exports there are generally non-competitive with Canadian farm products. Their increasing volume has been the result of economic growth in that country, largely stimulated by enlarged export markets in the United States for Canadian manufactured goods, as well as raw materials.

Our greatly expanded agricultural markets in Japan and Europe since World War II are also in response to greatly expanded demand for food in those countries, stimulated and sustained by the growing market in the U.S. for their manufactured products. Such is the case also in the lewer and rapidly-growing agricultural export markets such as Korea, Taiwan, Hong Kong, Singapore and Israel.

The latest, although somewhat different illustration of this pattern of development is what has occurred in the "oil belt" extending from Morocco on the Atlantic Coast of Northern Africa to Iran beyond the Caspian Sea in Central Asia. U.S. exports of agricultural commodities to this area in 1974 increased by three times over the year before. Our 1974 exports of farm commodities to this area were 13 times as large last year as the preceding five year average. Again, it was increasing effective demand for food, based on enhanced prices received for petroleum and phosphate rock, which accounts for this increase in our agricultural exports. Changes in these importing countries' restrictions on trade in farm commodities have had only negligible, if any, influence upon the great increase in our farm exports that has occurred.

"Barriers" have not hampered exports

It is difficult to find any significant volume of U.S. agricultural commodity exports anywhere that has resulted directly from "liberalizing" the importing countries' trade restrictions relating to their imports of agricultural commodities. Such "liberalization" as has occurred has almost always reflected a growth in internal demand for food which domestic producers were unable to supply.

Because food is usually the most immediate want to be satisfied when increased income becomes available, particularly to people whose income levels have been low, any expansion of U.S. imports of labor-intensive products is likely to generate a disproportionate increase in demand for farm commodities and food products from the United States. This is important to the entire U.S. economy, not alone to the immediate beneficiaries in the food and agricultural industries. Our food and agricultural industries are among the best-adapted of American industries to compete in the world market and to respond to increasing export opportunities. Therefore, it is of great advantage to the United States economic position in the world that food and agricultural commodities are in the forefront of the new demands that are created by increased purchases of goods from other countries and the resulting advance in economic prosperity that arises therefrom.

I will not attempt to deal with the specific changes that might be sought in negotiating the terms of trade in those types of goods for which food and agricultural commodities are particularly desired in exchange. But it is important to emphasize the advantage to U.S. agriculture, and to the national interest of the United States, of promoting the expansion of an import-export trade flow. This is particularly important in the case of labor-intensive goods, sales of which generate especially large demands for agricultural commodities. These are the types of imports for which we are best able to pay, because the sellers will accept for them the largest proportion of our abundant agricultural commodities in exchange. This advantage should be weighed carefully against whatever problems are discerned for those domestic industries that would encounter increased competition from imports of this kind.

Agricultural trade raises special problems

In negotiations relating to the specific terms of trade in farm commodities, the special characteristics of agriculture must be taken into account. They are:

1. The uncertainty and variability of production of agricultural commodities. This results from dependence of farm yields upon climatic and other natural variables.

2. The atomistic structure of most elements of the farming industry. There are several hundred thousands to more than a million independent enterprises competing for sales of most farm commodities produced in the United States. Moreover, producers of many commodities are potential competitors with producers of other commodities. Agriculture is the largest productive industry in the United States in which a large measure of price competition prevails. In many of our major industries, there is virtually no true price competition at all.

3. The lack of mobility of farming resources. Farm land and most other farm capital, farm management, and farm labor, have relatively few and in many cases no other uses that are readily available. When times are hard and prices approach or even decline below the cost of production, most farmers have little choice but to go on producing in order to minimize their capital losses and to secure even sub-standard returns on their labor and management.

Government farm programs meet need

Governments have recognized the special characteristics of agriculture by adopting government programs to enhance and stabilize both prices of supplies. In the United States, this was begun on a concerted scale during the period of recovery from the depression of the 1930's. During the same period, certain other special problems relating to old age security, utility pricing, labor unionization, banking, and security markets were also recognized and resolved, at least in part, by governmental intervention outside the market system.

Here in the United States, the development of programs to enhance and stabilize farm prices and supplies is being characterized in some circles as "forty years of wandering through the wilderness". It is pertinent to wonder whether the Moses who now aspires to take us into the Promised Land of "market oriented" agricultural policies in fact seeks to deliver us back at the beginning. Will we find there that there is no more Social Security, no Wagner Labor Relations Act, no Federal Deposit Insurance Corporation, no Securities and Exchange Commission, and none of the other social and economic equipment that has been devised during this forty year period to give not only the United States, but the entire world, the longest stretch of prosperity in modern times?

Aim against farm support systems

Leading spokesmen of the Executive Branch have stressed their interest in negotiating away some of the main provisions of our own and other countries' farm price and supply programs. For the purposes of trade negotiations, these measures are termed "non-tariff barriers". For example, there has been a great deal of public discussion given to the possible "trade off" of existing quantitative limitations (import quotas) on dairy products in exchange for comparable steps to dismantle essential features of the price support programs in other countries for grains and soybeans. If such a course should be followed, it could lead to severe disruption of domestic farming industries, and violent price and supply instability both within the United States and in the world.

For a number of important agricultural commodities, U.S. import quotas already have been removed recently. If, as seems likely in view of the unpredictability and variability of the weather, world "surplus" conditions should again return, U.S. farmers would be severely damaged by unrestricted imports.

Many U.S. farmers unprotected

The major commodities for which no import quota protection now exists include wheat and wheat flour, feed grains, rice and meat. Producers of these commodities now face world competition with domestic price support provision at levels so low as to be virtually meaningless, and with no protection of the U.S. market from potentially huge world surpluses.

Under existing law, import quotas might again be established in accordance with the provisions of Section 22 of the Agricultural Adjustment Act of 1933. However, such action is entirely dependent upon discretionary action by the Executive Branch. Under an Administration committed to "market oriented" agricultural policies, the effectiveness of this nominal protection is extremely speculative.

For other important agricultural commodities, import quotas are still in effect. However, the confidence of agricultural producers in the effectiveness and reliability of these measures has been shaken severely by experiences during the past few years.

Huge dairy imports authorized

For dairy products, recent "temporary" increases in the annual quotas have increased the volume of imports by as much as 147 times the established annual import quota. The Nixon-Ford Administration has increased import quotas for dairy products by amounts substantially exceeding all the import quotas granted by all preceding Administrations.

The manner in which the "temporary" increases in dairy product import quotas were authorized during the past several years has established precedents which have seriously damaged public confidence in the integrity of the established procedures under Section 22. Indeed, confidence in the functions and influence of this Commission itself has been seriously impaired.

Quotas established under Section 22 are also in effect at the present time for cotton and peanuts. Both of these commodities face potentially large volumes of low-priced competition from foreign sources if world surpluses should again arise, as seems likely.

Special approach to trade needed

The special characteristics of the agricultural economy call for a different approach than "trade liberalization" to satisfy the needs and to protect the interests of both consumers and producers, and to promote constructive progress in the world economy.

Unstable prices and insecure supplies of agricultural commodities are an economic hazard both to consumers and producers. Moreover, such instability promotes waste and inefficient use of resources and serious economic dislocation and disruption of the world economy. It is in the interest of the world community, as of the various national communities, to promote a reasonable degree of stability in prices and supplies of agricultural commodities, at prices sufficient to assure producers of remunerative returns so as to insure long-term adequacy of supply. Because of the relative importance of international trade in the agricultural economy of almost every country, national programs by themselves are not fully adequate to protect the public interest. Concerted cooperation among the several national governments is required in order to harmonize national goals and interests relating to trade in the major agricultural commodities.

Cooperation between countries needed

Fortunately, considerable experience has been achieved in international cooperation for this purpose. Several international commodity agreements have been in operation, with varying success, during the past quarter century. This experience furnishes a sound and useful base for renewed efforts at international cooperation through international commodity agreements for major agricultural commodities.

The Working Group on Grains of the International Federation of Agricultural Producers, in which the Farmers Union has been a leading participant, has developed a proposal for an international grains agreement which is designed to overcome the weaknesses of previous agreements relating to wheat and other grains. A copy of the report of the Working Party, describing the principal provisions of such an agreement, is attached. The requirements for international cooperation in respect to trade in other agricultural commodities differ from commodity to commodity, but this proposal for grains is a useful starting point and illustrates the possibilities of this approach.

Propose new U.S. import control plan

Whether or not international commodity agreements are negotiated and put into effect for one commodity or another, we favor a new and improved program for regulating imports of agricultural commodities into the United States. We propose that the quantitative restrictions established under terms of Section 22 be replaced with a new variable duty system, under which imports of major agricultural commodities and products thereof would be subject to a rate of duty to be determined periodically, equal to the amount by which 110 percent of the parity price for the commodity exceeds the current world market price.

This system would preclude most imports of agricultural commodities into the U.S. market at times when domestic supplies are ample to serve the U.S. market, as demonstrated by domestic price levels. On the other hand, when there is a shortage in the U.S. market, as signaled by an increase in market prices above the parity price, imported supplies would be enabled to enter the U.S. market with little or no impediment.

This new system would operate more smoothly and flexibly than the present cumbersome Section 22 procedure. It would assure farmers of protection from imports when domestic supplies are ample, as demonstrated by domestic market prices at less than parity. It would similarly protect consumers, if shortages should arise by admitting imports to the extent exportable supplies are available in the world market.

The goals to be sought by the United States negotiators in the forthcoming multilateral trade negotiations should be governed by the larger goals of the United States, including our goals for agriculture's service to the national interest and to extend our power and influence in the world. This was the subject of a statement presented by the Farmers Union at the Conference of Western Governors in Billings, Montana, earlier this month. A copy is attached hereto, and incorporated as a part of this statement.

Senator FANNIN [presiding]. The next witness will be Mr. A. L. Buffington, President of Diamond-Sunsweet, Inc.

I welcome you here this morning. You have been very patient. It has been a long hearing. We will be very pleased to hear your testimony at this time.

STATEMENT OF A. L. BUFFINGTON, PRESIDENT, DIAMOND-SUNSWEET, INC.

Mr. BUFFINGTON. Thank you, sir. I appreciate the opportunity.

Mr. Chairman, my name is A. L. Buffington, president of Diamond-Sunsweet, Inc., a grower-owned California cooperative marketing dried prunes and walnuts worldwide.

With your permission, sir, in addition to this material, there is an additional statement which we would like included with the statement.

Senator FANNIN. Your complete statement will be made a part of the record, and the materials you have with you will be made a part of the record or be available to the committee members and the staff.

Mr. BUFFINGTON. Thank you.

I deeply appreciate the opportunity this committee has provided to allow me to make clear the threat of serious injury to my company and our industry posed by the adoption by the EC Council of a new series of import restrictions beginning in the summer of 1975 on a new group of specialty crops, including dried fruit and tree nut exports from the United States.

It will be of interest to this committee that all products referred to in this statement were the basis for a formal presentation to the section 301 committee of the Special Representative for Trade Negotiations on November 18, 1975, docket 301–4.

This hearing also provides me with an opportunity to express my great concern over what I perceive to be an absence of a coherent and effective trade policy on the part of the United States vis-a-vis the common agriculture policy of the EC, with special reference to expanding our trade by the removal of nontariff barriers. In the absence of any announced policy, our future prospects are threatened by endless nontariff gimmicks and parliamentary negotiations at the Council in Brussels.

Despite the objectives of GATT, treaty agreements—all products covered by the STR hearing are "bound" by the EC to the United States; 0812C for prunes, and 0805 for walnuts, BTN in the Dillon Round—and the very spirit of the Rambouillet Summit, the EC

Council has continued its unilateral actions to protect its industries and farmers from what it professes to believe are threats both for the present and for what the planners perceive as future opportunities, regardless of cost to the EC.

This committee is well aware of the history of preferential and discriminatory decisions taken by the EC from 1968 to 1971 with more than 30 countries. This very committee sponsored Senate Resolution 89 in 1971 "expressing the sense of the Senate with respect to removal of discriminatory EEC preferences against U.S. citrus exports." Now the EC has expanded its practice of restrictions to include canned citrus, mushrooms, dried prunes and tomato products, while professing to espouse the cause of freer world trade and condemning the United States for its alleged "protectionist" attitude.

At present, many U.S. specialty crops remain untouched. But with extensive horticultural development in the EC, the recently concluded Lome Convention tying some 56 additional Caribbean, African and Pacific tropical, underdeveloped nations into a patently preferential trade and development agreement, and with substantial economic problems unresolved within the EC, I have very little confidence the balance of the specialty crops in the United States will be spared with the present climate.

Mr. Chairman, with your permission I would like to draw perspective on the dried fruit and tree nut industry in the West, and then describe the specific impingements which European Community Regulations 1927–75, 1928–75, and 2104–75 make likely on our industry, its growers, and its employers.

In 1974, the dried fruit and tree nut production in the West reached a total of $355 million, about 33 percent of which was exported. This represents a heavy commitment to export sales on the part of some 28,000 growers and 80,000 yearround workers.

None of the growers in our industry are subsidized by the Federal Government or State government in any way. The ability to penetrate markets abroad is based entirely on more efficient production, better quality, more aggressive marketing, and a series of agreements with individual countries and the European Community for the elimination of nontariff barriers, given legal status through "bound" items in the Dillon Round.

A brief word about the dried prune industry will illustrate the critical nature of the new European Community regulations' potential effect, both on my company and on our industry.

Nearly 30 percent of our crop was exported in 1974. About 55 percent of those exports were to the European Community, contributing 56 percent of all European Community imports of this product. While the United States is the world's largest producer, Romania and Yugoslavia contribute 16 percent to the European Community market, leaving France to supply the balance of 28 percent of apparent European Community consumption. France is the sole European Community producer.

What is the nature of these new regulations?

EC regulation 1927–75 proposes to establish a system of import license certificates for European Community imports.

EC regulation 1928–75 provides for a partial or total discontinuation of the issue of permits if the European Community market "ex-

periences or is threatened with serious disturbances." It is difficult to visualize, based on past performance, the nature of future disturbances. Nontheless, the basis is established for any unilateral finding of injury by the European Community, contrary to article XIX of GATT which provides for written notice to affected contracting parties to consult when there is any contemplation of a determination of serious injury. The new regulations appear to ignore these obligations, even though they specify that their application "shall respect the community's obligations under international agreements."

European Community Regulation 2104–75 describes the rules for issuing such import regulations and certificates by stating that they are to be issued on the fifth working day after application is made, and are to be valid for 75 days from their issue. In addition, there is a 6 cents a pound security deposit required, without a plan for refund.

The regulations, taken together, represent a calculated effort to interfere directly with historical trade practices, disrupt long-time relationships between buyer and seller, cause prices of product to become higher in the European Community, threaten a viable and solid and efficient U.S. industry, and do violence to international trade agreements. The stage will have been set to make a finding of injury at any future time and, of course, this would devastate 30 percent or more of U.S. specialty crop production.

For what purpose were these regulations promulgated?

On the surface they were pointless and innocuous, since only France produces prunes in the European Community and only to the extent of 28 percent of apparent European Community consumption. Duties are equal in the European Community as between Romania and Yugoslavia on one hand and the United States on the other, and none of the three countries are excepted from the import restrictions.

Two obvious explanations come to mind. By establishing a mechanism for import control now, additional future investment in French prune production is protected under the "escape clause" of the European Community. On this premise, U.S. exports could be slowly reduced by manipulation of the import licensing regulations or substantially reduced in a given year because of damage by imports to French crops, all on behalf of a poorer quality and a more expensive French product.

A second maneuver, of course, could be the establishment by the European Community of a fictitious NTB, only to trade it away at a future bargaining session with the United States for a concession of value.

In short, these regulations constitute arbitrary and capricious restriction, are illegal under GATT, contradict the spirit of Rambouillet, and provide the ready basis for an unnecessary disruption of established and harmonious trade relations between the EC and the United States.

The regulations are contrary to stated trade policy of many responsible EC representatives and are a violation of established agreements, in that the products described in the above-mentioned regulations are bound—a legal contract—between the United States and the EC.

Mr. Chairman, I would like to conclude my prepared remarks with some suggestions for the consideration of the committee with regard to remedy:

One: Reconsider S. Res. 89 of the 92d Congress to determine whether any positive result was achieved and consider adding to citrus products those others contained in docket 301–4 before the section 301 Committee of the Office of the Special Representative for Trade Negotiations as an additional sense of the Senate resolution.

Two: Recommend to the STR and the President in forceful terms that every effort be made to obtain the removal of the discriminatory import restrictions with regard to the products mentioned in docket 301–4 noted above.

Three: Review the provisions of the 1974 Trade Act with a view to putting a specific time limit on STR for effective conclusion of representations made in connection with 301 hearings.

At present with no time requirement they are virtually meaningless.

Our industry has been very successful in expanding its exports. But we have very little defense against a one-sided violation of the GATT agreement on the part of the community. We believe we can continue to be successful. We are quite vulnerable to this and we need help.

Senator FANNIN. I am very proud of the achievements you have made and the record has told what you have been able to do. It is a great industry. The people of my State and our neighboring State which is your State work together on many programs.

I am quite interested in what you have discussed here this morning. I realize the policies that have been prevalent in the EC. I feel that a great deal more could have been done about it. I know that we give special privileges to the European Economic Community, which certainly should merit greater consideration in the agricultural field and certainly in your industry.

You mentioned S. Res. 89, which I introduced. I am very pleased that it did pass the Senate. Would you say our negotiators and the Europeans do not appreciate the sentiment in the Senate on the importance of speciality crops?

Mr. BUFFINGTON. Yes, sir. I think that is true. Although it certainly must be said that on the part of the European Community they are extremely sensitive to them. The French, for example, are extremely sensitive on prunes, walnuts, and wine, of course.

Senator FANNIN. It would be hard to vote to put in more trade agreements when we are lately being discriminated against by our trading partners. You have brought out, that the French only produced about 28 percent of the needs that they have in the European Community. The imports are not coming from this country, as you said, to the extent they should be, which should be available and imported from this country.

We are, as you stated, being discriminated against.

I am wondering what was the result of your former presentation on the 301 hearing to the former committee on November 18 of last year?

Mr. BUFFINGTON. We have wondered the same thing, sir.

Senator FANNIN. I see. Did you get any response that was in any way satisfactory?

Mr. BUFFINGTON. I think we certainly had a friendly hearing. But I think that is only fair to say that we had questioned whether the

301 hearing will produce any concrete results. Certainly, they have not to date.

Senator FANNIN. You do not contemplate any action being taken that would be helpful then?

Mr. BUFFINGTON. We have received no indication of that.

Senator FANNIN. You have made some recommendations and we certainly appreciate your being specific in just what has been recommended. We feel that this is going to be helpful to us and certainly the recommendations of the FTR and the President that every effort will be made to obtain the removal of the discriminatory import restrictions. It is vital.

I hope that the committee will carry forward with the recommendations that you have made. Certainly, I feel very keenly about them, as I have stated before.

I, of course, feel that your third recommendation, to review the provisions of the 1974 Trade Act with a view to putting a specific time limit on STR for effective conclusion of representations made in connection with 301 hearings, is vital. We are so prone to pass by until a later time. But that later time isn't specified, so it becomes later and later. I do hope that we can accomplish what you desire in this regard.

We appreciate your appearance here this morning. It has been very helpful. Of course, all the testimony will be available to all members of the committee and Members of the Senate. We are indebted to you for your help.

Mr. BUFFINGTON. Thank you for the opportunity, sir.

[The material referred to by Mr. Buffington follows:]

[From Official Journal of the European Communities]

REGULATION (EEC) No. 1927/75 OF THE COUNCIL OF JULY 22, 1975 CONCERNING THE SYSTEM OF TRADE WITH THIRD COUNTRIES IN THE MARKET IN PRODUCTS PROCESSED FROM FRUIT AND VEGETABLES

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community, and in particular Article 43 thereof;

Having regard to Council Regulation (EEC) No. 865/68 [1] of 28 June 1968 on the common organization of the market in products processed from fruit and vegetables, as last amended by Regulation (EEC) 1420/75 [2], and in particular Article 7 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament [3];

Whereas the establishment of a system of trade with third countries in the sectors of products processed from fruit and vegetables calls for the elemination of quantitative restrictions and measures of equivalent effect in trade with third countries;

Whereas it is nevertheless necessary to limit any risks attendant upon the abolition in trade with third countries of all quantitative restrictions or measures of equivalent effect; whereas provision should therefore be made to include the products in question in the field of application of Council Regulation (EEC) No. 109/70 [4] of 19 December 1969 establishing common rules for imports from State trading countries and of Council Regulation (EEC) No. 1439/74 [5] of 4 June 1974 on common rules for imports from third countries;

Whereas provision should furthermore be made in respect of sensitive products for the establishment of a system of import certificates or a minimum price sys-

[1] OJ No L 158, 1. 7. 1968, p. 8.
[2] OJ No L 141, 3. 6. 1975, p. 1.
[3] OJ No C 40, 8. 4. 1974, p. 74.
[4] OJ No L 19, 26. 1. 1970, p. 1.
[5] OJ No L 159, 15. 6. 1974, p. 1.

tem which importers must undertake to observe; whereas for the proper working of these systems it is necessary to provide for the issue of import certificates and that at the same time a security shall be lodged guaranteeing the undertaking to import during the period of validity of the certificates and that a further security shall be lodged guaranteeing that the minimum price will be respected by the importers; whereas provision should furthermore be made for the possibility of establishing a floor price system;

Whereas the machinery thus established may prove inadequate in exceptional circumstances; whereas to ensure that in such cases the Community market is not left completely exposed to the disturbances which might result, the means should be provided for appropriate action to be taken as quickly as possible, has adopted this regulation:

Article 1

1. Save as otherwise provided for in Regulation (EEC) No. 865/68 and in this Regulation or derogation decided upon by the Council, acting on a proposal from the Commission in accordance with the voting procedure laid down in Article 43 (2) of the Treaty, the application of any quantitative restriction or measure with equivalent effect is prohibited in trade with third countries covering all the products listed in Article 1 of Regulation (EEC) No. 865/68.

2. However, with respect to citrus fruit juices falling under subheading ex 20.07 of the Common Customs Tariff, with the exception of grapefruit juice, Member States may maintain until 31 December 1977 the measures relating to the import of these products originating in third countries which were applicable on 1 January 1975 without, however, rendering them more restrictive, the Council deciding before the end of this period on the system to be introduced subsequently. If no decision is taken before this date, the previous system will remain applicable.

3. With respect to prunes falling under subheading 08.12 C of the Common Customs Tariff, Member States may maintain until 31 December 1977, the measures concerning the import of these products originating in third countries, which were applicable on 1 January 1975 without, however, making them more restrictive. From 1 January 1978, paragraph 1 shall apply, and imports shall be subject to the presentation of an import certificate in accordance with Article 4.

4. This Regulation shall not apply to products processed from potatoes, referred to in Article 1 of Regulation (EEC) No. 865/68.

5. For tomato concentrates under subheading 20.02 C of the Common Customs Tariff paragraph 1 shall be applicable only from the date fixed for the first implementation of the minimum price for the products in question.

With respect to preserved pineapples, the said paragraph shall apply as from the granting of aid for the production of preserved pineapples.

Article 2

1. A minimum import price for tomato concentrates falling within subheading 20.02 C of the Common Customs Tariff shall be fixed each year before 1 April for the subsequent marketing year.

However, the minimum price for the 1975/76 marketing year shall be fixed before 1 August 1975.

2. The minimum price shall be established taking into account:

Average production cost for the Community product during the period from the beginning of the second year preceding the year of its fixing until the date of such fixing,

Free-at-frontier prices for imports during the period from the beginning of the second year preceding the year of its fixing until the date of such fixing, disregarding import prices which, in comparison with normal fluctuations, are excessively high or low; these prices shall be increased by whatever Common Customs Tariff duties are applicable,

The prices for the products in question on the main world markets,

The need to prevent the application of the minimum price from having a more restrictive effect on trade than measures previously applied by the Member States,

The need to ensure that the application of the minimum price contributes to the normal and harmonious development of competition with third countries.

3. A special minimum price shall be fixed for imports into the new Member States until 31 December 1977, at the same time as the minimum price referred to in paragraph 1. The special minimum price shall be determined initially on the basis of the price level resulting from the Agreement in the form of exchange

of letters relating to Article 3 of Protocol 8 to the Agreement between the European Economic Community and the Republic of Portugal.[*]

This special minimum price shall be aligned by stages with the minimum price mentioned in paragraph 1.

The alignment shall take place each year and for the first time on 1 July 1976, by increasing the special minimum price by one third and one half, successively, of the difference between this price obtaining before each alignment and the minimum price applicable for the coming marketing year.

The minimum price referred to in paragraph 1 shall apply in the new Member States by 1 January 1978 at the latest.

4. The Council, acting on a proposal from the Commission in accordance with the voting procedure laid down in Article 43(2) of the Treaty, shall fix the minimum price and the special minimum price for a product with given commercial characteristics, in particular in respect of variety, quality, composition, preparation, packaging and size, and shall also fix the date on which such prices are to apply.

5. The coefficients to be applied to these prices in order to allow for any variation from, in particular, the variety, quality, composition, preparation, packaging and the size for which they have been fixed, shall be adopted in accordance with the procedure laid down in Article 15 of Regulation (EEC) No. 865/68.

6. If required, detailed rules for the application of this Article shall be adopted in accordance with the procedure laid down in Article 15 of Regulation (EEC) No. 865/68.

Article 3

1. The Council, acting on a proposal from the Commission in accordance with the voting procedure laid down in Article 43(2) of the Treaty, may decide to introduce a floor price system.

2. Where paragraph 1 is applied, the floor price shall be established taking into account:

Free-at-frontier prices for imports during the period from the beginning of the second year preceding the year of its fixing until the date of such fixing, disregarding import prices which, in comparison with normal fluctuations, are excessively high or low; these prices shall be increased by whatever Common Customs Tariff duties are applicable; however, as regards the new Member States these prices shall be increased until 31 December 1977 by the duties applied by those Member States to third countries in accordance with Article 59 of the Act of Accession;

The prices for the products in question on the main world markets;

The need to prevent the application of the floor price from having a more restrictive effect on trade than measures previously applied by the Member States;

The need to ensure that the application of the floor price contributes to the normal and harmonious development of competition with third countries.

Article 4

1. Any imports into the Community of the products listed in the Annex shall be subject to the production of an import certificate which shall be issued by Member States to any interested party who applies for such certificate irrespective of his place of establishment within the Community.

The certificate shall be valid for an important transaction carried out within the Community.

2. The issue of an import certificate shall be conditional upon the following:

With respect to all products, the lodging of a security to guarantee the undertaking to effect certain imports for as long as the certificate is valid, which security, except in cases of *force majeure*, shall be forfeit in whole or in part if the imports are not effected or are effected only in part within the period;

For tomato concentrates, the lodging of an additional security to guarantee that the free-at-frontier price of the products to be imported under cover of the certificate plus the customs duty payable thereon shall together be equal to or more than the minimum price or the special minimum price, whichever is appropriate. The security shall be forfeit in proportion to any quantities imported at a price lower than the minimum price or than the special minimum price;

[*] OJ No. L 62, 7. 3. 1975, p. 6.

however, the lodging of such additional security shall not be required for products originating in third countries which undertake to and are in a position to guarantee that the price on import into the Community shall be not less than the minimum price for the product in question, and that all deflection of trade will be avoided.

3. The Council, acting on a proposal from the Commission in accordance with the voting procedure laid down in Article 43(2) of the Treaty, may decide to amend the Annex.

The period of validity of certificates and the other detailed rules of application of this Article which may, in particular, make provision for a time limit for the issue of certificates, shall be determined in accordance with the procedure laid down in Article 15 of Regulation (EEC) No. 865/68.

Article 5

Where the levy on various added sugars is fixed in advance for one of the products referred to in Article 4 (1), such advance fixing shall be mentioned on the import certificate which is the basis thereof.

Where this is the case, Article 6 of Regulation (EEC) No. 865/68 shall not apply.

Article 6

1. The Annex to Regulation (EEC) No. 109/70 shall be extended to the products listed in Article 1 of Regulation (EEC) No. 865/68 imported from all the countries mentioned in that Annex.

2. The products listed in Article 1 of Regulation (EEC) No. 865/68 shall be included in the common list of liberalized products in Annex I to Regulation (EEC) No. 1439/74.

3. Paragraphs 1 and 2 shall not apply to the products referred to in Article 1 (2), (3) and (4).

Article 7

1. If, by reason of imports or exports, the Community market in one or more of the products specified in Article 1(1) is or is likely to be exposed to serious disturbances which might endanger the objectives set out in Article 39 of the Treaty, appropriate measures may be applied in trade with third countries until such disturbances or the threat thereof has ceased.

The Council, acting on a proposal from the Commission in accordance with the voting procedure laid down in Article 43(2) of the Treaty, shall adopt rules for the application of this paragraph and shall define the cases and the limits within which Member States may take protective measures.

2. Should the situation envisaged in paragraph 1 arise, the Commission, acting either at the request of a Member State or on its own initiative, shall decide what measures are necessary and communicate them to the Member States; such measures shall be immediately applicable.

Requests received by the Commission from Member States shall be acted upon within 24 hours of receipt.

3. Any measure decided on by the Commission may be referred to the Council by any Member State within three working days following the day on which they were communicated. The Council shall meet without delay. It may, acting in accordance with the voting procedure laid down in Article 43 (2) of the Treaty, amend or annul the measure in question.

Article 8

Council Regulation (EEC) No. 1427/71 [1] of 2 July 1971, introducing protective measures for products processed from fruit and vegetables is hereby repealed.

Article 9

This Regulation shall enter into force on the third day following its publication in the *Official Journal of the European Communities*.

It shall be applicable as from 1 September 1975 in respect of tomato concentrates, peeled tomatoes and tomato juice and as from 1 October in respect of the other products referred to in Article 1.

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[1] OJ No L 151, 7. 7. 1971, p. 5.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, July 22, 1975.

For the Council:

G. MARCORA, *President.*

Annex

CCT heading No.:	*Description*
ex 20.02 C	Tomato concentrates.
ex 20.02 C	Peeled tomatoes.
ex 20.06 B	Peaches in syrup.
ex 20.07 B	Tomato juice.
20.02 A	Mushrooms.
ex 20.06 B	Pears.
08.12 C	Prunes.[1]
ex 20.02 G	Peas.
ex 20.02 G	Beans in pod.
ex 08.10 A	Raspberries.
ex 08.11 E	Do.
ex 20.03	Do.
ex 20.05	Do.
ex 20.06 B II	Do.

[1] From January 1, 1978.

REGULATION (EEC) No 1928/75 OF THE COUNCIL OF JULY 22, 1975 LAYING DOWN DETAILED RULES FOR APPLYING PROTECTIVE MEASURES IN THE MARKET IN PRODUCTS PROCESSED FROM FRUIT AND VEGETABLES

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Regulation (EEC) No 1927/75[1] of 22 July 1975 concerning the system of trade with third countries in the market in products processed from fruit and vegetables, and in particular Article 7(1) thereof;

Having regard to the proposal from the Commission:

Whereas Article 7 of Regulation (EEC) No 1927/75 makes provision for the application of appropriate measures if, by reason of imports or exports, the Community market in one or more of the products listed in Article 1 of Council Regulation (EEC) No 865/68[2] of 28 June 1968 on the common organization of the market in products processed from fruit and vegetables, as last amended by Regulation (EEC) No 1420/75[3], experiences or is threatened with serious disturbances which may endanger the objectives set out in Article 39 of the Treaty; whereas these measures relate to trade with third countries and whereas they are to cease to apply once the disturbance or threat of disturbances has ceased;

Whereas the main factors to be taken into account in assessing whether the Community market is seriously disturbed or threatened with serious disturbance should be specified;

Whereas recourse to protective measures depends on the effect of trade with third countries on the Community market; whereas the situation on this market must therefore be assessed by taking account not only of the factors peculiar to the market itself but also of those relating to the trend of that trade;

Whereas the measures which may be taken in application of Article 7 of Regulation (EEC) No 1927/75 should be specified; whereas those measures must be such as to put an end to serious disturbances on the market and the threat of such disturbances; whereas, they must accordingly be suited to the circumstances if they are not to have other than the desired effects;

Whereas recourse by a Member State to Article 7 of Regulation (EEC) No 1927/75 should be limited to cases in which the market of that State, following an assessment based on the abovementioned factors, is to be regarded as fulfilling the conditions of that Article; whereas the measures likely to be taken in such a case should be designed to prevent the market situation from deteriorating further and must be of an interim nature; whereas consequently, such na-

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[1] See page 7 of this Official Journal.
[2] OJ No L 153, 1. 7. 1968, p. 8.
[3] OJ No L 141, 3. 6. 1975, p. 1.

tional measures may apply only until the entry into force of a Community decision on the matter;

Whereas the Commission must take a decision on Community protective measures to be applied in response to a request from a Member State within 24 hours following receipt of the request; whereas, in order that the Commission may assess the situation on the market with the greatest effectiveness, provision should be made to ensure that it is informed as quickly as possible of any interim protective measures applied by a Member State; whereas, therefore, provision should be made for the Commission to be notified of any such measures as soon as they have been adopted and for such notification to be treated as a request within the meaning of Article 7(2) of Regulation (EEC) No 1927/75, has adopted this regulation:

Article 1

In order to assess whether the Community market in one or more of the products listed in Article 1 of Regulation (EEC) No. 865/68 is, by reason of imports or exports, experiencing or threatened with serious disturbances which might endanger the objectives set out in Article 39 of the Treaty, particular account shall be taken of:

(a) the volume of imports or exports effected or foreseen;

(b) the quantities of products available on the Community market;

(c) the prices for Community products on the Community market or the foreseeable trend of these prices and in particular any excessive upward or downward trend thereof in relation to prices in the years immediately preceding;

(d) where the abovementioned situation arises as a result of imports, the prices obtaining on the Community market, at a comparable stage, for products from third countries, and in particular any excessive downward trend in these prices.

Article 2

1. Should the situation referred to in Article 7(1) of Regulation (EEC) No. 1927/75 arise, the measures which may be taken under paragraphs 2 and 3 of that Article shall be:

(a) for products subject to the system of import certificates:

The total or partial discontinuation of the issue of certificates, as a result of which new applications will not be accepted;

The rejection of all or some of the applications for the issue of certificates which are being examined;

(b) for products not subject to the system of import certificates: total and partial suspension of imports;

(c) for all products:

The introduction of arrangements under which, if the price for an imported product falls below a certain minimum, a condition may be imposed whereby that product may be imported only at a price which is at least equal to such minimum;

The total or partial suspension of exports.

2. The measures referred to in paragraph 1 may be taken only to such extent and for such length of time as is strictly necessary. They shall take account of the special situation of products which are already on their way to the Community. They may not extend to products other than those imported from or intended for third countries. They may be restricted to products imported from or originating in particular countries, to exports to particular countries or to particular qualities or types of presentation. They may be restricted to imports intended for particular regions of the Community or to exports from such regions.

3. The rejection referred to in paragraph 1(a) second indent, shall apply to applications made during the period in which the suspension referred to in Article 4 is applied.

Article 3

The application of this Regulation shall respect the Community's obligations under international agreements.

Article 4

1. A Member State may take one or more interim protective measures if, subsequent to an assessment based on the factors set out in Article 1, it considers that the situation referred to in Article 7(1) of Regulation (EEC) No. 1927/75

has arisen on its territory. Article 2(2) shall apply. The interim protective measures shall be as follows:

(a) for products subject to the system of import certificates the total or partial suspension of the issue of certificates;

(b) for products not subject to the certificate system, the total or partial suspension of imports;

(c) for all products, the total or partial suspension of exports.

2. The Commission shall be notified by telex of the interim protective measures referred to in paragraph 1 as soon as they have been decided on. Such notification shall constitute a request within the meaning of Article 7(2) of the Regulation (EEC) No. 1927/75. The measures shall apply only until such time as a decision by the Commission on the matter enters into force.

Article 5

This Regulation shall enter into force on the third-day following its publication in the *Official Journal of the European Communities.*

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, July 22, 1975.

For the Council:

G. MARCORA, *President.*

[From Official Journal of the European Communities]

REGULATION (EEC) No. 2104/75 OF THE COMMISSION OF JULY 31, 1975 AMENDING REGULATION (EEC) No. 193/75 AND LAYING DOWN SPECIAL DETAINED RULES FOR THE APPLICATION OF THE SYSTEM OF IMPORT LICENSES AND ADVANCE FIXING CERTIFICATES FOR PRODUCTS PROCESSED FROM FRUIT AND VEGETABLES

July 31, 1975 amending Regulation (EEC) No. 193/75 and laying down special detailed rules for the application of the system of import licences and advance fixing certificates for products processed from fruit and vegetables

THE COMMISSION OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Regulation (EEC) No. 865/68[1] of 28 June 1968 on the common organization of the market in products processed from fruit and vegetables, as last amended by Regulation (EEC) No. 1420/75,[2] and in particular Articles 5(3) and 6(3) thereof;

Having regard to Council Regulation (EEC) No. 1927/75[3] of 22 July 1975 concerning the system of trade with third countries in the market in products processed from fruit and vegetables, and in particular the second subparagraph of Article 4(3) thereof;

Whereas special detailed rules for the application of the system of advance fixing certificates established for products processed from fruit and vegetables have been laid down by Commission Regulation (EEC) No. 2046/75[4] of 25 July 1975 laying down special detailed rules for the application of the system of advance fixing certificates for products processed from fruit and vegetables;

Whereas Article 4 of Regulation (EEC) No. 1927/75 has instituted a system of import licences for certain sensitive products; whereas it is necessary to apply to such licences the provisions of Regulation (EEC) No. 193/75[5] laying down common rules for the application of the system of import and export licences and advance fixing certificates for agricultural products;

Whereas the period of validity of import licences, whether with or without advance fixing of the levy in respect of the various added sugars, should be determined in the light of the practices of international trade; whereas, in order to facilitate the adoption of appropriate measures in the event of disturbance or threatened disturbance to the market in these products, a fixed period should be prescribed between the application for and issue of such licences;

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[1] OJ No L 153, 1. 7. 1968, p. 8.
[2] OJ No L141, 3. 6. 1975, p. 1.
[3] OJ No L 198, 29. 7. 1975, p. 7.
[4] OJ No L 213, 11. 8. 1975, p. 24.
[5] OJ No L 25, 31. 1. 1975, p. 10.

Whereas the amount of the security for import licences should be fixed at levels which will enable the system of import licences to function properly;

Whereas, for the sake of clarity and administrative efficiency, the special detailed rules for the application of the system of advance fixing certificates should also be included in this Regulation; whereas Regulation (EEC) No. 2046/75, which replaced, so far as products processed from fruit and vegetables were concerned, Commission Regulation (EEC) No. 2637/70 [6] of 23 December 1970 on special detailed rules for the application of the system of import and export licences and advance fixing certificates for agricultural products, should therefore be repealed;

Whereas the detailed provisions for the application of the system of import licences and advance fixing certificates both supplement and derogate from Commission Regulation (EEC) No. 193/75 of 17 January 1975;

Whereas the measures provided for in this Regulation are in accordance with the Opinion of the Management Committee for Products Processed from Fruit and Vegetables, has adopted this regulation:

Article 1

The following indent is added at the end of Article 1 of Regulation (EEC) 193/75:

"Article 4 of Regulation (EEC) No. 1927/75."

Article 2

Detailed rules for the application of the systems of import licences and advance fixing certificates established respectively by: article 4 of Regulation (EEC) No. 1927/75, and article 6 of Regulation (EEC) No. 865/68 set out in the articles below.

TITLE I—IMPORT LICENCES

Article 3

Without prejudice to the application of Article 7 of Regulation (EEC) No. 1927/75, import licences, with or without advance fixing of the levy, shall be issued on the fifth working day following that on which the application therefor is lodged.

Article 4

Import licences, with or without advance fixing of the levy, shall be valid for 75 days from their actual day of issue.

Article 5

The amount of the security for import licences without advance fixing of the levy shall for each product be as shown in the following table:

CCT heading No	Description of goods	Amount in u.a./100 kg net
ex 20.02 C	Peeled tomatoes	0.5
ex 20.06 B	Peaches in syrup	0.5
ex 20.07 B	Tomato juice	0.5
20.02 A	Mushrooms	1.0
ex 20.06 B	Pears	0.5
08.12 C	Prunes [1]	1.0
ex 20.02 G	Peas	0.5
ex 20.02 G	French beans	0.5
ex 08.10 A	Raspberries	0.5
ex 08.11 E		0.5
ex 20.03		0.5
ex 20.05		0.5
ex 20.06 B II		0.5

		Amount in u.a./100 kg including immediate packings
ex 20.02 C	Tomato concentrates	1.0

[1] From Jan. 1, 1978.

[6] OJ No L 283, 29. 12. 1970, p. 15.

Article 6

The amount of the security for import licences with advance fixing of the levy shall for each product be as shown in the following table:

CCT heading No.	Description of goods	Amount in u.a./100 kg net
ex 20.06 B	Peaches in syrup	0.7
ex 20.07 B	Tomato juice	0.75
ex 20.06 B	Pears	0.75
ex 20.03	Raspberries	1.10
ex 20.05—C I		2.00
ex 20.05—C II		.75
ex 20.06 B II		.75

Article 7

1. The rate of the additional security referred to in the second indent of Article 4(2) of Regulation (EEC) No 1927/75 shall for tomato concentrates be 10 units of account per 100 kilogrammes, including immediate packings.

2. The additional security shall be released:

(a) in respect of quantities for which the party concerned has not fulfilled the obligation to import;

(b) in respect of quantities imported for which the party concerned furnishes proof that the minimum price, or as the case may be the special minimum price, has been respected.

Such proof shall be furnished by production of:

The customs entry for home use in respect of the product concerned, or a certified copy thereof;

A copy of the purchase invoice for the product concerned; and

A banker's declaration certifying that payment of the purchase price shown on the invoice has been effected.

Article 8

1. Without prejudice to the provisions of Article 9, where an import license is requested for tomato concentrates of subheading 20.02 C of the Common Customs Tariff, the application and the licence shall contain particulars as follows:

(a) In section 10 and 11, the weight of the goods, including immediate packings;

(b) In section 12, the total amount of the additional security;

(c) In section 14, name of the country of origin; issue of the licence shall make it obligatory to import from the country indicated.

2. When entering attributions on the licence, the office carrying out customs formalities shall indicate in sections 29 and 30 the weight of the goods including immediate packings.

Article 9

1. In the case of imports under the special arrangements laid down for tomato concentrate exported from and originating in Greece, the licence application and the licence itself shall contain the word "Greece" in sections 13 and 14.

In such case the issue of the licence shall make it obligatory to import from Greece.

2. The provisions of Articles 7 and 8(1)(b) shall not apply to applications and licences as referred to in paragraph 1 hereof.

TITLE II—ADVANCE FIXING CERTIFICATES

Article 10

The arrangements for the advance fixing of levies and refunds provided for in Article 5 of Regulation (EEC) 865/68 shall be applied by Member States on request.

Article 11

Advance fixing certificates shall be valid from their day of issue within the meaning of Article 9(1) of Regulation (EEC) No 193/75 until the end of the fifth month following that of issue.

Article 12

When a product is imported into a Member State where it is subject to quantitative restrictions, the validity of the advance fixing certificate in that Member State shall be conditional on the production of a national document showing that importation has been authorized.

Article 13

1. In the case of certificates for products falling within Tariff heading No 20.07, a tolerance of 0·03 shall be permitted in relation to the Tariff specification as to the density of the product.

Section 20 of the certificate in the case of imports and section 18 of the certificate in the case of exports shall contain one of the following endorsements:

"Density tolerance of 0·03"
"Tolerance for vægtylde på 0,03"
"toleranzdichte 0,03"
"tolérance densité de 0,03"
"tolleranza densità 0,03"
"dichtheidstolerantie 0,03."

2. In the case of exports, section 12 of the certificate shall indicate the basic product or products (sugar, glucose or glucose syrup) in respect of which the refund is fixed in advance.

Article 14

The amount of security for advance fixing certificates shall for each product be as shown in the following table:

CCT heading No	Description of goods	Amount in u.a./100 kg net
ex 13.03 B	Pectin	0·15
ex 20.01	Vegetables and fruit, prepared or preserved by vinegar or acetic acid, whether or not containing salt, spices or mustard, with sugar	0·15
ex 20.02	Vegetables prepared or preserved otherwise than by vinegar or acetic acid, with sugar	0·15
20.03	Fruit preserved by freezing, containing added sugar	0·60
20.04	Fruit, fruit peel, and parts of plants, preserved by sugar (drained, glacé or crystallized)	1·50
ex 20.05	Jams, fruit jellies, marmalades, fruit purée and fruit pastes, being cooked preparations, containing added sugar:	
	1. Chestnut purée and paste	1·50
	2. Other:	
	— With a sugar content exceeding 30% by Weight	1·50
	— Other	0·25
ex 20.06	Fruit otherwise prepared or preserved, containing added sugar	0·25
ex 20.07	Fruit juices (including grape must) and vegetable juices, containing added sugar, but unfermented and not containing spirit:	
	— With an added sugar content exceeding 30% by Weight	1·50
	— Other	0·25

Article 15

Regulation (EEC) No 2046/75 is hereby repealed.

Article 16

This Regulation shall enter into force on the third day following its publication in the *Official Journal of the European Communities*.

It shall apply with effect from: September 1, 1975 for tomato concentrates, peeled tomatoes and tomato juice; and, October 1, 1975 for other products.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 31 July 1975.

For the Commission:

P. J. LARDINOIS,
Member of the Commission.

[From Official Journal of the European Communities]

REGULATION (EEC) No 2791/75 OF THE COMMISSION OF OCTOBER 28, 1975 FIXING THE EXPORT REFUNDS ON FRUIT AND VEGETABLES

THE COMMISSION OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Regulation (EEC) No 1035/72[1] of 18 May 1972 on the common organization of the market in fruit and vegetables, as last amended by Regulation (EEC) No 2482/75[2], and in particular Article 30(4) thereof;

Having regard to the Opinion of the Monetary Committee;

Whereas Article 30 of Regulation (EEC) No 1035/72 provides that, to the extent necessary to allow economically significant quantities to be exported, the difference between prices in international trade and prices in the Community for the products referred to in that Article may be covered by an export refund;

Whereas Article 2 of Council Regulation (EEC) No 2518/69[3] of 9 December 1969 laying down general rules for granting export refunds on fruit and vegetables and criteria for fixing the amount of such refunds as amended by Regulation (EEC) No 2455/72[4] provides that, when refunds are being fixed, account must be taken of the current situation or foreseeable developments with regard to prices and availabilities of fruit and vegetables on the Community market on the one hand and prices in international trade on the other; whereas account must also be taken of the costs indicated in (b) of that Article and of the economic aspects of the proposed exports;

Whereas, pursuant to Article 3 of Regulation (EEC) No 2518/69, when prices on the Community market are being determined account must be taken of the prices which are most favourable from the exportation point of view; whereas, when prices in international trade are being determined, the prices and quotations referred to in paragraph 2 of that Article must be taken into account;

Whereas the situation with regard to international trade or the specific requirements of certain markets may make it necessary to vary the refund for a given product according to the destination of that product;

Whereas tomatoes, fresh lemons and apples of the common quality standards 'Extra' Class, Class I and Class II, 'Extra' Class and Class I hothouse and open ground grapes, almonds, shelled hazelnuts, and shelled walnuts may at present be exported in economically significant quantities;

Whereas, if the refund system is to operate normally, refunds should be calculated on the following basis:

In the case of currencies which are maintained in relation to each other, at any given moment, within a band of 2.25 percent, a rate of exchange based on their effective parity;

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[1] OJ No L 118, 20. 5. 1972, p. 1.
[2] OJ No L 254, 1. 10. 1975, p. 3.
[3] OJ No L 318, 18. 12. 1969, p. 17.
[4] OJ No L 266, 25. 11. 1972, p. 7.

For other currencies an exchange rate based on the arithmetic mean of the spot market rates of each of these currencies recorded for a given period, in relation to the Community currencies referred to in the previous subparagraph;

Whereas it follows from applying these rules and criteria to the present situation on the market of the prospective development of this situation, and in particular to quotations and prices for fruit and vegetables in the Community and in international trade that the refund should be fixed as indicated below;

Whereas the Management Committee for Fruit and Vegetables has not delivered an opinion within the time limit set by its Chairman, has adopted this regulation:

Article 1

1. The export refunds on fruit and vegetables are hereby fixed at the amounts indicated in the Annex.

2. The provisions of Article 6(1)(b) of Commission Regulation (EEC) No 192/75 [5] of 17 January 1975 laying down detailed rules for the application of export refunds in respect of agricultural products, shall apply to exports of unshelled walnuts, shelled hazelnuts and apples set out in the Annex.

Article 2

This Regulation shall enter into force on 29 October 1975.

ANNEX TO THE COMMISSION REGULATION OF OCT. 28, 1975 FIXING THE EXPORT REFUNDS ON FRUIT AND VEGETABLES

[u.a./100 kg net]

CCT heading No.	Description of goods	Refund
ex 07.01 M II	Tomatoes "extra" class, class I and class II	4.00
ex 08.02 C	Fresh lemons "extra class, I and class II) for export to:	
	Countries or States with a planned economy in central and eastern Europe	2.50
	Other destinations	1.44
ex 08.04 A I	Table grapes:	
	Fresh, open ground "extra" class and class I	4.00
	Fresh, hothouse "extra" class and class I	16.00
ex. 08.05 A II	Shelled almonds other than bitter almonds	8.00
ex 08.05 B	Walnuts unshelled	10.00
ex 08.05 G	Shelled hazelnuts	8.00
ex 08.06 A II	Apples "extra" class, class I and class II) other than cider apples:	
	For export to Botswana, Lesotho, Swaziland, Zambia, Malawi, Mozambique, Tanzania, Kenya, Rwanda, Burundi, Uganda, Somalia, Madagascar, Comore Islands, Mauritius, Sudan, Ethiopia, the French territory of the Afars and Issas, the countries of the Arabian peninsula [1] and Iran.	10.00
	For export to countries and territories of Africa other than those mentioned above and South Africa, Syria, countries with a planned economy in central and eastern Europe, Brazil, Venezuela, Peru, Panama, Iceland, Finland, Sweden and Norway.	5.00

[1] For the purpose of this regulation the "countries of the Arabian peninsula" are considered to be the following, including the territories attached thereto: Saudi Arabia, Bahrain, Qatar, Kuwait, the Sultanate of Oman, United Arab Emirates (Abu Dhabi, Dubai, Sharjah, Ummal-Qualwain, Fujairah, Ras Al Kaiman), Yemen Arab Republic (North Yemen) and the People's Democratic Republic of Yemen (South Yemen).

Senator FANNIN. Thank you.

The last witness, William Quarles, president California-Arizona Citrus League.

We certainly appreciate you gentlemen being with us this morning. Again, I express my thanks to Mr. Buffinton for being patient. You have been more patient than the last witness to be called this morning, but certainly very important witnesses.

From my standpoint, you have a very important message to bring to us. So, I particularly welcome you here this morning, both on my behalf and on behalf of the committee.

[5] OJ No L 25, 31. 1. 1975, p. 1.

STATEMENT OF WILLIAM QUARLES, PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE, ACCOMPANIED BY JULIAN B. HERON, JR., COUNSEL

Mr. QUARLES. Thank you, Mr. Chairman. My name is William K. Quarles. I am president of the California-Arizona Citrus League. With me is Julian Heron, Jr., counsel for the league.

This statement is made on behalf of the California-Arizona citrus industry by the California-Arizona Citrus League whose membership represents handlers and growers of more than 90 percent of the California-Arizona citrus fruit produced and marketed in fresh and processed form. It is a pleasure to be before this committee once again. As will be recalled, we testified on April 10, 1974, in support of the Trade Act. It is believed that the act can be very helpful to the United States as it pursues the removal of export barriers in foreign markets

In particular, mention should be made of the fine work Ambassador Dent is doing as the Special Trade Representative. Within the last month, his efforts were successful in preventing the imposition of new trade barriers on fresh citrus exports to Japan. This is a continuation of the work of our previous negotiators, I might add.

While Japan continues to maintain its very strict quotas on the importation of fresh oranges and orange and grapefruit juice, and prohibits the use of fungicides used to prevent spoilage in transit, it recently suggested that it was prepared to take action which would have stopped all citrus fruit from the United States going to Japan. I am pleased to report that when Ambassador Dent became aware of this he immediately took personal guidance of this matter and within a few days had it successfully resolved. The result was that the $80 million in fresh citrus exports from the United States to Japan each year will continue.

Of course, it is sincerely hoped that removal of the quotas can be obtained during the negotiation. The liberalization of Japan's quota for fresh lemons in 1967 resulted in sales of U.S. lemons to Japan increasing from a value of about $1 million in 1963 to almost $40 million by 1974. The liberalization of Japan's quota for fresh grapefruit in 1971 has resulted in the value of U.S. exports of fresh grapefruit to Japan increasing from about $0.5 million in 1970 to over $35 million by 1974. In both instances, United States supplies almost the entire Japanese market. The value of U.S. sales of fresh oranges to Japan in the absence of the quota implemented by the Government of Japan would easily reach $64 million f.o.b. packinghouse.

It is also hoped that Japan will join the rest of the world and approve the use of fungicides already approved by the international organization, Codex Alimentarious.

Of particular interest to this committee may be the status of the discriminatory preferences on fresh citrus which the European Economic Community granted to certain Mediterranean countries originally in 1969. The United States has sustained substantial damages in the form of reduced sales to the EEC since the discriminatory preferences began in 1969. Estimates of the damage to U.S. exports of fresh oranges to the EEC during the period 1970–74 are as high as over $74 million.

As this committee knows, these preferences violate the rules of the General Agreement on Tariffs and Trade and have been an issue between the EEC and the United States for some time. The citrus industry in California and Arizona, as well as the industries in Texas and Florida, appreciate very much the unanimous resolution passed by this committee and later by the full Senate on the subject of the European preferences.

The negotiations resulting from the enlargement of the EEC resulted in further tariff concessions to the United States on fresh citrus. Reductions were obtained in both the duty on oranges and grapefruit. The reduction in the duty for oranges was a significant factor in the increase in U.S. exports of fresh oranges to the EEC in 1975, the first full season the reduction became effective. During the 1974 season, the United States exported to the EEC approximately 79 million pounds of fresh oranges valued at about $7.5 million. During the first 9 months of 1975, the United States exported to the EEC approximately 213 million pounds of fresh oranges valued at over $20 million. Exports of fresh grapefruit to the EEC by the United States during the first 9 months of 1975 surpassed the totals for 1974, the respective values are approximately 53 million pounds valued at about $5 million in 1974 as compared to over 64 million pounds valued at about $7.4 million during the first 9 months of 1975.

Unfortunately, while the EEC appeared to give at that time, it has now taken further discriminatory action against citrus exports. The EEC remains committed to discriminating against the United States.

In 1975, the EEC increased the rate of preference granted Israel from 40 to 60 percent. This forms the model for the preferences to be renegotiated with Spain, Egypt, Lebanon, and Cyprus. Tunisia and Morocco continue to enjoy their 80 percent preference. Additionally, the EEC, for the first time, expanded the preference system to cover processed citrus, including citrus juices. While the full effect of this has not yet been felt, it is anticipated that the probable effect of the discriminatory tariff preferences on juices will be the elimation of U.S. exports to the EEC.

As if that were not enough, the EEC began the authorization and payment of export subsidies for Italian lemons when shipped from Italy to other member states within the EEC. This subsidy is slightly over $1 per carton. The effect of this is being felt and will continue to damage U.S. lemon exports to the EEC.

Last fall, the California-Arizona Citrus League, together with the citrus industry in Texas, participated in a section 301 proceeding initiated by the National Canners Association. Also participating in that proceeding were representatives from the Florida citrus industry as well as California producers of peaches, pears, fruit cocktail, prunes, and walnuts. These proceedings resulted from the imposition by the EEC of minimum import prices, import licensing and import surveillance on processed fruit and vegetable products. These regulations became effective October 1, 1975. They have already had serious impact on tomato paste and canned peaches. It is hoped that the United States will be able to cause the EEC to rescind these regulations before these trade barriers have a damaging effect on citrus juices imported into

the EEC. There has been no indication to date as to what action the United States has taken. Undoubtedly, this committee will wish to inquire as to the status of this case.

The opportunity to appear before this committee today is greatly appreciated. If the committee would like additional information on any of the topics mentioned, it will be happily furnished.

Senator FANNIN. Thank you, Mr. Quarles; may I express appreciation to you and Mr. Heron for the work you have done. It has been so commendable. I realize you have tremendous problems and certainly you have done your part to help overcome this, not only in your industry but other industries that are affected. I certainly praise you for that great effort.

Mr. Quarles, what do you consider to be the citrus industries' two greatest priorities for the trade negotiations?

Mr. QUARLES. The first would be to obtain equal treatment in the nature of duties and other import procedures in the EEC and the elimination of the illegal quota on the import of fresh oranges and orange juice concentrate in Japan.

Senator FANNIN. That is very serious as far as the concentrate is concerned. The juice, as I understand, is the most serious problem that we face at the present time, is that right?

Mr. QUARLES. The quota for fresh orange juice concentrate in Japan, if that was your question, Senator, is limited to 1,500 metric tons per year which is rather minimal.

Senator FANNIN. In the reference you made to the European Community, I think the EEC was much more serious than that.

Mr. QUARLES. Yes.

Senator FANNIN. As far as juices are concerned?

Mr. QUARLES. I would say that probably the major goal that we would like to achieve might be the quota on fresh oranges in Japan. We are limited there to 15,000 metric tons, which is again a rather minimal amount. It has been estimated, that if that quota could be removed in Japan, that there is a market of perhaps over $64 million which California and Arizona could participate in substantially.

Senator FANNIN. It would be a tremendous achievement if those barriers could be overcome?

Mr. QUARLES. Yes, sir.

Senator FANNIN. If the quotas on fresh oranges maintained by Japan were removed, what would you expect to occur?

Mr. QUARLES. In that event, we would expect to participate very substantially in that market, and we believe we could satisfy a great portion of that demand.

Senator FANNIN. And that tremendous increase would be possible if you had entry to that market?

Mr. QUARLES. Yes, sir.

Senator FANNIN. Are there other barriers by Japan which would affect exports?

Mr. QUARLES. Yes, sir. At present Japan is imposing what we believe to be nontariff barriers in the nature of very harsh food additive laws which preclude the use by the U.S. citrus industry of two fungicides which are used by most citrus producers around the world, and are used on citrus shipped to the markets of virtually all developed countries.

These two fungicides are ortho phenylphenol and thiabendazole, and are both approved by Codex Alimentarioris, the Joint Food Committee of the Food and Agriculture Organization of the United Nations, and the World Health Organization. These fungicides are certainly safe and are recognized as safe by not only that world body, but all developed countries in the world.

Japan, almost a year ago, decided that they were not going to allow the importation of U.S. citrus which contained these fungicides. Since that time, the U.S. industry has been attempting to satisfy that market and those laws. However, we have been experiencing tremendous amounts of decay which are causing our growers to suffer greatly in Arizona and California.

Senator FANNIN. This entire committee has been working for several years now to encourage the European Economic Community to discourage discrimination. The United States is entitled to most-favored-nations treatment. Can you tell me, please, where this matter now stands?

Mr. QUARLES. Originally the tariff preferences in 1969, when they were enacted, applied only to the original six states in the EEC. At that time, the duty on fresh citrus into Ireland and Denmark was zero. It was about 5 percent in England then. Upon England, Ireland, and Denmark joining the EEC, the duty in those three states the went up to about 20 percent.

During the 24–6 negotiations, we gained some progress, in that the duties were reduced during a portion of the year to a point where the preferences had a lesser impact. After that, the EEC now appears to be taking this back by increasing the substance of the preference. Now they are going from a 40 percent preference to 60 percent for Israel. Tunisia and Morocco continue to enjoy their 80 percent preference. We expect some of the other Mediterranean producers will also receive the same as Israel, such as Lebanon and Egypt, very shortly. On top of this, to compensate Italy for the reduction in the tariffs negotiated during the 24–6 negotiations, the EEC has granted Italy a subsidy on their export of fresh oranges into the EEC as well as lemons, and have allowed them to continue their embargo in Italy of the importation of fresh citrus.

Senator FANNIN. There has been much discussion lately concerning the tropical products negotiations. Can you tell me, Mr. Quarles, whether or not fresh citrus or citrus products are tropical products?

Mr. QUARLES. Certainly, Senator, the bulk of the citrus is produced in the temperate zone in the United States. For that reason, we do not believe that citrus is any more of a tropical product than corn or wheat or any of the other commodities produced in that zone. Certainly, to call them such would not, we believe, be within the intent of Congress and perhaps what the Government had in mind.

I might also point out, that we just examined the Trade Act. We didn't see any reference in the Trade Act of 1974 to tropical products as such. But, as pointed out in the Senate Finance Committee staff report, it would be our view that tropical products should be limited to products such as those mentioned in the staff report on page 16, cocoa, coffee, tea, bananas and products of that nature.

Senator FANNIN. I agree with you. I certainly think that there is quite a difference between the tropical fruits and products group when

we consider them. In my State we do not have the tropical products in that group, but we have the citrus. That is true of California, Florida and other States. But then when you can get down into the other climates, the tropical fruits are more readily available.

I would hope that they would take that distinction into consideration, and it will not be a problem. But you are always concerned about whether or not there would be a different interpretation.

Mr. QUARLES. Yes; I might point too, we haven't been able to figure out for certain—and I don't think the executive branch knows for sure—what they are going to do with tropical products. Once they decide what a tropical product is—but it's our understanding that they are presently leaning toward giving it a most-favored-nations treatment.

This concerns a great many of us who are freetraders and who do hope to accomplish some objectives during the negotiations. Our feeling is that if concessions are made to these so-called tropical products prior to the beginning of the negotiations, then there will be nothing really left to bargain with once the negotiations commence.

Senator FANNIN. I certainly understand your concern, and I share your concern.

Thank you both, Mr. Quarles and Mr. Heron, for being with us this morning. We have benefited by your testimony and in your answering questions. The record will be available to all the Senators, and we note it has been very well documented. We appreciate your being here.

Mr. QUARLES. Thank you so much, Senator.

Senator FANNIN. The trade hearings are adjourned. The record will remain open for submission of written statements.

[Whereupon, at 12:53 p.m., the hearing was adjourned, to reconvene subject to the call of the Chair.]

Appendix A

Communications Received by the Committee Expressing an Interest in These Hearings

FEBRUARY 24, 1976.

Re Hearings on U.S. Foreign Trade Policy and the Administration of the Trade Act of 1974—Statement of the Far East Conference and the Pacific Westbound Conference.

COMMITTEE ON FINANCE
U.S. Senate, Dirksen Senate Office Building, Washington, D.C.

Attention: Mr. Michael Stern, Staff Director.

GENTLEMEN: We are writing to express concern on the part of the Far East Conference and the Pacific Westbound Conference and their 24 member carriers (listed in the appendix to this letter), over the implications of § 608 of the Trade Act of 1974. We respectfully request that the Committee make this letter a part of its record. If the Committee or its staff desire to question us on the subject matter of this statement, we would be pleased to attend upon their request, or to answer written questions.

The Far East Conference establishes the rates, and rules and regulations in connection therewith, which its member carriers observe for the transportation of cargo from U.S. Atlantic and Gulf ports to Japan, Korea, Hong Kong, Taiwan, the Philippines, Vietnam, Laos, Cambodia, Mainland China, and Siberia and Manchuria. It operates under Federal Maritime Commission Agreement No. 17, which was first approved in November 1922.

The Pacific Westbound Conference operates under Federal Maritime Commission Agreement No. 57, which received its initial approval in 1923. The Conference establishes tariffs for its members in the trade from Pacific Coast ports of the United States and Canada to the same destinations covered by the Far East Conference, and also to Thailand.

The Far East Conference responded to the draft report released in connection with the International Trade Commission Investigation No. 332–73, in accordance with Section 608(c)(1) of the Trade Act of 1974. These views were subsequently included, pp. B–67–71, in the final report, June 2, 1975, of the Commission, Concepts and Principles Which Should Underlie the Formulation of an International Commodity Code. Such views are attached herewith for purposes of reiteration.

Then on August 1, 1975, the Secretary of Commerce and the Chairman, U.S. International Trade Commission submitted to the Committee on Ways and Means of the House their report, pursuant to Section 608(b) of the Trade Act of 1974, Principles and Concepts Which Should Guide the Organization and Development of an Enumeration of Articles Which Would Result in Comparability of United States Import, Product and Export Data.

This later report continued to perpetuate many of the same concepts on which the Far East Conference previously commented, but also set out more specifically how such concepts would be applied with respect to establishing such comparability. While there were the same and additional objections to the August 1, 1975, report, no opportunity was provided to submit a statement of views.

Subsequently, representatives of Conferences along with others from the shipping industry met with the principal representatives of the International Trade Commission and the Bureau of the Census for the implementation of Section 608 (a), (b) and (e), in order to ascertain how these two organizations intended to proceed to implement these subsections and then to present this industry's views on the problems.

Our very great interest arises from the fact that in early 1973, these conferences began the major process of overhauling their tariffs, revising the descriptions of items and the numerical coding of the tariff items so as to conform as closely as feasible to the U.S. Department of Commerce Schedule B, which classifies exports of the United States. This Schedule B system had been in effect for some years and, according to our best information when embarking upon the

program for recodification of our tariffs, was not destined for obsolescence. This information and selection of the Schedule B for the programs were based on our meetings with the Federal Maritime Commission and the Department of Transportation, attended also by representatives of the Bureau of the Census. The 2-year project of reclassifying the tariffs in this manner occupied a great deal of the time and attention of the member lines and conference staffs and necessitated a major extraordinary expense, including the services of an outside expert engaged to assist in the restructuring of the tariffs. The tariffs were introduced to the trade by filing on October 1, 1974, and December 1, 1974, with effective dates of January 1 and March 1, 1975.

The major purpose of the overhaul of the tariffs was to enable the member lines to relate current tariff items and requests of shippers for rate adjustments to actual descriptions and terminology used in export declarations and to take maximum advantage of the statistical compilations of the Department of Commerce for such purposes as determining the volume and trend of exports of particular commodities to Far East destinations served by conference members and comparing conference and/or line movements with total movements in the trade.

A revision at this time of the export classification/coding system to conform to the framework of the TSUS[1] import system would totally nullify the effort and expense of the Conferences in conforming their tariff descriptions and coding to the Schedule B based on the SITC.[2] We recognize that if there were an overriding national interest to be served by abandoning the Schedule B system in favor of the TSUS system, particularly when there has been almost universal adoption of the SITC/BTN[3] system for foreign trade and the ISIC[4] system for production, our financial loss might be bearable. However, our experience convinces us that it may not be in the national interest to revise the export system. Moreover, we have some quite fundamental questions about the implementation of Section 608 such as to wonder at its viability and feasibility.

We first would like to question certain major guiding principles of the ITC–Census program. We point out that, since the numbering and product scope of the rate lines in the TSUS are legal classes and can not be changed except pursuant to statutory authority enacted by the Congress, and since the system for exports is not subject to such legal constraints, the scope of export classification and their numbering are to be changed in complete conformity to the TSUS, thereby inhibiting priority in the hierarchy of descriptions and numbering[5] and limiting capacity and flexibility for entry or isolation of new items, all of which the present Schedule B system for exports now affords.

We question how the ITC-Census can proceed to establish and implement comparable enumeration systems for imports and exports before resolving how to establish and implement an enumeration system for domestic production comparable to both imports and exports. The problem is particularly acute as imports and exports are according to a material/commodity arrangement, whereas domestic production is and must continue to be arranged according to the industry/establishment structure of the Standard Industrial Classification (SIC). (See also 4) below for the timing of such changes.)

We question the assumption that exports and imports share some inherent identity, and that one export/import system can ever have such detail as to delineate their frequent subtle differences. The inherent identity of exports/imports is contrary to economic principles by which exports are ipso facto some part of domestic production, and, therefore, are directly related thereto, whereas in many instances imports are not domestically produced, or in other instances duplicate or supplement domestic production under certain economic and market conditions. In fact, exports and imports are mutually exclusive in most cases, depending upon the level of detail of description and delineation. For example,

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[1] Tariff Schedules of the United States.
[2] Standard International Trade Classification, United Nations.
[3] Brussels Tariff Nomenclature, Customs Cooperation Council.
[4] International Standard Industrial Classification, United Nations.
[5] The TSUS frequently requires for purposes of delineating different rates of customs duties that the arrangement from general to specific be by such characteristics as length, width, area, shape, count or value, in contrast to the Schedule B export classification system, which generally pursues an order of material, method or stage of manufacture, end-use, etc. before detailing capacity, shape, etc.

while at a general level of description there may be footwear exports and footwear imports, at some more detailed level according to such factors as basic material, method of manufacture, men's or womens' or children's or infants', style, price, etc., there will generally be some product attribute which will distinguish exports within the general class of footwear and imports within the general class of footwear.

For example, the United States exports to one country in the Far East a modest volume of natural leather shoes and boots having a value of $25.00 or more per pair, and a modest volume of canvas shoes with rubber soles having a value of $7.50 or more per pair. The United States imports from this same country a large volume of canvas shoes with rubber soles having a value of $2.50 or less per pair, and a large volume of straw sandals having a value of $1.25 or less per pair. No straw sandals are exported from the United States to this country, and no fine leather shoes are imported to the United States from this country.

The existing breakdown of the footwear items exported from and imported into the United States makes clear the entirely distinct nature of the items exported and items imported. Even as to the canvas shoes with rubber soles, the wide disparity in values indicates that unless one adopts the philosophy that a sneaker is a sneaker is a sneaker, the exported items are probably of a better quality and durability than the imported items.

If, in the interest of forcing the system to yield an appearance of comparability, one were to abolish the several categories of footwear and merely accumulate total export and import data on footwear, the appearance would be created that something comparable is moving in both directions. An average of quantities and values would distort the picture to the extent that the true noncomparability might not be discernible. A completely unfounded conclusion regarding potential marketing abroad of United States products and potential need for protection of domestic industries might be drawn from such imprecise data.

With our present knowledge of the ITC-Census program, we would like to examine the following more specific issues:

1. As the TSUS/TSUSA does not have a building block structure/code for summarization of upwards of 9,000 7-digit import commodities, there will be no building block structure/code for an as yet undetermined number of 7-digit export commodities. The TSUSA is currently summarized to the SITC-based Schedule A with building block structure/code by means of a concordance, in order to facilitate data summarization and analysis, among other purposes; the Schedule B for exports, however, is a direct building block structure/code system. As the June 2, 1975, report adopted a firm negative position on the subject of concordances, particularly between dissimilar systems of classification, there appears the distinct possibility that the present concordance of the TSUSA system to an SITC-based Schedule A may be abandoned and for similar reasons there will not be a concordance for exports under the TSUS system to an SITC-based building block structure/code system. A building block structure/code is most essential for reworking, summarization and analysis of crude import and export data.

2. As the TSUSA is less directly correlatable to the Standard International Trade Classification (SITC) than the present Schedule B for exports, the prospective export code will necessarily be less directly correlatable to the SITC. Correlation to the SITC is the primary means for an international interface of U.S. export and import data and such interface is essential for trade negotiations, export market research, analysis of trade flows, international economic analysis, analysis of freight lading/discharge to/from U.S. and non-U.S. ports.

3. Upon converting export classes/commodities from the Schedule B to the TSUS import classification system, there will be, according to an analysis of sample working papers from the ITC-Census program, significant losses of product and product class identities, many of considerable dollar and quantity magnitude, thereby resulting in losses of statistical continuity. The importance of statistical continuity hardly needs mention as it is fundamental to almost any type of historical analysis and projection of trends.

4. With the present ITC-Census methodology it appears likely that the prospective export system, particularly under the present time constraints (See 6 below), will be inaugurated subject to series of revisions to accommodate contemplated changes in the TSUS and SIC classifications. Moreover, we understand

that Census plans to conduct its standard product inquiry in advance of the 1977 Census of manufactures, and possibly also the Census itself, without particular regard to the proposed revisions resulting from the import, production and export comparability review. The probable net result will be that the SIC Numerical List of Manufactured Products used for publication of census statistics will not reflect the comparability changes until after the 1977 Census of Manufacturers, and data according to the new classification will not begin to be available until later Current Industrial Reports or the 1982 Census. Apart from the effect of changes on the maintenance of a sound statistical system or the administration of an export reporting system, a significant sector of the shipping industry uses the export classification/code system for their tariffs, requiring firm prospects for a relatively stable system for a period of years.

5. A basic principle of the program for comparability of export and import data is an export surveillance/verification system to assure the accuracy of export data, as in the case of imports. This assumes a significant expansion of the Inspection and Control Division of the U.S. Customs Service. As the export surveillance/verification system will not be revenue-producing, it is necessary to question whether reportedly major funding will be provided to implement what is essentially a statistically-oriented function. Furthermore, there is some question whether an export surveillance/inspection system can be conducted without serious disruption to the processing and flow of export merchandise.

6. The original legislation, Section 608(e), specified an implementation date of January 1, 1976, for export enumeration in accordance with imports. The August 1, 1975, report, Part V, Section C, Item 7, recommends a date of January 1, 1977, for comparability of import, production and export data. In view of the fact that the ITC-Census is now not expected to release the first series of working papers for industry study and comment before late April, 1976, and in view of the magnitude of the work after industry comment and finalization of the proposed export system and after its availability to industry and government for implementation, a date of January 1, 1977, is in our view conjectural, if the various phases are to be executed properly and efficiently.

Finally, the ocean freight industry is, except for overland trade to Canada, the principal transporter of U.S. exports. As major conferences of shipping lines carrying exports to the Far East, we want and are in a position to cooperate in attaining more accurate export data—one of the major points of the ITC-Census August 1, 1975, Report to the Congress. However, in order to do so, the system for classification/coding must be as viable and as appropriate in its own way for exports as the TSUS is for imports. In addition, historical continuity, that is, the ability to relate past product and product class identities and statistics thereon to any new system, a reasonable precise international interface and, of course, assurance of stability of any new system are especially critical for the ocean freight industry as for all other users of foreign trade data and classification systems.

FEBRUARY 24, 1976.

GERALD J. FLYNN,
Chairman, Far East Conference.
D. D. DAY, Jr.,
Chairman, Pacific Westbound Conference.

APPENDIX

Membership of the Far East Conference:
American Export Lines, Inc.
American President Lines, Ltd.
Barber Blue Sea Line
Far Eastern Shipping Co.
Japan Line, Ltd.
Kawasaki Kisen Kaisha, Ltd.
Lykes Bros. Steamship Co., Inc.
Maritime Co. of the Philippines, Inc.
Mitsui—O.S.K. Lines, Ltd.
A.P. Moller-Maersk Line—Joint Service
Nippon Yusen Kaisha, Ltd.
Sea-Land Service, Inc.
United States Lines, Inc.
Waterman Steamship Corp.
Yamashita-Shinnihon Steamship Co., Ltd.
Zim Israel Navigation Co., Ltd.

Membership of the Pacific Westbound Conference:
American President Lines Ltd.
Barber Blue Sea Line
Japan Line, Ltd.
Kawasaki Kisen Kaisha, Ltd.
Knutsen Line
A.P. Moller-Maersk Line—Joint Service
Maritime Company of the Philippines
Mitsui O.S.K. Lines, Ltd.
Nippon Yusen Kaisha
Pacific Far East Line, Inc.
Phoenix Container Liners Ltd.
Sea-Land Service, Inc.
Seatrain International, S.A.
Showa Line, Ltd.
States Steamship Company
United States Lines, Inc.
Yamashita-Shinnihon Steamship Co., Ltd.
Zim Israel Navigation Co., Ltd.
Associate members:
Shipping Corporation of India, Ltd.
Scindia Steam Navigation Co., Ltd.
Waterman Steamship Co., Ltd.

FAR EAST CONFERENCE.
New York, N.Y., May 16, 1975.

Mr. A. PARKS,
Director, Industry Division,
Washington, D.C.

INTERNATIONAL COMMODITY CODE

DEAR MR. PARKS: The enclosed comments are submitted in response to the notice which appeared in the Federal Register under date of April 30, 1975, wherein the International Trade Commission solicits the views of all interested parties with respect to the draft report released in connection with the Commission Investigation No. 332-73, initiated on February 4, 1975 in accordance with section 608(c)(1) of the trade Act of 1974.

Very truly yours,

GERALD J. FLYNN, *Chairman.*

Enclosure.

1. The Far East Conference and the Pacific Westbound Conference have been in the forefront of the maritime industry in the analysis of the problems of reconciling tariff codes with the principal external coding system with which it must operate, the U.S. SITC-based Schedule B system for exports. This is the only system by which data on total and share freight movements are available in sufficient detail for analysis in the standard and special reports of the Bureau of Census. As it is both a classification and a statistical system, the FEC and PWC after the expenditure of considerable time and money have put their tariffs on a Schedule B system with totally compatible descriptions and coding. Other conferences are moving in this direction while others have adopted the SITC system in part to avoid the connotations of a "U.S." system.

2. The inadequacy of concordances is less in their usefulness than in the almost constant lack of comparability of the systems by which data is collected, classified and reported. Concordances would appear to be of considerable value in structuring data according to the various codes that may be required for national needs and purposes and for the international interfaces as long as operating with comparable discrete units. Modern data processing techniques and equipment greatly facilitate the interchange one to the other so that frequently the data collected under one system can be reported directly under another. Moreover, whatever the limitations of past and present systems and whatever system(s) adopted, concordances will have a role in maintaining the continuity of the historical and statistical record.

3. The full benefits of a single uniform commodity code which could be adapted for national and international transport purposes can be obtained only if at the same time the following conditions are met:

(a) Full compatibility and direct translation with the system used for the collection and reporting of data on imports, exports and production at the national level and with that required for international interchange;

(b) Comprehension and unique coding capability of all possible products, e.g. hundreds of thousands of organic chemicals and compounds, and alternatively a compatible building block structure for generically categorizing those products that do not move in international trade or that transporters do not choose to rate individually.

The magnitude of the above problems is discussed in A Study to Develop a System for Standardizing Commodity Descriptions and Codes, Department of Transportation (Publication PB192618). For example, it is pointed out that in the case of the railroad industry, despite 63,000 commodities summarized 14,000 uniquely coded entries for the railroads' Standard Transportation Commodity Code (STCC), only a limited percentage of goods are moving under such codes; similarly with the National Motor Freight Classification.

4. The development of a commodity code according to the principles and concepts which should underlie its formulation, provided with the full exchange of and weight to the ideas nationally on production, exports and imports, will itself require a time frame considerably beyond that provided by the Trade Act of 1974. A more extended time frame for such an effort is suggested by the experience with the revisions for the Tariff Classification Act of 1962 or with the study for the realignment of the TSUSA with the BTN. In view of the considerable past and ongoing work in the international sphere, for example, through the United Nations and the Customs Cooperation Council and in view of the U.S. position as only one albeit largest trading partner, it cannot be expected that one peculiarly U.S. code, particularly if it is an offshoot of previous U.S. tariff schedules, will meet the criteria for a true international code or will receive automatic acceptance by the other 100 or so trading partners. Thus if the process described for the development of a true international commodity code is to be followed, comprehension of international interests will add considerably more to the time frame. While current systems are not wholly adequate, they are operational and most all have been refined to the extent they feasibly can be. Abrupt, substantial change under an accelerated time frame would unquestionably sacrifice appropriate consideration to the concepts and principles and thereby may well result in a system so crude and dubious as to defer adoption and utilization.

5. In the discussion of international product nomenclature, Part A, it should be noted that substantial cooperation has been achieved at the international level through the International Standard Industrial Classification of All Economic Activities (ISIC), the United Nations 4-digit building block counterpart to the U.S. Standard Industrial Classification (SIC). Concordance provide correlations 5-digit SITC to 4-digit ISIC and 4-digit ISIC to 5-digit SITC, with product class breakdowns as appropriate one to the other.

The U.S. has been for some years updating and refining its classification and statistical systems and/or related concordances to provide greater correlation with such international systems, namely, Schedule A and B with the SITC and SIC with the ISIC. See for example U.S. Department of Commerce Bureau of Census-Paper No. 20, Correlation between United States and International Standard Industrial Classification, and the U.S. Foreign Trade Statistics Classification and Cross-Classifications 1970.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS,
CHAUFFEURS, WAREHOUSEMEN, AND HELPERS OF AMERICA,
Washington, D.C., February 5, 1976.

Hon. RUSSELL LONG,
Chairman, Senate Finance Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: I understand that the Senate Finance Committee is holding oversight hearings on February 4-5, 1976 on the Trade Reform Act of 1974. Attached is a copy of my letter dated January 14, 1976 which was sent to all members of the Congress.

As I stated in my letter of January 14, 1976, the United States Department of Labor denied the petition of the International Brotherhood of Teamsters for adjustment assistance under Section 222 of the Trade Reform Act of 1974 for 691 employees of Pan American World Airways. According to the Labor Department, service employees are not eligible for adjustment assistance when they become unemployed because of increased imports.

I have requested that the Congress amend the Trade Reform Act of 1974 to guarantee adjustment assistance to all service workers who have become un-

employed since October 2, 1974 because of increased foreign competition and that the Congress increase the maximum duration of benefits to unemployed workers under age 60 from 52 weeks to 78 weeks.

I request that my attached letter of January 14, 1976 be made a part of the official record of the oversight hearings on the Trade Reform Act of 1974 held on February 4–5, 1976.

Sincerely yours,

FRANK E. FITZSIMMONS,
General President.

Attachment.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS,
CHAUFFEURS, WAREHOUSEMEN, AND HELPERS OF AMERICA,
Washington, D.C., January 14, 1976.

Hon. RUSSELL LONG,
Chairman, Senate Finance Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: The United States Department of Labor has recently denied the request of the International Brotherhood of Teamsters for adjustment assistance, under the provisions of the Trade Act of 1974, for 691 laid-off employees of Pan American World Airways, Inc. The Labor Department ruled that workers performing services are not covered by the adjustment assistance provisions of the Trade Act of 1974 (Section 222) because services are not "articles" within the meaning of the Act.

Despite the fact that the United States Department of Commerce reported that the balance of payments deficit in passenger fares rose from $388 million in 1960 to $908 million in 1974 and the fact that the Commerce Department classifies passengers fares into imports and exports, the Labor Department maintained that because Congress did not define the term "articles" and did not specifically mention services in Section 222, service workers are denied eligibility for adjustment assistance when they become unemployed because of increased imports.

We are shocked and disturbed that the Labor Department has denied benefits to 691 ex-employees of Pan American and to other employees and their families who have been or will be furloughed since the Act became effective on October 2, 1974. There is no doubt that an important cause for the unemployment of close to 1,000 IBT represented employees of Pan American World Airways was the increased foreign competition of government-owned and subsidized airlines. In fact, in the International Air Transportation Fair Competitive Practices Act of 1974, enacted on December 18, 1974—just two days before Congress enacted the Trade Act of 1974, the Congress stated:

"United States air carriers operating in foreign air transportation perform services of vital importance to the foreign commerce of the United States, including its balance of payments, to the Postal Service, and to the national defense. Such carriers have become subject to a variety of discriminatory and unfair competitive practices in their competition with foreign air carriers."

It was our understanding that the Congress wanted all workers adversely affected by foreign trade to receive adjustment assistance when it used the following language as one of the six purposes of the Trade Act of 1974:

". . . to provide adequate procedures to safeguard American industry and labor against unfair or injurious import competition and to assist industries, firms, workers and communities to adjust to changes in international trade flows."

I request that the Congress expeditiously act to amend the Trade Act of 1974 to guarantee adjustment assistance to all service workers who have become unemployed since October 2, 1974 because of increased foreign competition. I further request that the Congress increase the maximum duration of benefits to unemployed workers under age 60 from 52 weeks to 78 weeks. The recession that we have suffered since December, 1974, when the Trade Act of 1974 was enacted, with its increased number of unemployed workers and increased duration of unemployment, has made the present adjustment assistance provision obsolete.

Until service workers receive the same benefits as manufacturing workers, the United States must not make any concessions in service at the foreign trade negotiations in Geneva.

Sincerely yours,

FRANK E. FITZSIMMONS,
General President.

SUPPLEMENTAL STATEMENT BY RICHARD P. SIMMONS, PRESIDENT, ALLEGHENY LUDLUM STEEL CORP. AND CHAIRMAN OF THE ADVISORY COMMITTEE, TOOL AND STAINLESS STEEL COMMITTEE

IMPLEMENTATION OF THE TRADE ACT OF 1974 AS VIEWED BY THE SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

The action taken by the U.S. International Trade Commission in recommending that the President limit imports of certain specialty steels is evidence of the growing recognition of the manifold problems created for American industry and workers by the increasing incursions of subsidized foreign products into our domestic market.

Although the year just past brought the largest trade surplus in U.S. history, some of our country's most vital industries continued to feel the painful impact of imports. Indeed, the trade deficit in steel for 1975 was some $2.2 billion.

Unemployment in specialty steel

The specialty steel industry, a small but nonetheless very critical cog in the nation's complex economic machinery, was harder hit than many industries. Indeed, unemployment in this industry climbed as high as 40% in 1975 while many facilities operated well below profitable levels of capacity. Some segments of the industry were even more adversely affected by the combined impact of the imports and the recession. The ITC report to the President noted, for example, that ". . . the level of employment in the domestic industry producing stainless sheet and strip in 1975 was 57 percent lower than in 1974 and below the 1970 employment level."[1] Employment in mills producing stainless bars and wire rods fell 58 percent last year.[2] And the tool steel industry, operating at levels greatly under capacity for some years, saw unemployment increase sharply in 1975.

Commission findings

The International Trade Commission found after extensive hearings and investigation, imports were a "substantial cause of serious injury" not only in 1975 but in prior years as well.[3]

Specifically, the Commission determined that stainless steel bars, wire rods, plate, sheet and strip and alloy tool steels "are being imported into the United States in such increased quantities as to be a substantial cause of serious injury, of threat thereof . . . to the domestic industry . . ."[4]

It should be noted that the Commission held that this finding does not apply to wire, tubing, and unfinished or semi-finished products such as ingots, blooms, billets, slabs, and sheet bars of stainless steel.

The Specialty Steel Industry of the United States comprised of 19 companies, and the United Steelworkers of America, AFL–CIO, contended in their joint petition filed with the ITC last July that these products are adversely affected by imports too. Both the industry and the union still maintain there is evidence of injury in these product lines. However, it is not our purpose here to debate the Commission's findings in detail, but rather to present our view of the administration of the Trade Act of 1974 as it pertained to our industry during the Act's maiden year.

Process takes many months

We want to emphasize at the outset that the industry is appreciative of the thoroughness and care with which the Commission and its staff investigated our petition. The ITC took the full six months permitted by the law to look into this matter and weigh the case of the industry and United Steelworkers against the arguments of the importers and foreign producers of specialty steels.

Six months may not seem an inordinate span of time for such a penetrating investigation and we are confident the Commission and its staff did everything within their power to process the petition as expeditiously as possible. However, these six months must be added to the six-to-nine months in late 1974 and the first half of 1975 when the rising tide of imports were forcing production curtailments and widespread furloughs of workers in our industry.

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[1] U.S. International Trade Commission, Publication No. 750, January 1976; Page 25.
[2] Ibid., Page 30.
[3] Ibid., Page 8.
[4] Ibid.

Thus, our workers and shareholders have suffered through a period of sharply reduced income and revenues that now extends for more than a year. In fact, many of our employees and a number of our companies have been severely affected by imports for a number of years, as the Trade Commission recognized in its finding. Commissioners Catherine Bedell and George Moore stated in their joint remarks appended to the ITC recommendation to the President that "employment was depressed throughout most of the 1970's." They added that "the domestic industry has been unable to sustain a reasonable level of profits" throughout most of that period.[5]

Nor is this period of anxiety and enforced idleness for so many of our employees yet at an end. The President has until March 16 in which to reject or accept the Commission's recommendations, and under the law he could have delayed this decision for two additional weeks by referring the findings back to the ITC for additional information. If the President should reject the ITC recommendation, which we naturally hope he will not, the industry and the union would be forced to appeal to the Congress. Under the Trade Act the Congress has another 90 working days in which to reverse a presidential rejection. In sum, the relief process can extend for more than a year after a petition is filed and, in reality, for several years after serious injury to an industry is sustained.

We realize that the members of the Senate and House who drafted this legislation did their very best to structure a sound, workable procedure. However, we would respectfully submit that a process that takes this long can cause real hardship to the families of the people who either are forced out of work or onto a sharply curtained work schedule while they wait for all the procedures to spin out.

Moreover, a capital intensive industry like specialty steel, which requires relatively large investment to keep operating and stay competitive, cannot afford extended periods of financial distress. The larger, more diversified companies can in some cases absorb losses for a prolonged period. But most specialty steel companies are relatively small firms with limited and highly specialized product lines that are particularly vulnerable to undercutting by imports and it is conceivable that some of these could be forced out of business entirely while a petition for relief is being adjudicated under the present Trade Act.

Indeed, some of the companies among the 19 which joined with the United Steelworkers in submitting the petition would today be in very serious trouble if it had not been for the outstanding management of their mills, the cooperation and understanding of the unions, and our advanced technology and ever-improving productivity. These, coupled with the worldwide surge in demand for our products in 1973 and 1974, have kept the industry viable in recent years.

ITC notes technological leadership

This is borne out by the ITC investigation which noted the technological leadership of American producers and found that a decline in costs experienced by the domestic industry from 1970 through the early months of 1974 were due to "increases in efficiency resulting from larger production runs of individual products and the absolute increase in production for all products, which enabled U.S. producers to spread their fixed costs over more units of production."[6]

Conversely, the ITC found that the "dominant factor" in the increase in average unit costs in 1975 "was the large decline in production, which caused fixed costs to be spread over fewer units of production."[7]

Specialty steel mills must operate at a high rate of capacity in order to be profitable. Unfortunately, in 1975 many domestic mills were compelled to operate at low levels of productivity, in some cases well under 50% of capacity. This was partly due to the recession, but, as the ITC acknowledged, imports played a major role in holding the domestic industry down to such unprofitable levels of production. Nor was this the first year the U.S. industry was so seriously afflicted. The ITC report points out: "In general, U.S. producers' gross profit margins were low or nonexistent in the 1970–73 period, rose considerably in 1974 and through June 1975, then dropped precipitously to or below the 1970–73 levels."[8]

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[5] Ibid., Page 11.
[6] Ibid., Page A–41.
[7] Ibid., Page A–42.
[8] Ibid.

Imports curtail expansion

There is another aspect of this sustained period of low profitability which should be emphasized. The ITC took cognizance of it when it stated that "capital expeneditures in recent years have been limited" and went on to note that "very recently, planned expenditures have been cut back by several producers."[9]

At a time of high unemployment, our economy should be generating new jobs. But the specialty steel industry, in common with other industries, has been forced to curtail or cut back expansion because of the disruptions and uncertainties caused by the impact of imports upon our domestic markets. It is difficult to determine precisely how many jobs have been lost to American specialty steel workers by imports, but we believe it must be at least 10,000. In short, our relatively small, but nonetheless vital, industry would today have an estimated 75,000 jobs instead of the 65,000 we can offer when we are operating at near peak capacity.

In our total national economy this may not seem like very much. But jobs lost to imports, both in terms of new jobs that have not materialized and those eliminated by market encroachment, make a very big difference to the communities where specialty steel mills are located. In many instances, these mills are the major employers in these communities and prolonged unemployment in the mills can and has turned whole communities into depressed areas.

R. & D. cut back

Yet another facet of the impact of imports upon employment in the specialty steel industry is the adverse effect upon research and development, which the Trade Commission reported.[10] As noted earlier, it has been the technological leadership of the domestic industry, coupled with the efficient productivity of our workers and management, that has enabled the industry to survive the recent difficult years.

However, as imports have cut deeper into sales of our bread-and-butter products, some companies have been compelled to reduce their expenditures for research and development. Not only have jobs been lost in this crucial R&D area, but the long-range effect upon the industry's competitive position and upon the number of production jobs for the future can not be calculated. It is our hope that the ITC recommendation, if implemented, will give the industry an opportunity to maintain research and development at levels needed to retain our acknowledged leadership in technology and productivity.

Essential industry

The specialty steel industry is one of the most essential industries in the United States. Virtually every other important producing industry relies on specialty steels. These include the energy industries—electric power, oil, natural gas, coal mining, plus aerospace, transportation, communications, metalworking, food processing, chemicals, and environmental controls. Thus, it is not just the jobs of the 65,000 people employed by our industry that are at stake. The jobs of millions of other Americans in these other vital industries have been increasingly at the mercy of foreign specialty steel produces as imports have captured ever larger portions of our domestic markets and forced American producers out of one product line after another.

Moreover, specialty steels are essential to our national defense, as the Subcommittee on General Legislation, Armed Services Committe of the United States Senate, found after an investigation and hearings conducted in 1972. The official report of the Subcommittee was submitted by the Chairman, Senator Harry F. Byrd, Jr., to Senator John C. Stennis, Chairman of the Armed Services Committee, on May 25, 1972. This Senate Report stated:

"The testimony adduced from industry and Government witnesses makes it abundantly clear that specialty steels are essential, today more than ever, in the fabrication of the major portion of our defense weapons and critical weapons systems. Moreover, these specialty steels are necessary for the proper functioning of related essential components and weapons reliability. The Department of Defense witnesses emephasized that . . . no aircraft in use today or planned for production in the future could be considered safe without such critical high strength components. . . ."[11]

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[9] Ibid., A–13.
[10] Ibid., Page A–14.
[11] Report on Essentiality of Specialty Steels Industry to National Security, Subcommittee on General Legislation of the Committee on Armed Services, United States Senate, 1972; Page 1.

The essentiality of the specialty steel industry to a nation's economy and to its defense is readily apparent in the actions of more than a score of countries that have rushed to build or to expand their own specialty steel industries in recent years, often at the exepense of vitally needed social programs. By so doing, these countries are clearly giving recognition to the fact that any nation that wishes to establish or maintain a position of influence in today's technological world must have ready access to high technology metals.

Instruments of national policy

In some countries the specialty steel industries have assumed yet another role, one that has already had serious repercussions for our domestic industry. Increasingly, these industries are being used as instruments of national policy by foreign governments. Evidence of this is seen in the experience of the recent world recession when a number of these governments used their specialty steel industries to export their unemployment to the United States, build up their dollar reserves, and otherwise strengthen their international economic position at the expense of American workers and American industry.

The ITC report to the President stated: "There is ample evidence of a large amount of unused capacity in foreign stainless steel mills as well as large investments underway in new production capacity for stainless steel, including stainless steel plate. These facts, plus the growing dependence of foreign mills on exports in order to sustain production . . . are strong indicators of the increased imports and resultant threat of injury to the domestic industry." [12]

Should U.S. jobs be forfeited?

Great Britain provides a classic case in point. In 1975, it is estimated that the British steel industry lost more than $500 million. Yet the British are embarked on a $2.5 billion capital expansion for steel. The British steel industry is, of course, almost entirely owned by the British government and thus the British taxpayer is footing the bill for steel's expansion.

One might say that this is Britain's business and it should not concern us. Unfortunately, it does concern us because it is obvious that Breat Britain is tooling up for a major steel export campaign and the United States is certain to be a prime target of that campaign. The Congress must ask if it is fair to make American workers surrender their jobs in order to sustain British steel employment at artificially high levels.

Further, it should be asked how American companies, operating under the free enterprise system, can be expected to match the discounts of up to 50 percent that foreign stainless steel and tool steel producers offer our customers in the U.S. market. There American companies have discovered that no matter how much they may lower their prices, foreign producers will lower theirs even more.

Why prices of imports are low

Most of these foreign specialty steel producers do not, of course, have to concern themselves with profits. Today, more than 70 percent of the world's steel capacity is either government-owner or heavily subsidized. It is for this reason that the foreign producers can afford to sell steel in our country with little or no regard for price.

The ITC report noted that "currently there are anti-dumping findings in effect on stainless steel wire rod from France and stainless steel plate from Sweden. . . ." [13] The French can afford to dump their steel here because their producers receive government aid to, as they put it, "carry them through the present difficult period." In Sweden, specialty steel producers also receive government loans and grants to carry excessive inventories and keep exports at high levels. Swedish producers are not permitted to lay off workers when demand falls, so they export their problems to the U.S. and force the layoffs of American workers instead.

Japanese specialty steel producers nearly all operated at substantial losses in 1975. Their government bailed them out by providing "impact loans" through the Japanese National Bank so they could continue selling in the U.S. market at prices far below American producers. In addition, Japanese firms are encouraged to form "recession cartels" to control production and prices, as well as cartels to control pricing of imported raw materials—practices that would

[12] U.S. International Trade Commission, Pub. No. 756; op. cit., Pages 29–30.
[13] Ibid., Page A-32.

be patently illegal under our laws. Indeed, it should be pointed out that American producers are forced to compete against a number of companies in various foreign countries that freely indulge in practices that would be against the law here.

In sum, specialty steel companies in the United States must compete against foreign national governments and as long as this situation prevails we will need the counter-measures provided by the Congress in the Trade Act. Indeed, more stringent measures may soon be required if we hope to overcome the present high rate of unemployment and get American workers back on their jobs.

Other industries hurt

It is not just the specialty steel industry that is confronted with this growing problem of competition from foreign governments. Many other American industries are being attacked in the same manner. U.S. flag airlines fight desperately to remain viable against government-owned foreign airlines. The Japanese computer industry is being heavily subsidized by its government so that it may compete more effectively worldwide. Many foreign auto producers have their governments as significant partners—in terms of ownership and, even more important, in terms of economic objectives.

Throughout most of the world there is a pervasive attitude of cooperation between government and industries—except, regretfully, in the United States. The Trade Act of 1974 took a tentative step toward correcting this situation but we still have a long way to go if we hope to provide jobs for our citizens as our population grows in this last quarter of the 20th Century.

Much energy wasted

Much has been said and written in recent years about the world's dwindling natural resources, particularly those that provide basic energy to fuel industry—oil, natural gas and coal, or the conversion of any of these three into electric power. Yet hardly any mention has been made of the horrendous waste inherent in the conditions that, for example, encourage the burning of millions of tons of fuel to ship iron ore, coal and other ingredients from the United States across thousands of miles of ocean to Japan where they are transformed into steel and shipped back to this country for sale in our markets to deprive our industry of revenues and our workers of their jobs. As the Congress considers future legislation concerned with the nation's energy resources it should investigate the ramifications of wasteful trade practices such as these.

Double standard applied

The Congress should take notice of the double standard that foreign governments apply in formulating their own trade policies. The recommendations of the U.S. International Trade Commission for limitations on specialty steel imports had hardly been published when a number of countries began to exert pressure on the President of the United States to reverse the ITC ruling. This in spite of the fact that the Commission had emphasized that the Trade Act of 1974 required an affirmative determination in those products singled out by the ITC for relief.[14]

The New York Times reported on January 20, only a few days after the ITC made its decision known, that European Common Market Officials "intended to make representations to the United States" regarding the Commission's findings. The Times said "European commercial officials in Brussels, Paris and Geneva expressed alarm" over the ITC action.[15]

A few days later The Wall Street Journal carried a story with a clearly implied threat aimed at this country. The story said the European Community warned that President Ford "could provoke a protectionist backlash in Europe unless he rejects a proposed quota on imports of specialty steel."[16]

On that same day the Japan Metal Daily reported that "Toshihiko Yano, director general of the Basic Industries Bureau, Ministry of International Trade and Industry, said yesterday the (Japanese) government would negotiate with the U.S. Administration for a withdrawal or revision of the U.S. International Trade Committee's (sic) recommendation. . . ."[17] Moreover, there was another implied threat from Tokyo. "The Japanese side," this story said, "intends to

[14] Ibid. Pages 1–27.
[15] *The New York Times*, January 20, 1976.
[16] *The Wall Street Journal*, January 23, 1976.
[17] Japan Metal Daily, January 23, 1976.

study countermeasures . . . after receiving and analyzing a detailed report on the ITC recommendation." [18]

The irony of these threats is that both the Europeans and the Japanese freely indulge in "protectionist" practices. Indeed, the Europeans only recently forced the Japanese to limit steel exports to their countries. The Japan Metal Bulletin reports that the Japanese government "approved of organizing the Steel Export Cartel for EC (European Community) applied by Nippon Steel Corp. and five other major steelmakers. The term of the Cartel is 12 months of calendar 1976, and the export quantity is limited to 1,220,000 tons of all steel items excluding pig iron and ferroalloys." [19] Nor was this the first time the Europeans had placed what are in effect quotas upon Japanese steel imports. A similar "Export Cartel" had been organized by the Japanese from 1972 through 1974 at the "request" of the European Community.[20]

How the American consumer loses

Much was made during the ITC hearings and elsewhere about the theoretical cost to American consumers of limitations on specialty steel imports. In practice, however, these theories fail to hold water.

First and foremost there is the loss of income to American workers caused by what The Economist of London correctly terms "cut-throat prices" of specialty steel imports into the United States.[21] It is obvious that these workers are consumers too, and the millions of dollars in wages they lost in 1975 alone would very probably outweigh any theoretical savings to the total population.

Secondly, during the years 1973–74 when world demand for specialty steel reached new highs, the Japanese and European producers increased their prices astronomically in this country. American fabricators and manufacturers who needed these vital metals to keep their plants operating had no choice except to pay the premium prices the foreign producers demanded. Many of the needed products were no longer made in the United States because they had been knocked out of production here by the guerrilla warfare waged against our domestic industry by foreign producers and importers.

Thus, once they had the American customers at their mercy, the foreign specialty steel producers did not hesitate to increase their prices as much as 100 percent and more. It has been estimated that all the possible savings to American consumers due to imports over the prior decade were wiped out by foreign suppliers of specialty steel in less than two years of outrageous price gouging.

Free trade must be fair

The experience of the specialty steel industry over the past decade should give all of us reason to reflect on the efficacy of free trade, a doctrine many of us have always accepted as one of our free system's great articles of faith. Our industry will continue to support free trade and we are prepared to let the principle of comparative advantage determine who wins and who loses in the contest for markets. But we insist that free trade cannot exist without generally equal rules, with all parties competing on the basis of costs, technology, and productivity. If it is to work to the advantage of all peoples, free trade must first be fair.

The traditionally superior technology of America still gives many of our domestic industries an edge over foreign competition. However, as we continue to export our technology to the rest of the world, this advantage is no longer as telling as it once was, and it will become less so in the years ahead. Meanwhile, foreign specialty steel producers gain a sharp advantage over U.S. producers because of lower wages, greater capital availability in the form of low interest loans or outright subsidies, substantial tax breaks, favorable depreciation allowances, and profitable export incentives—all granted by their governments.

These government-sponsored advantages enable the Japanese to increase their stainless steel production 400 percent in less than 10 years. France, Italy and West Germany more than doubled their stainless output in the same period. But American producers could afford to expand their stainless capacity only 40 percent in the past decade, primarily because of the uncertainty created by imports. Our industry does not want subsidies from our government. But we would like the government to act as a fair and impartial umpire.

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[18] Ibid.
[19] Japan Metal Bulletin, January 8, 1976.
[20] Ibid.
[21] The Economist, January 24, 1976.

First, however, a firm set of ground rules must be established, rules that both foreign and domestic industries shoud be required to honor. The Congress took a healthy step in that direction with passage of the Trade Act of 1974, which was designed to provide American companies and American workers with relief if they can prove imports are a substantial cause of serious injury.

The Specialty Steel Industry of the United States and the United Steelworkers of America proved injury from imports in four critical product areas to the satisfaction of the U.S. International Trade Commission and we are hopeful that the President will approve the ITC recommendations so that the vitally needed relief will be forthcoming soon.

FEBRUARY 10, 1976.

Mr. DAVID PACKARD,
Palo Alto, Calif.

DEAR MR. PACKARD: The Committee on Finance appreciates your offer to respond in writing to questions regarding U.S. foreign trade policy. Accordingly, we would appreciate receiving, no later than March 3, your answers to the questions below. Your answers will be printed in the record of the Committee's recent hearings.

1. What, in your view, should be the overall goals of the United States in the Geneva trade negotiations and in other international negotiations involving U.S. economic interests? What should be relative emphasis between agriculture and industry?

2. What, in your view, should be the nature of a sectoral negotiation and what progress, if any, has been made toward such a negotiation in Geneva during the past year?

3. Is the present system for monitoring the transfer of high technology to Soviet Union adequate? If not, how can it be improved?

4. What has been your experience with the private advisory system established by the Trade Act? Do you have any suggestions for improving it?

Sincerely,

RICHARD R. RIVERS,
Professional Staff Member

HEWLETT-PACKARD CO.,
Palo Alto, Calif., February 27, 1976.

Mr. RICHARD R. RIVERS,
Professional Staff Member, U.S. Senate, Committee on Finance, Washington, D.C.

DEAR MR. RIVERS: I am pleased to respond to the questions in respect to the Geneva trade negotiations you have outlined in your letter of February 10th.

1. I believe the over-all goals of the United States in the Geneva trade negotiations should be to press very hard on both tariff and non-tariff issues which will encourage the freedom of trade among all of the nations of the world. We are clearly living in an era of a worldwide economy and I believe that any steps toward the restrictions of trade are bound to be counterproductive both to the United States and to all of the other nations of the world. Having said that, I think we should be prepared to negotiate some reductions of tariffs in all areas, if possible. I recognize that many countries have domestic problems which must be taken into consideration, and it probably will not be possible to solve all of the problems in this round of negotiations. I think, however, it is very important for the United States to press very hard for some over-all reductions in the levels of tariffs in both industrial and agricultural product areas. In addition to that, there are a number of non-tariff barriers which should be addressed, and in many cases, particularly in the high technology industries such as electronics, these non-tariff barriers are often more important than the tariff levels. These non-tariff barriers include:

1. Restrictive government procurement practices.
2. National standards inimical to U.S. design.
3. Tax rebates and subsidies.
4. Important licensing and quantitative restrictions.
5. Rules of origin and local content requirements.
6. Restrictive customs practices.

I am aware of the fact that there will be some difficult problems in the field of agriculture and this is, of course, a very important matter for the United States. I would hope that the agricultural issues can be addressed on their own

merit and that we avoid making compromises for agriculture at the expense of industry.

2. It is my understanding that progress in the multilateral trade talks towards sectorial negotiations has been limited, more or less, to several special studies which the GATT staff is undertaking at U.S. insistence. Here again, as in the case of agricultural products, I think we must recognize some of the inherent difficulties in sectorial negotiations, particularly those area where one party or the other is unable to offer meaningful concessions. I believe sectorial negotiations can succeed in only a relatively small number of areas and for this reason favor a wider approach. Although favoring a wider approach, I do not feel this should be construed by our negotiators as a green light to agree to various restrictions on U.S. high technology products in order to secure U.S. trade advantages in areas of lower technology.

3. I believe the existing technology controls exercised by the Departments of Commerce, State, and Defense, are quite adequate to prevent the transfer of U.S. technology to our potential enemies. If anything, the controls are overly restrictive and the administrative procedures should be streamlined. One of the practical problems is that the people in the Defense Department tend to be overly cautious in approving export licenses for high technology products. This is understandable for it is their job to be safe, but I believe it would be a better over-all policy for us to be somewhat more receptive in approving the export of high technology products. In addition to the government controls, I believe the innate good sense of the U.S. businessmen is such that none of us are going to release our latest technology to any potential competitor, and often we know more about the competitive situation than do the bureaucrats in Washington.

Nearly all advanced technology is disclosed in scientific publications, and we have the benefit of such publications from the Soviet Union, as well as those throughout the free world. The United States has a unique position in technology because we have developed a very effective capability of translating advanced technology into practical products. The Soviets are weak in this regard and I think we would do well to limit the transfer of this unique know-how, but at the same time I do not think the limited activity that might be involved here is likely to be of much help to them in any case. All in all I think we will stay ahead in technology and in the practical utilization of technology through the workings of our free and open society, our strong educational system, and a continual commitment to a high level of support for research and development. I do not believe we need a more rigid and comprehensive set of controls involving the export of U.S. technology. On the contrary, I think a two way exchange should be encouraged in all of our trading with the Soviets and other socialist countries.

4. It is still too early to determine the success of the advisory system established by the Trade Act of 1974. From personal experience on the Industry Policy Advisory Council and familiarity with at least one of the Industry Sectorial Advisory Committees, I would say that the Office of the Special Trade Representative and the Commerce Department have been fairly diligent about seeking advice from the private sector. My major concern is how the mass of advice from industry, agriculture, labor and the public can be analyzed and interpreted by the relatively small staff of the Special Trade Representative and used effectively to support a sound U.S. negotiating position. The only constructive comment I would care to make at this time would be a plea to those in government seeking advice to formulate their questions well and make them as specific as possible. The clarity of response is directly proportional to the clarity of the question.

I hope these comments and observations will be of use to the Committee on Finance. If you have any questions, or if I can be of further help, please feel free to let me know.

Sincerely,

DAVID PACKARD.

ECUADORIAN-AMERICAN CHAMBER OF COMMERCE,
Quito, Ecuador.

Senator RUSSELL LONG,
Senate Finance Committee, U. S. Senate,
Washington, D.C.

DEAR MR. LONG: The Ecuadorian-American Chamber of Commerce, an affiliate of the Association of American Chambers of Commerce in Latin America, protests the exclusion of Ecuador from the trade bill of 1974 and from the list of products from underdeveloped countries which may enter the United States duty-free.

The Ecuadorian-American Chamber of Commerce represents the majority of the American companies operating in Ecuador and of the Ecuadorian companies that have relations with the United States. Among its objectives is the promotion of free commerce and general cooperation between the United States and Ecuador.

The trade bill of 1974 (PGL 13) excludes Ecuador, a member of the Organization of Petroleum Exporting Countries (OPEC), from the list of countries which receive tariff preferences. The bill makes no distinction between the member countries traditionally friendly to the United States, and those which participated in the OPEC embargo. Ecuador did not participate in the embargo. She has never withheld any of her natural resources from the United States.

This chamber holds that the discrimination against Ecuador, contained in the trade act is unjustified. It fosters a strained relationship between our countries, and it is resulting in a press constantly and uniformally unfavorable to the United States. The overall effect of the bill is decidedly negative.

We respectfully request that congress reform the trade bill of 1974 so that Ecuador and Venezuela, which did not participate in the boycott against the United States, be removed from section 502(B)(2) of that law and be permitted to benefit from all of its provisions.

This recommended change will right a wrong. It will help in promoting more friendly relations between Ecuador and the United States. It will stimulate commerce and strengthen economic ties between the two countries.

Respectfully yours,

ANTONIO GRANDA CENTENO,
President.

RICHARD MOSS,
Vice-President.

HOWARD A. LEVY,
New York N.Y., February 26, 1976.

Re: Statement of America-Europe Conferences on U.S. Foreign Trade Policy and the Administration of the Trade Act of 1974.

MICHAEL STERN,
Staff Director, Committee on Finance,
Dirksen Senate Office Building,
Washington, D.C.

I. INTRODUCTION

DEAR MR. STERN: This Statement is submitted pursuant to the press release dated January 19, 1976, of the Committe on Finance, United States Senate. It is submitted on behalf of the various associations of common carriers by water in the foreign commerce of the United States and their respective members as listed in Annex A hereto and hereafter collectively referred to as the America-Europe Conferences ("AEC"). A summary of the comments and recommendations of AEC follows.

II. SUMMARY OF POSITION

AEC appreciate this opportunity to call the Committee's attention to their strenuous objections to the administration and implementation of the Trade Act, 1974, (the "Act") by the International Trade Commission (the "Commission").

In brief, AEC contend that the Commission has misconstrued the mandate of Congress under Section 608(b) of the Act, and, in consequence, not only failed to perform its proper functions but endangered the foreign trade and commerce of the United States.

Specifically, the Commission has evinced an intent to disrupt and jeopardize the existing international commodity coding systems established thorugh the cooperation of multi-national interests under the auspices of the Harmonized System Committee of the Customs Cooperation Council in which the United States participates and to force a new system of its own unilateral invention upon commercial interests involved in the import/export of the United States.

Evidence of such detrimental and ill-advised intent is abundant as shown by the Statement of AEC in Trade Commission Investigation No. 332-73 which Statement is attached hereto as Annex B and which we request be made part of the Committee's record in these hearings. Moreover, it is clear that the Commission virtually disregarded AEC's Statement in making its Report to Con-

gress and the President and that its "Investigation" was no more than mere lip service to procedural obligations imposed by statute.

Further evidence of the Commission's near reckless program is provided by Annex C hereof, a report of a recent meeting between industry representatives and government officials, including a Commission representative, concerning commodity coding and classification systems and programs. Attachments 1 and 2 to Annex C serve to illustrate shipping industry efforts to bring this entire matter to the personal attention of Senaor Long, Representative Ullman, the Secretary of Commerce and the Chairman of the Commission.

We request that Annex C and the attachments thereto also be made a part of the Committee's record in these hearings.

In conclusion, we stress that various AEC conferences, other conferences, and many additional commercial parties have adopted the SITC/BTN commodity coding systems at considerable expense, and great effort and have been encouraged to do so by U.S. governmental departments, international governmental bodies and the shipping public. To destroy those widely adopted and useful systems in order to serve parochial and selfish interests would constitute a disservice to the trade between nations, a travesty of the public interest and a blatant abuse of public power.

We pray that the Committee will exercise its authority in these hearings to insure that the Commission will cease and desist in any adventure to frusrate the SITC/BTN systems and will be directed to carry out its statutory obligations under Section 608(b) of the Act in the manner intended by Congress.

Respectfully submitted,

HOWARD A. LEVY,
Attorney for AEC.

ANNEX A TO STATEMENT OF AMERICA-EUROPE CONFERENCES

A. List of participating conferences and rate agreements:

North Atlantic United Kingdom Freight Conference.
North Atlantic Continental Freight Conference.
North Atlantic Baltic Freight Conference.
North Atlantic French Atlantic Freight Conference.
North Atlantic Westbound Freight Association.
Continental North Atlantic Westbound Freight Conference.
Scandinavia Baltic/U.S. North Atlantic Freight Conference.
South Atlantic/North Europe Rate Agreement.
United Kingdom U.S. Gulf Westbound Rate Agreement.
Continental/U.S. Gulf Westbound Rate Agreement.
Europe Pacific Rate Agreement.

B. List of participating carriers:

American Export Lines.
Agence Maritime Transoceanique.
Atlantic Gulf Services.
Atlantic Shipping Company.
Atlantic Container Services.
Blue Star Line.
Cartainer Line.
Cobelfret Lines.
Combi Lines.
Compagnie Generale Transatlantique.
Dart Containerline.
East Asiatic Co., Ltd.
Euro-Pacific.
Hapag-Lloyd AG.
Gulf Containerline.
Johnson SeanStar.
Lykes Bros. Steamship Lines.
Norwegian America Lines.
New England Express Line.
Sea-Land Service, Inc.
Seatrain International S.A.
United States Lines.
Vassa Line Oy.
Central Gulf Contramar Line.

ANNEX B: BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION

Draft Report on Concepts and Principles Which Should Underlie the Formulation of an International Commodity Code

Trade Commission Investigation No. 332–73

Statement of Associated North Atlantic Freight Conferences, North Atlantic United Kingdom Freight Conference, North Atlantic Continental Freight Conference, North Atlantic Baltic Freight Conference, North Atlantic French Atlantic Freight Conference, North Atlantic Westbound Freight Ass'n, Continental North Atlantic Westbound Freight Conference, Scandinavia Baltic/U.S. North Atlantic Freight Conference, South Atlantic/North Europe Rate Agreement, United Kingdom U.S. Gulf Westbound Rate Agreement, Continental/U.S. Gulf Westbound Rate Agreement, Europe Pacific Rate Agreement, (The "America-Europe Conferences")

Statement of the America-Europe Conferences

This Statement is submitted by the designated America-Europe Conferences ("AEC") pursuant to the Commission's Notice of Release for Public Views in this matter dated April 24, 1975.[1]

It is the essential position of AEC that the Commission's Draft Report ("the Report") has widely missed both the statutory and factual mark and should be substantially revised before its presentation to the Congress and the President of the United States.

The Report has, we contend, exceeded the scope of the Commission's mandate under Section 608(c) of the Trade Act, 1974 (PL 93–618, January 3, 1975) and, in so doing, has laid the ground work for irreparable damage to the very cause it espouses, i.e. international commodity coding. We shall endeavor to demonstrate this major point in the comments which follow.

The terminal defect of the Report is buried deep in its core under Part D, Paragraph 3, whereat it declares:

"Under the circumstances, a code suitable for adoption at national and international levels for customs, statistical, and transport purposes *should be formulated as a new system* to insure its responsiveness to the uses for which the code is intended to be employed." (Emphasis supplied) *Report* at pp. 15–16.

This conclusion, which goes beyond the Commission's statutory mission, so poisons the well as to contaminate the entire Report. Indeed, taken in the context of the whole, it would appear that the Report was drafted for the purpose of supporting and justifying the preconceived notion that an entirely new system of international commodity coding was necessary and desirable.

Nothing could be further from the truth. The fact is that years of effort have been devoted to the development of an international commodity coding system based on the widely recognized principles summarized in Part C of the Report and the concept of "a new system" of coding has been fully considered and flatly rejected by the Harmonized System Committee (HSC) of the Customs Cooperation Council (CCC).

The CCC, which is an intergovernmental organization, was established to consider matters relating to customs administration, tariff classification and commodity valuation. It has delegated to HSC the task of developing a harmonized commodity description and coding system (HCC) and has endowed HSC with one of the most representative, expert and diverse membership bases ever assembled. In addition to the individual membership of leading trading countries, *including the United States*, HSC also includes the United Nations: the Economic Commission of Europe: the International Chamber of Europe: the International Chamber of Shipping; NATO; GATT; IATA; and the International Union of Railways among others.

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[1] The various conferences joining in this Statement and designated at the foot thereof are associations of common carriers by water operating in the foreign commerce of the United States pursuant to agreements approved by the Federal Maritime Commission pursuant to Section 15 of the Shipping Act, 1916.

The work of HSC, which is based on the Standard International Trade Classification (SITC) and the compatible Brussels Trade Nomenclature (BTN) represents an outstanding and remarkable example of international cooperation at its best. Moreover, in reliance upon the integrity and soundness of the work of HSC, a substantial segment of the world community, including both public and private sectors, has marched ahead on the basis of SITC/BTN. To halt or impede that march would be a disservice to the cause of international cooperation in the formulation and implementation of a universal commodity code.

The Commission was not instructed by Congress to obstruct or undermine the work of HSC, but was expressly directed to participate in the United States contribution to the technical work of HSC:

"* * * to assure the recognition of the needs of the United States business community in the development of a Harmonized Code reflecting sound principles of commodity identification and specification and modern producing methods and trading practices." *Trade Act*, Sec. 608(c)(2).

One does not "contribute" to the technical work of a uniquely expert international committee by advocating that its years of effort be washed down the drain. Moreover, one does not ascertain the "needs of the United States business community" in the isolation of an ivory tower. If the U.S. business community has been requested to state its relevant needs, it is the best kept Government secret of the decade.

Had the Commission's staff undertaken to obtain the views of the ocean common carrier segment of the U.S. business community, it would have been advised:

1. We support the use of the SITC/BTN systems by HSC and have spent a great deal of money and time coding ocean freight tariffs on that basis;

2. In this effort we have had the staunch support of the Federal Maritime Commission whose rules declare that all tariffs should be coded on the basis of SITC;

3. We have also had the support and invaluable assistance of the U.S. Department of Commerce, the Maritime Administration, Bureau of Census, Departments, international organizations and industry associations;

4. We have enjoyed the support of the shipping public both in the United States and abroad and have been encouraged in our efforts by other Governments, international organizations and industry associations;

5. There is complete compatibility at the three digit level between SITC and Bureau of the Census cargo flow data under Schedules A (imports) and B (exports);

6. The SITC/BTN systems, while imperfect, are under constant review and are being continuously improved and rendered ever more useful, universal and vital to international commerce and industry;

7. The SITC/BTN systems meet the needs of the carriers and their shippers and their abandonment as the nucleus of an international code would be a devastating blow to the ocean shipping industry and foreign trade.

Paramount, however, the inescapable fact is that if the United States elects to pursue an independent path and attempts to legislate conformity to its unilateral determination of a commodity code, it will find itself alone and it will find it has destroyed harmonization and frustrated its own efforts to promote trade between nations.

Moving to the heart of the matter, for we do not submit this Statement for any but the most serious purposes, we are inclined to believe that there is method to the madness of advocating the dismantling of SITC/BTN which is the real thrust of the Commission's draft Report.

That method may stem from a conflict of legislative purpose and the competing needs of Government objectives. It seems to us that the draft Report lays the foundation for the eventual sponsorship of the TSUSA code on an international basis. Theoretically, the use of such a code could enable the Federal Government to measure the effect a production change in a given industry has on related industries (input/output analysis) and to fashion conclusions regarding the effect of imports on domestic production.

No doubt such economic intelligence could be very useful and could possibly influence governmental actions designed to provide the United States with a favorable balance of trade and international payments.

However, the bona fide labors of HSC to evolve a commodity coding system of the greatest benefit to the greatest number of nations should not be made a sacrificial lamb to the self-serving efforts of the United States to promote its

special interests. In passing the Trade Act, Congress charged the Commission with the duty of submitting a report:

"* * * taking into account how [an international commodity] code could meet the needs of sound customs and trade reporting practices reflecting the interests of the United States *and other countries* . . ." (Emphasis added) *Trade Act*, Sec. 608(c)(1).

That duty is not discharged by rendering the interests of "other countries" subservient to those of the United States. The Commission's Report shows on its face that the interests of "other countries" have received no consideration whatsoever and it is perfectly clear that the Commission's staff has made no effort to even determine what those interests may be.

In short, the Commission's draft Report pursuant to Section 608(c) of the Trade Act is not a Report responsive to that statute. It ignores:

1. The "needs of the United States business community";
2. The mandate to participate in the "United States contribution to the technical work" of HSC; and
3. The interests of "other countries".

Rather, the draft Report appears to us to be a response to the beat of a different drummer, a foreshadowing perhaps of the Commission's anticipated report pursuant to Section 608(b) of the Trade Act directing the Commission and the Department of Commerce to identify:

"* * * the appropriate principles and concepts which should guide the organization and development of an enumeration of articles which would result in *comparability of United States import, production, and export data.*" (Emphasis supplied).

Were each nation of the world to approach the subject of international commodity coding with the objective of emerging with a system allowing it to determine the comparability of its own "import, production, and export data" for the obvious purpose of constructing an economic intelligence data bank in order to outwit its trading partners, there would surely be an infinite number of yo-yos and an infinite number of every other article of commerce known to or envisioned by mankind.

The International Trade Commission should not intertwine the legislative intent of Section 608(c) of the Trade Act with the intent of Section 608(b) and it should prepare and present to the President and to the Congress a final Report with respect to Section 608(c) which is responsive thereto and not Section 608(b).

We urge the Commission to scrap its draft Report and to re-approach the vital subject of international commodity coding on an objective and meaningful basis. Such a basis should recognize the superiority, universality, and utility of SITC/BTN and acknowledge the overwhelming consensus that an effort to create a new international system would constitute a crippling, if not fatal, blow to the development of any common system at all.

We appreciate the opportunity the Commission has afforded us to submit this Statement and pray that the Commission will adopt the views we have expressed.

Respectfully submitted,

HOWARD A. LEVY

Attorney for:
Associated North Atlantic Freight Conferences,
North Atlantic United Kingdom Freight Conference.
North Atlantic Continental Freight Conference,
North Atlantic Baltic Freight Conference
North Atlantic French Atlantic Freight Conference,
Continental North Atlantic Westbound Freight Conference,
Scandinavia Baltic/U.S. No. Atlantic Freight Conference,
North Atlantic Westbound Freight Association,
South Atlantic/North Europe Rate Agreement,
United Kingdom/ U.S. Gulf Westbound Rate Agreement,
Continental/U.S. Gulf Westbound Rate Agreement,
Europe Pacific Rate Agreement.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing Statement by mailing via first class mail, postage prepaid, a signed original and nineteen (19) true copies thereof to Kenneth R. Mason, Secretary, United States International Trade Commission, Washington, D.C. 20436, on this 16th day of May, 1975.

HOWARD A. LEVY.

ATTACHMENT 1

ASSOCIATED NORTH ATLANTIC FREIGHT CONFERENCES,
London, SW1A 1PS, November 4, 1975.

Re: Report to the Congress and to the President pursuant to subsection 608(b) of the Trade Act of 1974.

Mr. ROGERS MORTON,
Secretary of Commerce, Department of Commerce,
Washington, D.C.

Mr. WILL E. LEONARD,
Chairman of the U.S. International Trade Commission,
Washington, D.C.

DEAR SIRS: We wish to comment regarding the subject report to the Congress and to the President. We are apprehensive that several key issues of significant importance to the international trading community have not been treated in sufficient detail and require further formal clarification.

The Liner Shipping industry in recent years has constructed its tariffs along the lines of the Standard International Trade Classification in an effort to systematize and rationalize these tariffs in the international trade of the United States. The SITC was chosen as the basis because it presents a bridge between the Brussels Tariff Nomenclature (to which it has a one to one relationship at the detailed level) and to the U.S. export Schedule B (to which it has 80% comparability at the detailed level and 100% comparability at the 3 digit level). The U.S. classification for imports, the TSUS, has also been cross-referenced with the SITC providing for a workable cross-referencing capability to the SITC orientated Schedule A. In short these systems, although somewhat divergent, were in the process of being reconciled and cross-classified and the view generally accepted was that any movement towards revision would serve to bring the coding systems closer together.

This brings us to our first point regarding the activity which must now take place to formalise the new U.S. system, which we understand from the report will be based on the organizational framework of the TSUS.

In Part IV.C of the report the treatment of statistical continuity is extremely brief and leaves one in the dark as to whether we will in fact have an appropriate detailed bridge between the newly devised system and the former system under which previous years data were compiled. This of course is an extremely complicated subject and we would suggest that it receive special treatment as the work proceeds with possibly interim reports issued specifically on this important point. It is well to note that the whole subject of statistical evaluation has an historic base, any interruption of which could produce an information blackout as regards trends of certain commodity movements in the next few years.

Our next point concerns Part IV.G—the relationship of the new code with the development of an international commodity code. The international trading community views the development of an international commodity code as a commercial necessity for many reasons which we won't develop here. Again only briefly in the report is the relationship of the new code with the developing international code mentioned and we find this extremely confusing. The report gives no hint as to how much effort will be made to keep the new U.S. system within a framework which will facilitate its eventual harmonization with the new BTN being formulated by the Harmonized Systems Committee of the Customs Co-operation Council in Brussels.

In a conversation with Mr. Edward F. Kilpatrick, Deputy General of the CCC he indicated that the 6 digit newly revised BTN system has a target date circa 1980 and that his organisation is fully prepared to co-ordinate its activities with

the coding system now envisaged by the U.S. It is inconceivable that the U.S. would not take up this offer and even though direct comparability would not be possible at this stage the ground work should be prepared for what must eventually be the fact i.e. the evolution of an international commodity coding system. Again we would request that special interim reports be issued specifically on how the new system will relate to the BTN projected for 1980, and the recently released SITC Revision 2 targeted for use in 1976.

As regards the SITC Revision 2, we assume that the United States will still report its trading statistics in these terms to the United Nations and this should impact any decision taken in the structure of the new code. This point, however, is not mentioned in the report and we are left guessing as to how the United States will fulfill this reporting commitment.

In summary, we feel that greater consideration should be given to the role of the United States as a trading nation to temper the strictly parochial view of designing a useful level of comparability of U.S. import, production and export data. It is our viewpoint that these goals should be balanced in their importance but it is obvious from the report that the rush to achieve a solely U.S. orientated system may endanger the intelligibility of U.S. activities in the international scene. We are most anxious to understand otherwise and it would be very helpful if in the immediate future a clarification of these points would be forthcoming.

Regards,

GEORGE P. JOHNSON,
Director, Marketing and Statistical Services.

ATTACHMENT 2

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, D.C., November 25, 1975.

Mr. GEORGE P. JOHNSTON,
Director, Marketing and Statistical Services, Associated North Atlantic Freight Conferences, London, SW1A 1PS.

DEAR MR. JOHNSTON: Secretary Morton has requested that I reply for the Department of Commerce to your letter of November 4 regarding our recent joint report with the United States International Trade Commission to the Congress and to the President on the "Principles and Concepts Which Should Guide the Organization and Development of an Enumeration of Articles Which Would Result in Comparability of United States Import, Production, and Export Data."

We appreciate your interest in this report and your concern as to its implications for the shipping industry. Although in the preparation of the report every effort was made to deal with the relevant principles and concepts which are considered essential in the development of comparability, it was not always possible to exhaustively address each item.

Although plans for implementing the recommendations identified in the report have not been finalized, appropriate guidelines will be utilized to assure that, as much as possible, statistical continuity of the current system is maintained in the development of the revised export classification structure. Every effort will be made to retain the important linkage to the SITC in the development of the revised export classification. As part of the comparability effort, detailed concordances are planned in order to provide a "bridge" from the current to the proposed classification system. Additionally, drafts of the proposed changes will be circulated for review and comments to interested parties on a flow basis.

A close relationship is planned between the development of the revised U.S. systems and the harmonization effort by the Customs Cooperation Council for an international commodity code. The comments by the United States to proposed revisions of the BTN will therefore consider the impact of the international code on the U.S. system and vice versa.

We also plan to report our trading statistics to the United Nations on the basis of the SITC, Rev. 2, as soon as practicable.

I understand you will be in Washington on December 4 or 5 and have requested to meet with Mr. Elmer Biles of my staff on one of these days. Mr. Biles informs me he has arranged with Mr. Eugene Rosengarden of the United States International Trade Commission to represent that agency in your discussions. We

welcome your comments and recommendations in the development of this important project.

Please let me know if I may be of further assistance.

Sincerely,

VINCENT P. BARABBA,
Director, Bureau of the Census.

ANNEX C

IN ATTENDANCE

GOVERNMENT REPRESENTATIVES

Eugene Rosengarden, United States International Trade Commission.
Milton Kaufman, Bureau of the Census.
Elmer S. Biles, Bureau of the Census.
Bennie A. Daniels, Bureau of the Census.

INDUSTRY REPRESENTATIVES

Fred Salcedo, Prudential Lines.
Gerard H. Wollweber, Far East Conference.
Richard C. Bernard, Jr., Consultant.
Martin J. Connaughton, GRC Data Corporation.
George P. Johnston, ANAFC.
Alvis Pauga, Sea-Land Service, Inc.
Wilhelm E. A. Wolf, Lykes Bros. Steamship Co. Line.

MEETING WITH: THE DEPARTMENT OF COMMERCE AND THE INTERNATIONAL TRADE COMMISSION

We discussed with representatives of the subject Government agencies plans for implementation of their report pursuant to Sub-Section 608B of the Trade Act of 1974. In summary, the manner in which implementation of the Trade Act is planned will not serve the interests of Shipping Lines and Conferences and/or the advancement toward an international coding system. It is lamentable that a major project such as this is being undertaken which will at best reinforce the staus quo of differing commodity classification systems between the U.S. and other major trading nations. We can best summarize how this opinion was formulated by outlining key questions which were put to the Government officials.

Question 1. As the code is formulated, will the correspondent SITC Rev. 1 and/or Rev. 2 be considered and assigned?

Answer. It was stated that there is no intention at this time to consider the SITC except indirectly thru Schedules A and B or for that matter the BTN in formulating the new code and that this would be an exercise to be accomplished at a later date. We pointed out that comparability would be enhanced if the SITC itself were an active ingredient in the new coding exercise i.e. the international systems would have a substantive impact at the conceptual stage but the Government officials stated that this would complicate their work and delay accomplishing the objective.

Question 2. Will the new code be relateable to SITC detail (4 and 5 digit) to a greater degree than the current Schedules A and B?

Answer. Considering Question 1, we can only conclude that the new U.S. coding system will drift further away from the SITC/BTN systems. Schedules A and B are not 100% relateable to SITC at the detailed level now and by considering A and B alone in the work the SITC comparability will optimistically remain the same but most probably deteriorate.

Question 3. Will a Schedule A and B concordance be devised as the new code is developed and to what level of Schedules A and B?

Answer. We received copies of working drafts which include the new code and description and the current Schedule B code. The concordance will therefore be available but it is important to note that Schedules A and B will become redundant and the primary use of the concordance will be to maintain historical continuity. Until we see more of the working papers we cannot comment on the effectiveness of the concordance.

Question 4. Will Customs actively enforce the new code for exports?

Answer. In the report to Congress it was suggested that Customs seek appropriations to accomplish this, but since the Customs is a separate agency there is no guarantee this will be accomplished. One of the primary reasons for adopting the TSUS code for exports is the familiarity Customs already has with this code, but we are not certain in fact that Customs will undertake actual enforcement and whether the current reporting accuracy of Schedule B will be improved. Therefore one of the key rationale for the exercise is in doubt.

Question 5. Does the absence of the building block system, as in the SITC i.e. where we can summarize cargo flow data at the first, second and third digit level, mean that we cannot statistically summarize the new code?

Answer. The answer to this key question of statistical analysis is yes. Their current thinking does not include this facility which will place a handicap on our current summarized statistical reporting. In other words, our statistical reports will be extremely more voluminous and current Government reports in statistically summarized form have an uncertain future.

Question 6. Will the CCC have coding imput into the methodology and structure of the new code?

Answer. While extensive lip service is given to the question of international co-operation the CCC will not be a party to the new coding effort. Practically speaking, we find it difficult to understand how it can be accomplished considering the time frame which is tentatively January 1977 (although this has not been enacted in law). The only codes being actively considered in the project are the SIC (Domestic Production) and the Schedule B (U.S. Exports) and notably absent are the BTN and SITC Rev. 1 and 2.

Question 7. Will Lines/Conferences be able to suggest and have included statistical items for the new code based on cargo flow and data developed from Lines manifests?

Answer. This in fact seemed to be a positive side in the program in that we will receive sections of the new code as it is developed and be able to comment and supply tariff items for possible inclusion as commodity items in the new coding system based on criteria currently in effect for the Schedule B. There were doubts expressed by the Government officials as to the efficacy of transport tariff descriptions overally. We assured them that there were many tariff commodity descriptions based on shippers and lines' data which were precise and exclusive in nature and moved in substantial quantities.

The general issue of the logic and the purpose of the new coding system was discussed and it is apparent that Mr. Levy's remarks on the subject when commenting on the original report were appropriate when he suggested that they had missed the mark. Certainly the primary intent and the overwhelming problem which faces Congress is the effect imported cargo has on domestic production. Exports as they relate to imports is clearly not the issue but this is the primary thrust of the effort now underway. It was suggested that since the Export Schedule was not based in Law as is the Import Schedule, the course of least resistance for the Government Agencies involved is to manipuate the Export Schedule.

The most important issue is imports as related to domestic production and adopting the TSUS code for exports does not treat this question. The fundamental fact is that the United States does not export the same kind of commodities which are imported and therefore the commodity detail of even the new code has to be different for exports and imports. This was confirmed by the officials when they mentioned that there may be different schedules i.e. an export and import schedule comprising the new code. If this is the case it was suggested that a major effort is being effected to accomplish what we currently have i.e. different Import and Export Schedules.

Statement for the National Association of Scissors and Shears Manufacturers, by J. F. Farrington, President

The members of the National Association of Scissors and Shears Manufacturers welcome the opportunity to present this statement as a part of the Senate Finance Committee's oversight hearings on United States foreign trade

policy and the administration of the Trade Act of 1974. My comments and recommendations will be limited to the U.S. Generalized System of Preferences (GSP) provided for in Title V of the Trade Act of 1974 because of impact on the domestic scissors and shears industry. However, the fact that I am limiting my remarks to GSP does not mean that we are not seriously concerned about what may be given away during the MTN in Geneva. Our heads are on the block.

The President was granted an extremely broad authority by Section 501 of the Trade Act of 1974. He was authorized to grant duty-free treatment for "any eligible article" from any "beneficiary developing country." The granting of the duty-free treatment is on a unilateral basis and therefore the United States does not receive any reciprosity for this invasion into our markets. Using the GSP authority, the President has eliminated all import duties on 2,724 categories of articles from 98 countries and 89 dependent territories effective January 1, 1976.

As provided for in Section 503 of the Trade Act of 1974, the President published and furnished to the United States International Trade Commission on March 26, 1975 a list of articles to be considered for designation as eligible articles under the GSP. At the same time, the President issued an Executive Order designating the beneficiary developing countries for the purposes of the GSP. The list included 132 countries and territories and an additional 24 countries to be considered for designation as beneficiary developing countries.

The list of articles to be considered for designation as eligible articles under the GSP included all the import classifications of scissors and shears as follows: TSUS 650.87, scissors and shears valued not over 50¢ per dozen; TSUS 650.89, scissors and shears valued over 50¢ but not over $1.75 per dozen; and TSUS 650.91, scissors and shears valued over $1.75 per dozen.

The list of beneficiary developing countries and countries to be considered for this designation that have exported scissors and shears to the United States included Brazil, India, Korea, Malta, Mexico, Pakistan, Philippines, Sierra Leone, Singapore, Taiwan, Thialand, Hong Kong, Portugal, Romania and Spain.

The domestic manufacturers of scissors and shears realized that if this proposal were adopted and duty-free imports of scissors and shears were permitted from these 14 low-cost labor countries, it could mean the end of the domestic industry. The number of domestic producers of scissors and shears had already been reduced from 50 firms in 1949 to 7 firms in 1975 as a result of sharp duty cuts in 1950, 1951 and 1968–1975. Therefore, by oral statements and written briefs we urged the U.S. International Trade Commission on April 14, 1975 to recommend to the President removal of scissors and shears (TSUS items 650.87, 650.89, and 650.91) from the list of articles to be considered for designation as eligible for the purposes of the GSP. Similar oral and written presentations were made to the Trade Policy Staff Committee of the Office of the Special Representative for Trade Negotiations on May 30, 1975.

Following is an excerpt on imports from developing countries from the briefs we filed with the U.S. International Trade Commission and the Trade Policy Staff Committee, Office of the Special Representative for Trade Negotiations.

"Taiwan, Brazil and Pakistan, so-called developing countries, have become exporters of large quantities of all types of scissors and shears to the United States. Also Hong Kong which is being considered as eligible for preferences is a major source of scissors and shears imports. This shift in imports from developing countries is due to the lower wages paid in Taiwan, Pakistan, Spain, Brazil and Hong Kong. As shown in Table IV[1] imports from developing countries and those being considered for preferences increased from 2% of total imports in 1965 to 34% in 1974. During the past 10 years the imports from these developing countries have increased at an average 150% compounded rate!

"Imports of scissors and shears from Brazil totaled 300 pairs in 1962. An importer who had made arrangements to have scissors and shears manufactured in that country said ten years ago that within a few years he could be importing 500,000 pairs per year. He achieved this goal of 500,000 by 1970 and in 1973 imported over 1,000,000 pairs."

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[1] See following page.

IMPORTS FOR CONSUMPTION, SCISSORS AND SHEARS

[Quantity, pairs]

Year	Total	Para. II.A countries [1]	Percent	Para. II.A and B. countries [2]	Percent
1946	11,131	942	8.5	1,042	9.4
1947	20,776	1,043	5.0	1,043	5.0
1948	76,176	1,036	1.4	1,036	1.4
1949	150,372			65	0
1950	825,616	680	0	680	0
1951	2,213,031	5,772	.3	5,772	.3
1952	3,121,741	1,026	0	2,976	.1
1953	4,540,006	132	0	264	0
1954	4,396,123	6,672	.2	6,672	.2
1955	5,671,816	7,248	.1	7,248	.1
1956	5,981,033	24,372	.4	24,372	.4
1957	6,587,527	3,966	.1	3,966	.1
1958	7,297,269	11,304	.2	13,464	.2
1959	11,956,375	19,295	.2	19,295	.2
1960	11,470,885	28,800	.3	59,088	.5
1961	10,112,482	63,761	.6	65,771	.6
1962	12,777,082	52,112	.4	58,379	.5
1963	9,986,907	108,073	1.1	111,888	1.1
1964	10,314,828	197,240	1.9	217,498	2.1
1965	11,434,563	195,618	1.7	219,094	1.9
1966	12,857,003	282,187	2.2	288,367	2.2
1967	15,124,959	367,407	2.4	376,769	2.5
1968	18,615,175	601,515	3.2	715,935	3.8
1969	20,210,546	887,852	4.4	1,069,752	5.3
1970	20,119,385	1,494,658	7.4	2,002,481	9.6
1971	19,201,395	2,152,525	11.2	2,902,283	15.1
1972	25,626,893	3,194,401	12.5	5,098,212	19.9
1973	25,012,111	3,639,072	14.5	6,576,202	26.3
1974	25,108,625	5,564,632	22.2	8,667,980	34.5

[1] Beneficiary developing countries for purposes of U.S. generalized system of preferences (GSP) in notice of Mar. 26, 1975.
[2] Beneficiary and potential beneficiary developing countries for purposes of U.S. GSP in notice of Mar. 26, 1975.

"The major source of imports of scissors and shears valued not over 50¢ per dozen has shifted from Japan to Hong Kong due to lower labor costs in Hong Kong. Japan has also lost out as the major supplier of scissors and shears valued over 50¢ and not over $1.75 per dozen to Taiwan and Hong Kong.

"The pattern has been that the countries with higher labor costs lose out to those with lower labor costs. The domestic manufacturers see their greatest problems in the future from imports from so-called developing countries such as Hong Kong, Pakistan, Taiwan, Brazil and Korea—countries with very low wage rates.

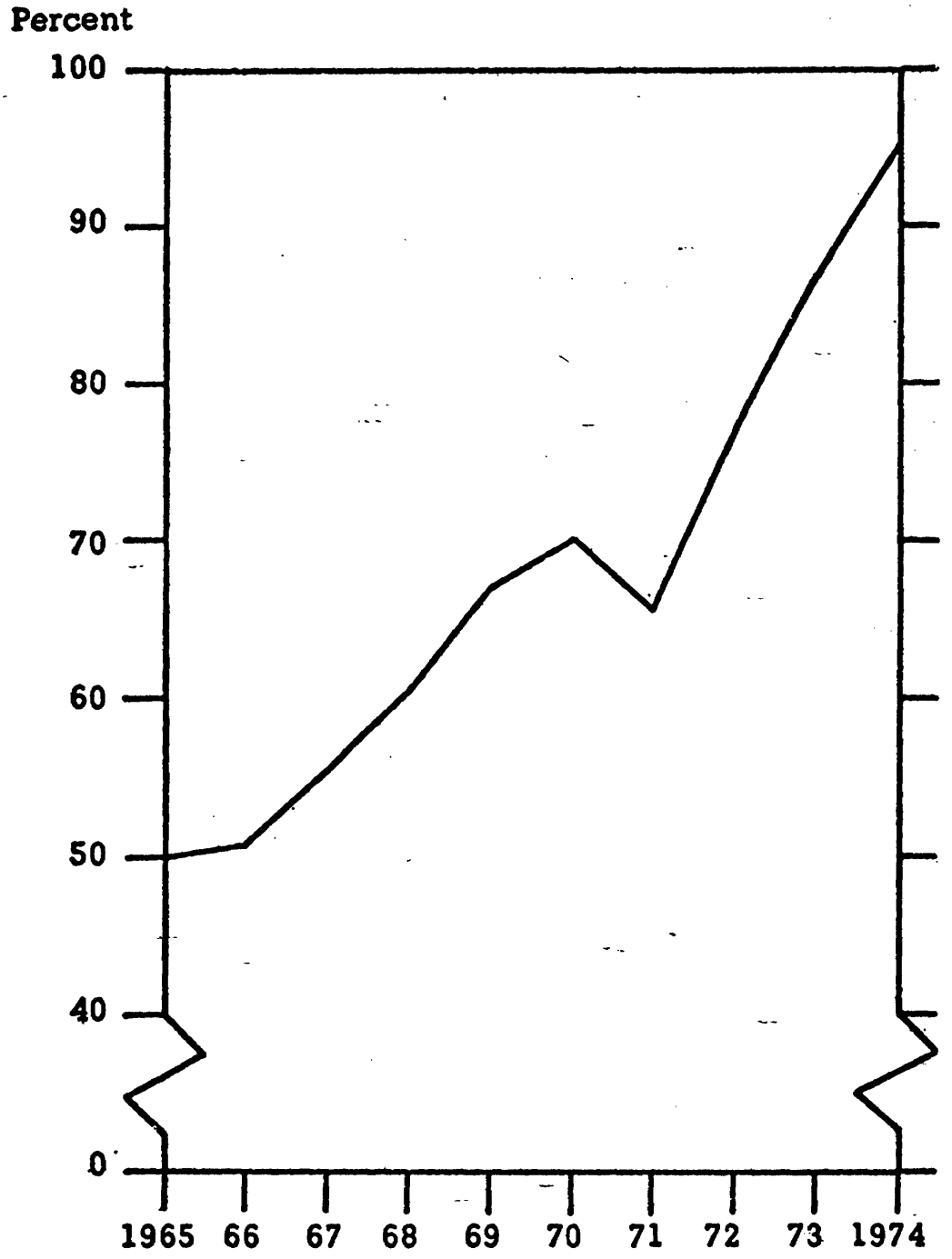
"The current rates of duties do not come close to equalizing the low wages paid in these countries with the wages paid in the United States. With the shift in imports to countries with lower wage rates, the situation becomes more critical for the domestic industry. If the Generalized System of Preferences is established and includes scissors and shears it will mean larger profits for the importers and an early death for the domestic industry.

"A report prepared by the Office of the Special Representative for Trade Negotiations on non-tariff barriers shows that Brazil gives export subsidies for manufactured goods, and Korea, Pakistan and Taiwan licenses their imports and have many other restrictions."

These briefs also outline the injury caused to the domestic scissors and shears industry by low-cost imports as follows:

"The United States Tariff Commission, in a report of March 12, 1954 to the President on Investigation No. 24 found a definite threat of serious injury to the domestic industry. A study made by the Tariff Commission during this investigation in 1953–54 placed the value of domestic manufacturers' shipments of scissors and shears in 1949 at almost $18,000,000. This was the last full year before the 1950–51 duty reductions. It is estimated that the value of domestic shipments in 1974 was $30,800,000. These figures indicate a growth in the domestic industry of 71% during the 25-year period. However, this is not the case if the figures are adjusted to constant dollars so that 1949 dollars equal 1974 dollars. Making this adjustment to remove the effect of inflation shows that domestic shipments during 1974 were 15% below 1949. It was during this same period that imports increased from 150,372 pairs to 25,108,625 pairs.

IMPORT PENETRATION OF UNITED STATES SCISSORS AND SHEARS MARKET



"The Bureau of the Census reports the foreign value of scissors and shears imported in the United States. This value does not include the United States import duty, cost of shipping to the United States, cost of insurance or the importer's markup. Therefore the import value reported by the Bureau of the Census cannot be compared directly with the value of shipments of the domestic manufacturer. To overcome this difference in the two values, we have adjusted the foreign value by adding, to the value reported by the Bureau of the Census, the import duty, 5% for freight and insurance and 25% for importer's markup to obtain the true value of imports in the domestic market. As shown in the chart on the following page, the value of scissors and shears imports have increased from 50% of domestic shipments in 1965 to 95% in 1974. A comparison of the quantity of imports to domestic shipments shows the same picture of imports taking a larger and larger share of the domestic market each year. Whereas the quantity of domestic shipments increased 25% in the 10-year period from 1965 to 1974, imports increased 119%. It should be noted that the value and quantity of imports used in this comparison are conservative because they do not include scissors and shears in sewing and manicure sets or certain small and individual shipments.

"Why have imports taken a larger share of sales in the domestic market? This question can be answered in three words, low foreign wages. What has the domestic industry done to offset this foreign advantage? During the post World War II period they have modernized their operations and installed semi-automatic machines. However, because of the great variety in styles and types of scissors and shears, their production does not lend itself to fully automatic production. The domestic producers do not have an 'exclusive' on modern production equipment. Foreign producers use the same type of equipment when it pays them to install it.

"Therefore, there is no way to equalize the low wages paid in forign countries with the wages in the United States through modern equipment. In addition, domestic manufacturers' overhead costs have increased as a result of regulations promulgated by the Environmental Protection Agency, Occupational Safety and Health Administration and other Federal and state agencies."

We were shocked and dismayed to learn that the President had included two of the three classifications of scissors and shears in Executive Order 11888 issued November 24, 1975 implementing the GSP. Included in the GSP are scissors and shears valued not over $1.75 per dozen imported from 98 developing countries and 39 dependent territories of other nations except scissors and shears valued not over 50¢ per dozen from Hong Kong. This action will have a devastating effect on domestic manufacturers who are endeavoring to compete with imports in the 50¢ to $1.75 per dozen classification. As shown in the table on page 7, imports from beneficiary developing countries increased from 3.6% of total imports in 1965 to 72.0% in 1975 *without the benefit of GSP.*

IMPORTS OF SCISSORS AND SHEARS VALUED OVER $0.50 TO $1.75 PER DOZEN

[Quantity]

Year	Total	From developing countries[1]	Percent
1965	1,990,409	52,296	3.6
1966	2,641,968	80,844	3.1
1967	3,533,308	32,744	.9
1968	4,226,044	82,788	2.0
1969	4,488,773	218,064	4.9
1970	4,826,725	401,492	8.3
1971	5,073,967	931,042	18.3
1972	7,344,940	1,638,488	22.3
1973	5,564,480	2,008,536	36.1
1974	5,203,962	3,070,648	59.0
1975	3,863,057	2,780,845	72.0

[1] Imports from beneficiary developing countries designated in Executive Order 11888 implementing the Generalized System of Preferences issued November 24, 1975.

Section 504 of the Trade Act of 1974 provides for limitations on the preferential treatment granted by the GSP. This section gives the President the authority to revoke the designation of a beneficiary developing country for an article if (1)

imports of an eligible article are in excess of $25 million (indexed to the GNP), or (2) imports of any eligible article equal or exceed 50% of the value of total imports of the article.

The limitations do not afford the domestic scissors and shears industry any relief from a flood of duty-free imports. It is estimated that the total value of domestically-produced scissors and shears in 1974 was only $31 million. Therefore, if imports from *one* developing country ever reaches $25 million it will be far too late to do anything for the domestic industry.

During 1975 three beneficiary developing countries, i.e., Hong Kong, Taiwan and Pakistan exported 72% of the scissors and shears valued over 50¢ but not over $1.75 per dozen to the United States. Each of these countries exported less than 50% of the total value of the imports during 1975. As long as imports from these countries grow at approximately the same rate, each can remain under the 50% limitation and take advantage of the duty-free treatment.

Therefore, the provisions of Section 504 which we assume were designed to keep some limitation on the GSP will not afford any assistance to our small import-sensitive industry. We question whether or not the Congress in enacting the Trade Act of 1974 was fully aware of the impact of the GSP could have on a small domestic industry such as ours. Quite frankly, I didn't realize the impact when I presented my statement to the Senate Finance Committee on the Trade Reform Act in April 1974. However, we now know what the impact will be and it is not too late to do something about it. I assume that that is the primary purpose of these oversight hearings.

In order to save the domestic scissors and shears industry from being completely wiped out by imports from so-called developing countries, we recommend and urge that Section 503(c)(1) of the Trade Act of 1974 be amended by adding to the categories of import-sensitive articles: scissors and shears. This action is needed now to save the jobs of hundreds of United States workers.

STATEMENT BY CLYDE F. ROBERTS, JR., PRESIDENT, INDUSTRIAL FASTENERS INSTITUTE

The Industrial Fasteners Institute welcomes the opportunity to present its views to the Subcommittee on International Trade of the Senate Commerce Committee. It does so from the perspective of having been a co-petitioner in the second escape clause proceeding under the Trade Act of 1974, No. TA 201–2, requesting import relief for domestic producers of bolts, nuts or screws of iron or steel.

This was a sharply contested and very close case. The original petition was filed May 22, 1975. The Hearing consumed eight days, September 3–12. The decision was 3 to 2 against relief, with one abstention. (The following comments relate to the "large" bolts, nuts, and screws with respect to which the Industrial Fasteners Institute was a co-petitioner; the decision was 5–0 against relief for comparable "small" products.)

From this experience we have two considerations which we believe should have the constructive attention of the Committee and of the International Trade Commission. We make these comments in no attempt to retry the case. That can be done directly and on the merits. However, the survival of industries in the United States are at stake in proceedings before the International Trade Commission. That Commission has much enlarged responsibilities. We support that enlargement of responsibilities and the funding of a staff and other support necessary to carry them out. We make the following points in the spirit of constructive future attention by the International Trade Commission to the major international trade issues it controls.

1. In TA 201–2 the petitioners presented a clear-cut issue whether there was not a separate nut industry in the United States. In its findings the Commission lumped together the several kinds of fasteners in its decision without specific discussion why a nut industry should or should not be considered as a separate industry.

The case for a separate nut is quite compelling. (See annexed brief submitted on behalf of co-petitioners MacLean-Fogg Lock Nut Company ("Brief").) Nuts are not interchangeable with the other products. They serve a separate purpose and are made on different machines. However, in the development of the

case *the industry failed to produce and the International Trade Commission failed to ask for separate profit and loss statistics with respect to nuts.* With such information we believe it manifest that the industry can only be considered a separate one. However, even without it a number of economic conditions were presented, which support a separate nut industry, with the consequence, we believe, that the outcome of the case would have been different.

(a) During the period of its investigation, 1969 through 1974, the largest nut producing facility in the world—National Machine Products of Utica, Michigan—closed its doors in 1971. Other closings are set forth on pp. 10–12 of the Brief.

(b) The statistical appendix to the Commission's report showed that the import share of the U.S. market for nuts or iron or steel jumped from 33.6% in 1969 to 51.8% by the end of 1974, and that that percentage increased for the first six months of 1975.

(c) The most widely used of these products is the square and hex nut. By June 1975 imports accounted for more than 75% of the U.S. market—up from 43.6% in 1969. USITC, Report to the President on Investigation No. TA–201–2 at p. A–79.

(d) Imported nuts sell at about the price of the cost of raw materials in the U.S. Thus the percentage of the U.S. market attributable to imported nuts can be expected to increase over the 75% present figure.

What these figures show and what the Commission failed to speak to is that, during the period of the Commission's investigation, the American industry has become a secondary or residual supplier of nuts in the American market, whereas it had been the primary supplier as recently as 1973. The central meaning of the Commission's approach to this problem is that domestic nut production can be virtually wiped out, but no import relief would be available because the industrial sector producing all threaded fasteners (bolts, nuts and screws) might not, in their 1975 view of the aggregate, meet the statutory standard of "serious injury". It is inconceivable that such a result is in the national interest or that such a result was intended by Congress when it passed the Trade Act of 1974. Yet, the Commission's failure to consider a separate nut industry leads to that result.

That which we suggest here is that had the time, work load and other work parameters permitted the consideration of that which fastener manufacturers recognize clearly as a separate industry, the result in this case would have been different. That difference in result, in turn, would have had a significantly different impact on the case.

2. We also wish to bring to the Committee's attention a fundamental factor of fairness in the Commission's investigation and decision-making process. A required part of that process is the holding of public hearings to afford interested parties a chance "to be heard". Section 201(c) of the Trade Act of 1974. Since the members of the Commission perform a quasi-judicial function in making findings of fact and conclusions of law, the opportunity to give testimony under oath and otherwise to be heard by those who make these critical decisions is a matter of due process. Four Commissioners participated in the eight-day hearing in this case. *Only one of those four reached a negative decision.* Of the three who voted in the negative, two *did not participate at all* in those hearings, heard no evidence, observed the demeanor of no witnesses, and did not examine the witnesses. In short, the petitioners in this case were denied the opportunity to be heard by those Commissioners whose votes resulted in denial of relief. We believe basic issues of fairness and completeness in Commission proceedings are suggested by these circumstances.

3. May we also comment, by way of an additional point, that we are completely baffled why, after the seriousness of the state of the U.S. fastener industry was spelled out in formal proceedings before the International Trade Commission over six months, the Department of State saw fit to accord fasteners GSP treatment. Such treatment is not to be accorded "import sensitive" articles. The criteria for inclusion of products on such lists as the GSP list appear mysterious and clandestine. We suggest that the criteria for including articles on tariff lists such as the GSP list, be both objective and public, and that your Committee can make a contribution in developing this matter in considerable further degree.

We would be happy to expand on these views in any way that would be helpful to the Committee or its staff.

STATEMENT OF THE EAST-WEST TRADE COUNCIL, SUBMITTED BY MAX N. BERRY, EXECUTIVE DIRECTOR

Mr. Chairman and members of the Committee on Finance, I am pleased to have this opportunity to submit, on behalf of the East-West Trade Council, written testimony dealing with one of the issues before your Committee in these trade oversight hearings—the prospects for expanding East-West trade in a manner consistent with U.S. interests and objectives. The East-West Trade Council, established in 1972, is a nonprofit organization whose membership includes U.S. businesses, associations, lawyers, academics, and individuals interested in expanding trade with the socialist countries.

The East-West Trade Council recognized the important role played by the Finance Committee and by Congress as a whole in U.S. trading relations with foreign countries, including the socialist countries. The trade oversight hearings by the Senate Committee on Finance are both timely and positive, and will further the objective of developing an effective United States foreign trade policy through the cooperation of the Congress, the Administration and the private sector.

Notwithstanding the crucial role which Congress must play in the development and implementation of U.S. trade policy as it relates to trade with the socialist countries, the East-West Trade Council is of the opinion that current legislative restrictions adopted by Congress on MFN tariff treatment and government credits to the socialist countries under the Trade Act of 1974 do not serve the best interests of the United States. The Council feels that these restrictions should be amended through new legislation since they have resulted in economic detriment to the United States in a time of national recession without yielding any compensatory tangible gains for the United States, economic or otherwise.

Title IV of the Trade Act, as currently drafted, has effectively prohibited the granting of MFN tariff treatment and government credits as well as the conclusion of commercial agreements with the majority of socialist countries. This is due primarily to the emigration requirements of Section 402, as the Committee is well aware. From a strictly economic point of view, these legislative restrictions have proved to be detrimental to U.S. interests. Thus, while other major industrialized countries have extended in 1975 alone over $10 billion of credits to the Soviet Union and thereby supported a commensurate amount of exports to the Soviet Union and other socialist countries, the United States has been prohibited from utilizing governmental credits to assist exports to most of the socialist countries involved. Sources within the Soviet Embassy have recently indicated that the United States lost approximately $2.7 billion in exports to the socialist market in 1975 alone as a result of these current legislative restrictions. In addition, private lenders are also precluded from extending long term credits to many of the socialist countries under the Johnson Debt Default Act.

It should be stressed that the types of loans which are being restricted are not concessionary, but are made at or close to private commercial interest rates. Thus private credits, now precluded under the Johnson Debt Default Act, would obviously be extended at market rates and would not represent subsidization of U.S. exports to the socialist countries. In addition, it should be noted that the interest rates charged by the Export-Import Bank on export credits, while not identical to those applied to private market credits, do not represent subsidized credits in the sense of rates applied to PL 480 sales, AID loans, certain military sales, etc. Exim Bank loans are also generally made at interest rates higher than those charged by other industrialized countries. Since Exim Bank typically provides less than 50% of the total credit in any transaction, with the majority of the funding coming directly from private resources, the small magnitude of government subsidization is reduced even further. The difference between Export-Import Bank credits of 8, 9 or more percent and private credit interest rates involve a cost to U.S. taxpayers which is more than compensated for by the economic benefits accruing from the manufacture and export of the U.S. products included.

The United States has maintained an impressive trade surplus with essentially all of the socialist countries in the last few years and there is no reason to think that such surplus will not be maintained in the future. A surplus is of course in the U.S. economic interest. However if the socialist countries are going to continue to trade with the U.S., they will require a greater access to government and private capital sources as well as to U.S. markets so that they are able

to continue to finance the importation of U.S. products. Again the current restrictions on MFN tariff treatment and government credits to the socialist countries works against this fact of economic reality.

It is true of course that caution must be observed with respect to the transfer of technology and other trade actions which could jeopardize U.S. national security interests. It may also be appropriate to apply general, nondiscriminatory standards to the export of U.S. capital and equipment as it relates to energy projects so that capital will not be applied to the creation of or the development of foreign energy resources which might never become available to the United States or so that exports of scarce capital will not inhibit the ability of the United States to establish or develop its own internal energy resources. In fact, in the area of East-West trade the Congress and committees such as the Senate Committee on Finance, Senate Banking Committee and the Senate Committee on Commerce have provided a strong impetus for the establishment and implementation of a more effective East-West trade policy. However one could question the utility of trying to develop and implement a more effective East-West trade policy when government credits, MFN tariff treatment, and bilateral trade agreements with the majority of the socialist countries are precluded from the start.

What is doubly unfortunate about all of this is the fact that the U.S. economy is currently struggling to recover from a major recession and intolerable levels of unemployment. Under normal circumstances Congress would have to seriously weigh the consequences and potential benefits of maintaining legislative restrictions on the normal development of U.S. trade with the socialist or any other countries. But in the current economic times, the necessity for demonstrating benefits to the United States which outweigh the loss in employment, production and exports as a result of current legislative restrictions on East-West trade is even more critical.

It is the position of the East-West Trade Council that the net impact on U.S. interests of the current restrictions on MFN tariff treatment, government credits and bilateral trade agreements is clearly negative since these legislative restrictions have not even served to promote the goals for which they were promulgated. The primary goal, and one that is set out explicitly in Section 402 of the ~~1974 Trade~~ Act, is the liberalization of emigration policies on the part of socialist countries. It would appear, however, that the provisions in the Trade Act may have actually accomplished the opposite result in most cases. Figures from the Soviet Union reflect a decrease in the levels of people permitted to emigrate from that country since the passage of the Trade Act, not an increase. And there is no reason to believe the provisions of the Trade Act as currently set out, will serve to improve these emigration policies. This is not to say that understandings on trade liberalization could not be helpful in attempting to obtain informal understandings on liberalization of emigration or other policies to the mutual satisfaction of the United States and the Soviet Union. It is just to say that the provisions ~~of the Trade~~ Act, as currently drafted when viewed in the context of the Export-Import Bank Amendments, Johnson Debt Default Act, etc. have produced little or in fact a contrary effect on emigration policy as set out in Section 402 of the Trade Act.

As was expressed by the Administration witnesses during the Hearings, improving trade relations between the U.S. and the socialist countries may help to establish an improved environment in which other mutual, non-economic issues may be dealt with. However trade, alone, cannot serve as the level by which political or other non-economic commitments can be exacted from the socialist countries, especially when the "leverage" is explicitly spelled out in a public law of the United States. The SALT talks, because of their inherent importance, will continue and hopefully result in an amelioration of the potential risks inherent in the nuclear arms race. Detente, which is dependent upon the sum total of the elements making up U.S.-Soviet relations, will improve to the extent that any of the elements improves; but it cannot be determined by any one element alone. The Grains Agreement, the potential oil agreement, and Angola will likely proceed for better or worse whether or not the Title IV of the Trade Act is amended tomorrow or maintained as currently drafted. None of these aspects of the U.S.-Soviet relations are sufficiently dependent upon trade to have their outcome solely determined by the legislative framework under which such trade is carried on.

In summary, it is the strong view of the East-West Trade Council that the current restrictions on development of normal trade relations with the socialist

countries have led to the detriment of U.S. interests, economic, political and social and have accomplished no tangible positive results beneficial to the United States which compensate for the obvious losses. The Council strongly urges that the provisions of Title IV of the Trade Act be amended so as to permit the normal development of trade relations with the socialist countries. This would be of immediate economic benefit to the United States and it would be a more effective way of supporting other U.S. non-economic goals relating to the total range of relations with the socialist countries. The Council is aware that current circumstances in Angola, the limited time available to Congress in an election year, and the lack of any administration initiative for legislative change may preclude the possibility of amending Title IV prior to the election. However the East-West Trade Council would strongly urge that, as soon as the legislative environment permits, serious consideration be given to amending the restrictions on trade with the socialist countries in the Trade Act so that the interests of the United States may be better served.

In closing, I would like to make reference to an article entitled "The U.S. trade lag with Eastern Europe," in the February 23rd issue of *Business Week* magazine. The article points out how the United States has lost and how our industrialized allies have gained in trade with the socialist countries since the passage of the Trade Act of 1974. Of particular interest is the shift of jobs and production from the United States to the other industrialized countries which has resulted from this decrease in trade. The East-West Trade Council requests that this article be reprinted with its testimony as part of the public record of the Finance Committee trade oversight hearings.

[From Business Week, Feb. 23, 1976]

The U.S. Trade Lag With Eastern Europe

The great American sales pitch to Eastern Europe for big new purchases of Western goods and services is paying off—for someone else.

In the early 1970s, a steady stream of high-level U.S. officials—including President Nixon—trooped to Moscow and persuaded Communist leaders to think big about the potential for increased trade under the umbrella of political détente. U.S. businessmen followed with imaginative proposals for ventures ranging from the development of Siberian gas deposits to construction of a trade center in Moscow.

But Western Europe and Japan are getting most of the benefits of this missionary work—in exports, in jobs, and in balance-of-payments gains. The 11 leading industrial countries of Western Europe, together with Japan and Canada, sold more than $20 billion worth of goods last year to the Soviet Union and its six East European partners in the Council for Mutual Economic Assistance (Comecon), the Soviet-led trade bloc. That figure compared with only $2.8 billion for the U.S., including $1.8-billion of wheat and other farm products (chart).

FINANCING SPLURGE

The disparity is a result in part of a provision of the U.S. Trade Act of 1974, known as the Jackson-Vanik amendment, that cut off export credits and denied nondiscriminatory tariff treatment for the Soviet Union or any East European country except Poland and Romania. By contrast, other industrial countries lent billions of dollars to the East bloc last year in an unprecedented export financing splurge, while keeping their own markets open to import of goods from Communist countries.

"Americans whetted the Soviets' appetite and dressed up the store window," says David Karr, an American businessman based in Paris. "The Russians walked into the store, found they couldn't buy, and walked right out the back door to buy from the Europeans and Japanese." One item they are buying is a $120 million, 1,815-room luxury hotel to be built in Moscow for the 1980 Olympics by a French construction company in a venture with Karr's financial consulting company, FINATEC. French government-guaranteed credits at a low 7.5% interest will finance French suppliers of materials and equipment for the project, which will even employ French skilled workers. Russians and East Europeans are buying an enormous range of capital goods, industrial materials, and technology from other Western suppliers.

The U.S. restrictions, in fact, have had little impact on the total volume of East-West trade or on the ability of the Soviet bloc to get Western equipment

and knowhow. Rogers C. B. Morton, former Commerce Secretary and now President Ford's campaign chief, explained why in a report last year on East-West trade: "Whereas we see ourselves as a major force in this trade, we are in reality a 'bit player,' with a role that may become still smaller in the future if we do not resolve our own internal controversy."

Ironically, the Russians and East Europeans are buying heavily from foreign subsidiaries and licensees of U.S. multinational companies that are able to obtain export credits from local governments. Thus, M. W. Kellogg Co., a subsidiary of Pullman Inc., is providing technology to France's Creusot-Loire to build $400 million worth of ammonia plants in the Soviet Union. General Motors Corp.'s British subsidiary will supply equipment, engineering, and knowhow for a Polish plant that will make specially designed light vans, some of which will be marketed by GM in Western Europe.

And Katy Industries Inc., Elgin, Ill., recently signed a contract through a German subsidiary to supply $40 million worth of shoe manufacturing machinery, mostly made in Germany and Italy, to the Soviet Union for modernization of shoe factories. The contract, according to Katy, is the largest in the history of the shoe industry.

OVERSEAS BENEFITS

Such sales, and the prospect of growing future business in Soviet bloc countries, whose combined gross national product totals nearly $1 trillion, are keeping U.S. businessmen interested in East-West trade despite the Jackson-Vanik restrictions. International Paper Co., for example, is negotiating with the Soviets on construction and management assistance for a $1 billion pulp, paper, and plywood complex in Siberia, involving about $800-million in imported equipment and technology.

Aluminum Co. of America is bidding against France's Pechiney Ugine Kuhlmann to help set up a big Siberian alumina and aluminum complex. A British subsidiary of Combustion Engineering Inc. and a Japanese consortium have signed a preliminary agreement with Poland to construct a $450 million fertilizer plant.

While profits and license fees from East-West trade deals through foreign subsidiaries eventually flow back to the U.S., the bulk of the economic benefits remain overseas in the form of wages and payments for local goods and services. Union Carbide Corp., for example, is doing a business of more than $100 million annually with the East bloc through its Union Carbide Europe subsidiary, selling a wide range of products as well as technology for plants, such as a high-density polyethylene unit under construction in the Soviet Union. "Union Carbide is not handicapped by Export-Import Bank restrictions, because we are not mainly an engineering company or equipment supplier," says M. W. Duncan, Union Carbide's director for Eastern Europe. "When we sell our technology we usually team up with a construction company to do detailed engineering and on-site supervision. We can team up with an English company, and they can get English credits. Unfortunately, they also buy most of the equipment there."

The British government, and those of other industrial countries, have been offering big credits to the Soviets and East Europeans in the past 18 months in order to boost exports and keep factories working during the current business recession. The strategy has worked especially well for the Germans, who piled up a $2 billion trade surplus with the Soviet bloc last year.

Altogether, officially guaranteed credit lines available to East bloc customers over the next five years now total more than $6-billion from Britain, France, Italy, and Canada. Germany and Japan provide big dollars of financing for specific projects—more than $1 billion, in Japan's case, just for coal mines and other projects in Siberia.

STEADY IMPORTS

More significant than the amount of credit offered is the fact that the Russians and East Europeans have been willing to use it, and borrow heavily on their own in the Euromarkets, to finance continued high imports. Their balance of payments in hard currencies swung sharply into the red last year because recession in the West sharply reduced their export earnings. In the past, Soviet bloc planners have clamped down on imports in such circumstances rather than go deeply into hock to the West. But last year they kept imports flowing for completion of major projects during the final year of their five-year plans. In doing

so, they ran up a combined trade deficit estimated at $10 billion, including $5 billion for the Soviet Union.

The result was a sharp rise in the Soviet bloc's hard-currency debt to around $30 billion at the end of 1975, up from $22 billion a year earlier. Of the total, the Russians owe an estimated $11 billion, including borrowings by two ruble-based Comecon banks that operate out of Moscow. Other big debtors are Poland and Romania.

And Soviet bloc countries are expected to continue borrowing this year even though their new five-year plans call for somewhat slower economic growth than in the past, with the emphasis on finishing plants and infra-structure projects that are under way rather than a splurge of new projects. Throughout the bloc there is also a shift in emphasis from sheer volume of output to improved quality, which does not show up in GNP figures but requires Western equipment such as the shoe production lines that Katy is supplying. "For the first time they will be making quality shoes," says Melvan Jacobs, Katy's general counsel, who negotiated the contracts.

The new pattern of Soviet bloc borrowing to achieve these goals, and the corresponding rise in indebtedness to the West, is an important strand in the growing web of East-West "interdependence." Lawrence J. Brainard, a Chase Manhattan Bank economist who keeps tabs on East Europe, traces the development back to a basic Soviet decision, sometime between the 24th Communist Party congress in 1971 and Nixon's visit in 1972, to "normalize" economic relations with the rest of the world. "No one buys a Kama River truck plant and pays for it with cash," he observes. For a country like Poland, where workers rioted a few years ago over demands for better living standards, borrowing to maintain the pace of economic growth is almost a political imperative.

ABILITY TO REPAY

Despite the accumulation of debt, bankers see little reason to worry about the Soviet bloc's ability to repay. The Soviet Union's indebtedness is small in relation to its GNP of more than $700 billion and to its reserves, which include an estimated $8 billion to $9 billion in gold alone. Poland has a high debt service burden but also has rich coal, copper, and other resources that it is developing for export. And like the Soviet Union, it is putting borrowed funds into projects that will generate their own hard-currency payout throughout agreements by which suppliers such as GM will market part of the output.

"We think we know enough about the structure and purpose of the debt in the Soviet bloc to give us confidence," says Alfred R. Wentworth, senior vice-president in charge of East Europe at Chase Manhattan, which led a syndicate that financed a big Polish copper development. Debt management in the East bloc is "conservative," Wentworth observes, because "the penalties for being wrong are pretty severe." Beyond that, he says, Chase looks at the risks for the Soviet-led Comecon as a whole. "We believe in the umbrella theory," he says. "The Soviets don't want a default in Comecon."

MORE INFORMATION

Nevertheless, interest rates are going up for all Soviet bloc borrowers according to Brainard, who sees the trend as part of the normalization of East-West economic ties. Up to now, Comecon borrowers have gotten preferential treatment from Western export credit agencies and banks eager to get a foothold in the area. In the future, "they will be receiving market rates of interest, not below-market rates," says Brainard. He adds: "We also expect to see a more normal role in the sense that they will provide more information." In the past, Soviet bloc countries have been reluctant to supply basic financial data and balance-of-payments projects. But Poland supplied more information than ever before in connection with the loan for copper mining.

Despite the cutback in Ex-Im credit, U.S. trade with Comecon will climb to around $3.7 billion this year, according to projections by the Commerce Dept.'s Bureau of East-West Trade, because of grain sales under a five-year U.S.-Soviet pact and unused equipment credits still in the pipeline. The Kama purchasing office in New York is just starting to buy equipment and knowhow for construction of a trade center in Moscow under a $45 million Ex-Im credit. But costs have inflated steeply, so Europeans and Japanese will probably get pieces of the

project, originally conceived basically as a U.S.-Soviet project with San Francisco's Bechtel Corp. as the major contractor. And after this year, the U.S. share in East-West trade will probably shrink as the Ex-Im financing runs out.

A growing obstacle is U.S. tariff discrimination against Soviet bloc products. Comecon countries are pushing exports to narrow their trade deficit and they favor suppliers that agree to help market their products in the West. High U.S. tariffs make that tougher for American companies. Beyond that, U.S. businessmen see signs of growing reverse discrimination against American suppliers, by Soviet bloc customers who link their purchasing decisions to the tariff issue. Because of this, "the Russians have told us they will be buying from their neighbors even though they like the quality of our products better," says Harold R. Frank, president of Applied Magnetics Corp., a Goleta (Calif.) company that has been selling up to $1 million annually of computer peripherals and seismic equipment to the East bloc.

MORE FLEXIBILITY

Nevertheless, the climate of business relationships with the Soviet bloc reflects a "remarkable normalization" over the past few years, says Duncan of Union Carbide. Soviet foreign trade agencies, for example, used to wield their buying power to squeeze suppliers' profit margins on one-shot purchases, taking deliveries over a year or so. "Then in times of shortage they wondered why suppliers didn't take care of them," Duncan recalls. "Now we talk about five-year contracts," he says.

Also remarkable is the growing flexibility of East bloc countries in devising new ways of doing business with the West. Hungary has started encouraging Western companies to go into joint ventures there. Recently, Corning Glass Works formed Radelcor Instruments, in which it holds 49% of the equity, to make blood gas analyzers for medical diagnosis in a joint venture with Hungarian enterprises. "We have found the right partner and we expect to build on this relationship with additional products and technology," says Pierre-Louis Roederer, vice-president of Corning Glass International.

More common in East Europe are "industrial cooperation" deals that give Western companies a role in such areas as quality control and even management on a consulting basis, as well as licensing and marketing. GM's deal with Poland, which is not fully worked out yet, is an example. "The plant will be built and operated with GM's assistance, and the van design will be completely new," says Guy Newton, manager of the company's London-based East European division. In an agreement with Hungary, Raba, a manufacturing enterprise, will supply GM's Vauxhall subsidiary in Britain with truck axles under the first of a series of contemplated contracts.

GM is a late starter in East Europe. What persuaded the auto giant, like other U.S. companies, that it had to get a foothold in East Europe through such arrangements is the sheer size of the potential market. "Until we really got at it," Newton says, "we didn't comprehend our original fault—the magnitude of the trading opportunity."

LONG VIEW

For International Paper, the attraction of business in the Soviet bloc is the size of the natural resource base as well as the potential market. IP considers itself a strong contender among the bidders on the Siberian forest products complex because it is the only one with its own design and engineering capability. "We are in the business of trying to make a buck," says Vice-Chairman Joseph P. Monge. "This project is going to be paid for, and we think we ought to be there to take advantage of our knowledge and synergisms." As for the political obstacles, he observes: "Time flies quickly, and by 1977 there could be a change in Washington."

Brooks McCormick, president of International Harvester Co., is equally patient. "We refuse to give up trying to make trades with the East bloc without a fight," he says. We haven't been squeezed out by the vicissitudes of the U.S. government, although we didn't do as much business with the Soviets in 1975 as in 1974."

Another Midwesterner who takes a long view is Allan L. McKay, president of Giddings & Lewis Inc., of Fond du Lac, Wis., which has to add 22% to its prices on sales to the Soviet bloc for lack of Ex-Im financing. "I think there will be a change of feeling in Washington next year," says McKay, "Over the long term we know that there is a real market for us in the East bloc based on economic factors. So even if there are short-term political obstacles, we are willing to stick it out."

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY JOHN C. DATT, DIRECTOR, WASHINGTON OFFICE

We greatly appreciate this opportunity to participate in a discussion of the agricultural trade policies of the United States.

For the record, Farm Bureau is the largest general farm organization in the United States with a membership of 2,505,258 families in 49 states and Puerto Rico. It is a voluntary, nongovernmental organization, representing farmers who produce virtually every agricultural commodity that is produced on a commercial basis in this country.

Because we represent families actively engaged in the production of food and fiber, we shall confine our remarks to U.S. foreign and domestic policies affecting agricultural trade. This subject is of vital concern to the American farmers and ranchers who produce a major share of the agricultural commodities that move in international trade and whose productive efforts are basic to any discussion on food and agricultural trade policy.

Each year U.S. farmers and ranchers produce much more food than is required for annual domestic consumption. This productive capacity and the resulting availability of food for export have contributed greatly to our national strength.

Since the First and Second World Wars, U.S. agricultural exports have played a very important role in our relations with other countries. During the past several years, our increasing ability to export agricultural commodities has helped build a firm domestic base for our political and economic foreign policy. For example, American agricultural exports have contributed substantially to the improvement of relations with the USSR and Eastern Europe, to reopening trade with the People's Republic of China, to our efforts to negotiate a peaceful settlement in the Middle East, to the enhancement of our trade with Japan and Western Europe, and to the alleviation of hunger, malnutrition, and famine in the developing nations.

Our ability to export the commodities produced on almost one of three harvested acres in the United States is based on the fact that we have the most efficient and productive agricultural system in the world. Since U.S. farmers and ranchers are the producers of much of the exportable food in the world, they strongly believe that public policies—domestic and foreign—of our government must create a climate which will assure continued profitable production of food and fiber to enable us to help satisfy world demand for these commodities.

Any discussion of food and agricultural trade must consider domestic agricultural policy. If domestic government farm policies provide an incentive for all-out production, food will play an increasingly dominant role in aiding U.S. foreign policy initiatives. Therefore, domestic policies which maximize incentives for food production will be the best course of action in the development of an effective foreign policy.

To ensure the expanding, efficient, and profitable production of food and fiber, Farm Bureau seeks to create a climate which will enable agriculture to operate under the market price system. We have full confidence in the ability of farmers and ranchers to expand production for the market if they are provided the necessary economic incentives.

If our domestic farm policy is directed toward the creation of conditions which will enable American agriculture to operate under the market price system, we are confident that a prosperous and productive agriculture will contribute materially to making it possible for our country to conduct its foreign policy from a position of strength.

We shall now discuss briefly our concerns in specific areas of U.S. agricultural trade policy: access to markets; export controls on agricultural commodities; the current multilateral trade negotiations; international commodity agreements; and international food reserves. We shall conclude by expressing Farm Bureau's views on the responsibilities of the United States relative to world hunger.

ACCESS TO MARKETS

Farmers can supply the American consumer with the world's best and most economical food, but full agricultural production in the United States is largely dependent on both domestic sales and expanding export sales of agricultural commodities.

The American farmer, if not restricted by government controls, will continue to meet the food needs of the nation and a large portion of the world. Embargoes

and moratoriums on agricultural exports will only serve to inhibit food production and antagonize foreign customers. Such controls will contribute to a U.S. balance-of-payments deficit, foster inflation, and reduce U.S. ability to purchase needed products such as petroleum which is in short supply here.

We vigorously oppose restrictions imposed by government on the sale of agricultural products in world markets. Decisions affecting agricultural exports should be made with full participation by the Secretary of Agriculture. We deplore such decisions being made by labor leaders and government agencies such as the Department of State. Agricultural exports must not be held hostage in the name of political expediency or foreign policy.

Foreign buyers of U.S. farm products should be encouraged to make long-term commitments for these commodities through arrangements with producers or the private trade.

EXPORT CONTROLS

We opposed any proposal to limit or control exports of U.S. agricultural commodities.

Export controls on agricultural commodities would reduce confidence in the reliability of the United States as a source of supply and would stimulate investments in other countries to develop alternative sources of supply. The result would be reduced access to world markets and lower incomes for American farmers and ranchers.

MULTILATERAL TRADE NEGOTIATIONS

The economic health of any nation depends on its ability to trade with its neighbors. Mutually advantageous trade also furthers understanding and respect among nations and serves as a pathway to peace.

American farmers have a huge stake in the current multilateral trade negotiations because they provide great opportunities for action to expand mutually advantageous trade through reciprocal agreements to reduce both tariff and nontariff barriers to international trade. American farmers are more dependent upon freer international trade and export markets than any other major segment of the American economy.

The major trading nations of the world have begun comprehensive multilateral trade negotiations. These negotiations are being conducted within the framework of the General Agreement on Tariffs and Trade (GATT).

Farm Bureau believes that negotiations on agricultural and industrial trade issues must be conducted jointly—not separately. Failure to adhere to this overall negotiating objective could be disastrous to the expansion of our agricultural exports and ultimately to the entire economy. It is, therefore, imperative that U.S. negotiators adhere to this very fundamental objective in order to ensure that agreements reached in the current round of multilateral trade negotiations will be based on the basic economic principle of comparative advantage and will result in an expansion of international trade that will be mutually advantageous to the participating nations.

INTERNATIONAL COMMODITY AGREEMENTS

The interest of the United States in international trade cannot be advanced by participation in politically determined international commodity agreements.

International allocation of markets and determination of prices by government would (1) seriously restrict farmers' opportunity to expand markets and (2) substantially reduce net farm income.

Agriculture must be allowed to compete in world markets without impairment by international commodity agreements. We vigorously oppose efforts to inhibit market expansion and limit exports to a specified amount or a stipulated share based on some arbitrary base period politically determined in international negotiations. Market sharing, or international supply management, penalizes efficient producers and encourages uneconomic production. It bases future opportunity to expand markets on political negotiations rather than on our economic ability to compete.

The international commodity agreement approach is as inappropriate for industrial trade as it is for agricultural trade.

For these reasons Farm Bureau strongly opposes the recent Soviet grain agreement and others because these government-to-government contracts establish a dangerous precedent for future political international commodity agreements and constitute further interference with the world market system.

GOVERNMENT-CONTROLLED FOOD RESERVES

Farm Bureau is opposed to the creation of a government-controlled food reserve in the United States and U.S. participation in any internationally-controlled reserve of agricultural commodities. Government-controlled reserves are inconsistent with the objective of a market-oriented agriculture. Experience over the past 40 years clearly shows that government stocks hang over the market, and that the long-run effect of such stocks is to depress the average level of farm prices and farm income. Reserves cannot be effectively isolated from the market. Such a reserve inevitably becomes a part of the supply-demand equation, and buyers know that rules established to protect market prices always are subject to change.

Government-controlled reserves are not necessary for the protection of consumers. Domestic consumers have a great deal of protection in the productivity, diversity, and flexibility of American agriculture. Farmers and the trade will maintain larger reserves if the U.S. Government does not take over this function. Government loans are available to help farmers carry reserve stocks. Domestic processors and foreign buyers can protect their needs through advance contracts. Importing countries are free to maintain their own reserves, and food aid can be made available to less developed countries without adopting an approach that inevitably would lead to a government-managed agriculture.

WORLD HUNGER

The problem is how to produce and distribute enough food to meet the needs of a rapidly growing world population, particularly in the less-developed countries. Foreign aid can help to meet this problem—but only on a temporary basis and in emergency situations. A long-run solution requires effective measures to limit population growth, to increase production—including food production—substantially in the poorer countries, and to expand mutually advantageous international trade.

No system of rationing short supplies will solve this problem. What is required is expanded production of food—particularly in those nations that have a comparative advantage as current or potential producers.

To increase food production in developing nations, the United States and other industrialized nations of the world should encourage them to develop an agricultural economy which would provide:

(1) Economic rewards to food producers designed to provide incentives for increase productivity.

(2) Education to help producers to increase their output.

(3) Credit to help them to make necessary investments in machinery, fertilizer, and other inputs than can increase productivity.

(4) Research to discover improved varieties of crops and more efficient methods of production.

(5) A system of land tenure that encourages producers to own and manage efficient food production operations.

(6) Transportation and marketing systems to handle increasing quantities of food efficiently.

In the meantime, one possible solution which this Committee might examine is the establishment of an international fund to be used for purchase of agricultural commodities only in the amounts, and when, needed. All nations of the world should support such a fund and should share in its control in proportion to their contribution. The fund could be used to purchase needed agricultural commodities from any nation having available supplies in order to meet disaster needs, such as starvation, malnutrition, and other emergencies.

The establishment of such an international fund would strengthen market demand and facilitate the extension of emergency aid to needy people without the adverse effects on producers that would flow from reserve stock plans.

We appreciate the fine work volunteer agencies have done in distributing food to needy countries—particularly in emergency situations. We support the continuation of these constructive activities.

Any national or international food aid program should be administered with care to avoid discouraging needed increases in production in the recipient countries. In order to qualify for continuing food aid, nations seeking assistance should be required to demonstrate a willingness to help themselves by removing disincentives to domestic production and by utilizing the technical and management know-how of the developed nations.

Farm Bureau believes in a market-oriented agriculture. The market system is more effective as a solution of economic problems than any system of government intervention. The really serious aspects of the world food situation involve overpopulation and inadequate incentives for economic development. The United States can, and should, help the poorer nations of the world, but this should be done in ways that will not affect domestic producers adversely.

We thank you for allowing us to have the opportunity to present Farm Bureau's views on various issues concerning the foreign policies and international relations of the United States.

STATEMENT ON FOREIGN TRADE POLICY FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES BY RICHARD O. LEHMANN [1]

The Chamber of Commerce of the United States appreciates this opportunity to discuss aspects of international economic policy related to (1) the Trade Act of 1974 and (2) the multilateral trade negotiations (MTN) currently taking place in Geneva. Our interest in these issues stems from a responsibility to represent our membership of over 48,000 firms and individuals, 2,600 local, regional, and state chambers of commerce, 1,100 trade associations, and 38 American Chambers of Commerce Abroad.

GOALS OF THE MTN: THE INTERNATIONAL ECONOMIC CONTEXT

For most of this decade, economic relations within the industrialized world have been in a state of almost constant flux. The international economic system negotiated at the conclusion of World War II, embodied in the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF), was based on the premise that the United States was the dominant world power. Practices and rules governing international trade and payments were consequently structured accordingly.

As the success of our postwar policies became evident in Western Europe and Japan, we and the rest of the industrialized world realized too slowly that basic structural and competitive changes were occurring. International policies and practices were, as a result, inadequate in responding to the changing realities. When, from the American viewpoint, matters reached a crisis stage, President Nixon unilaterally suspended, on August 15, 1971, the dollar's convertibility, imposed a 10% surchage on all dutiable imports and initiated a wage-price freeze at home.

This unilateral action was severely criticized abroad, and, during a four month period, the industrial world tottered on the brink of economic warfare. In December, 1971, the Smithsonian Agreement on currency realignments ended the crisis with two important commitments by the industrial world to *negotiate:* (1) further reduction of tariff and nontariff barriers, and (2) basic reform of the international trading system under the auspices of the GATT.

In working toward these goals at the MTN, a major effort must be directed toward means of coordinating and channeling individual governments' decisions so that they do not conflict internationally. This will require a high degree of coordination of national economic policies, with some ongoing scrutiny of each other's action in future years. The MTN is, in the final analysis, attempting to define legitimate boundaries of national sovereignty.

James Reston recently observed that "not since World War II have the free nations been so dependent on one another—so much at the mercy of events beyond their borders—or at the same time so stubbornly nationalistic and preoccupied with their own internal struggles." Events of the past two years relating to petroleum price increases and threats of cartelization in other basic commodities have lent urgency to the need for an enlightened attitude on the part of Western governments. There is a risk that if individual nations feel compelled to take unilateral actions to deal with short-term problems, other countries will take retaliatory actions. Ongoing and serious negotiations in the trade area can and do act as a moderating influence over potentially vicious cycles of action and reaction.

In a larger sense, however, the MTN symbolizes our moral and political commitment to the Western world. No agreement with the Soviet Union or

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China can replace security arrangements in the Atlantic and Pacific areas which are the cornerstones of our foreign policy. Our willingness to arrive at reasonable and cooperative policies, through economic negotiation with Western nations, is as important to our security as it is to what has been defined as our narrow economic interests.

PROGRESS AT THE MTN

The United States took so long in enacting the Trade Act of 1974 that the original schedule of the MTN has been delayed by the 1976 Presidential elections. While important technical work can take place over the next year, our major trading partners are unlikely to conclude broad-ranging agreements with us until they have fully evaluated the American domestic political situation.

It is, consequently, unwise and premature to evaluate the progress of the participating countries in achieving major objectives set out by the Tokyo Declaration of September, 1973, including: (1) reduction of nontariff barriers; (2) fairer access to raw materials and other supplies for all countries; (3) creation of trade benefits for developing countries; and (4) improving the structure and mechanisms for the conduct of international trade.

Past negotiations, such as the Dillon and Kennedy Rounds, took place during periods of general economic prosperity. In the current unsettled world economic condition, with Europe and Japan pulling out of recession more slowly than the United States, the will to make meaningful trade concessions is clearly in question. The success of the Tokyo Round will thus be closely related to the ability of the industrialized West to recover from the recession and thereby reduce potential protectionist pressures brought on by economic hardship.

Ironically, current protectionist sentiment has been substantially created by international trading rules and procedures which cannot adequately satisfy legitimate trade grievances. New mechanisms can be developed only in broad-ranging negotiations such as the MTN. Thus, even though we cannot and do not expect definitive agreements to be reached in 1976, the year is important with respect to: (1) doing the technical work necessary for the final bargaining stages scheduled for 1977; (2) demonstrating that substantial progress is possible, so that participating nations will be better able to resist pressures for unilateral protectionist actions.

ADMINISTRATION OF THE TRADE ACT OF 1974

The Trade Act of 1974 is landmark legislation reflecting the cooperation of the executive and legislative branches, along with that of the private sector. The National Chamber was an early and persistent advocate of the mandate for participation in multilateral trade negotiations, which became embodied in the Trade Act of 1974. It is also significant that the Act broadly reformed the United States' approach to both fair and unfair import competition.

During the two years of work which went into the Trade Act, we developed comprehensive recommendations in the areas of adjustment assistance, import relief, countervailing duties, and antidumping duties. Many of those are reflected in the statute which emerged from the Congress in December, 1974. In some cases, most notably the criteria for import relief, the Congress exceeded what we felt was a reasonable response to the perceived inadequacies of the Trade Expansion Act of 1962. Nevertheless, on balance, the Trade Act of 1974 was legislation which we enthusiastically supported.

Although the Trade Act of 1974 has been in effect for only one year, there is already significant criticism of findings by both the Treasury Department and the International Trade Commission (ITC) relating to fair and unfair import competition. The criticism, however, has resulted from affirmative *and* negative decisions, unlike criticism directed at decisions under the Trade Expansion Act of 1962—most of which resulted from repeated negative decisions.

The increase in cases brought before the Treasury and the ITC results from Congressional intent that such proceedings be simplified. The increase in affirmative findings, especially in the import relief area, reflects the liberalized eligibility criteria. The current criticism is, in our view, inevitable. Petitioners or importers dissatisfied with decisions are apt, and have the right, to criticize. This, however, does not mean that the Act is either wrong or being administered poorly, in contradiction of Congressional intent.

It took twelve years to work out the difficulties inherent in the Trade Expansion Act of 1962. We have had only one year of experience with the Trade Act of 1974 and, thus, it is premature to generalize about experience under it.

ADVISORY COMMITTEES

During the drafting of the Trade Act of 1974, the National Chamber took a great deal of interest in the structure under which the private sector would advise the government during trade negotiations. We are proud that the three-tier structure finally included in Section 135 of the Act was originally developed by a National Chamber task force, and forwarded to the House Committee on Ways and Means in the Summer of 1973.

It is essential to an effective trade negotiation that there be a two-way flow of information and advice between government and industry on a timely and continuing basis. In 1973, we were concerned based on our experience with previous trade negotiations, that industry information and advice would not be sought or heeded; in fact, it might even be cut off at lower levels of a department or agency and never transmitted to the U.S. negotiators. We were also fearful that the flow of information would be one-way, industry to government, instead of two-way.

We believe that those concerns have been largely allayed by the responsible implementation of Section 135 by the Office of the Special Representative for Trade Negotiations (STR) in cooperation with the Labor, Agriculture, and Commerce Departments. The organization and current active operation of the Advisory Committee on Trade Negotiations, Industry, Agriculture, and Labor Policy Advisory Committees, 27 Industry Sector Advisory Committees, 8 Agricultural Technical Advisory Committees, and 6 Labor Sector Advisory Committees is a substantial achievement and represents significant improvement over similar efforts in past negotiations.

With any large structure, there are inherent problems and this one is no exception—especially in assuring a two-way flow of information. But, these are problems which are recognized at STR and which, we are confident, will be squarely confronted. We caution, however, that any advisory structure can, at best, only assure that our negotiators have the information and advice they require when they need it and in the form they need it. An advisory structure cannot guarantee all participants that their advice will be heeded. The final evaluation of what advice to follow and which not to follow is a decision properly left to our negotiator.

SERVICE INDUSTRIES

Reflecting its broad-based membership, the National Chamber believes that the MTN should involve as wide a spectrum of the American economy as possible. We therefore supported inclusion in the Trade Act of provisions relating to lessening international discrimination against U.S. service industries. We have over the past year and a half, worked closely with our service industry membership and STR to attempt to define the best means of achieving this goal. Our International Committee, in September 1975, approved a resolution calling for formation of a Services Policy Advisory Committee and several Services Technical Advisory Committees.

It is our understanding that STR, in a further attempt to define how best to approach this area, has initiated an inter-agency study to lay out which service industry issues can be handled within the context of the MTN. We applaud this effort and we hope that it will result in meaningful efforts aimed at lessening international discrimination against our service industries.

EAST-WEST TRADE

The National Chamber has taken a special interest in the developing commercial relationship between the United States and the eastern bloc countries. It is our belief that two-way beneficial trade, on a long-term and regular basis, will be of prime importance in bridging the considerable differences between our two systems. We will benefit mutually from this commercial contact. We have been impressed by the enormous possibilities in developing positive relationships between American businessmen and their counterparts in these countries. With this latter objective in mind, the National Chamber has established bilateral economic council with Romania, Bulgaria, Poland, Hungary, and Czechoslovakia; and we participate in the U.S.-U.S.S.R. Trade and Economic Council. We are convinced that such relationships will go far to promote widespread understanding of the United States, including its fundamental commitment to the value and rights of the individual.

In this context, the Jackson-Vanik Amendment included in Section 402 of the Trade Act of 1974 (and its relationship to the Export-Import Bank Act of 1945) has been significant in retarding growth of trade between the United States and these countries. The National Chamber deplores any infringement on basic human rights by any government. We believe, however, that nondiscriminatory tariff treatment, subject to carefully prescribed review procedures, can do more to promote respect for the United States and its commitment to human rights than has the curtailment of normal commercial relations resulting from Section 402 of the Trade Act.

GENERALIZED SYSTEM OF PREFERENCES

During congressional consideration of the Trade Act, the National Chamber supported, as it has since 1967, establishment of a system of generalized tariff preferences for the exports of the developing nations. As the Trade Act emerged from the Congress, certain groups of countries, including those OPEC nations who had not participated in the 1973 embargo, were categorically denied preferences.

We believed then and continue in our belief that it is a mistake to assume that the national interest is best served in every case by denying the President a degree of discretionary authority and flexibility of action. Appropriate revision of Section 502(b) of the Trade Act would serve both the Congressional responsibility in setting reasonable criteria for the granting of tariff preferences, and the Administration's desire for sufficient flexibility in this regard.

S. RES. 265

S. Res. 265, originally introduced by Senator Ribicoff and approved by the Senate late last session, aims to "insure that American corporations and industry are able to compete fairly in foreign markets without being coerced or induced in any way to participate in the practices of bribery, indirect payments, kickbacks or unethical political contributions." The resolution directed the President's Special Representative for Trade Negotiations to raise this issue in the forum of the MTN.

We applaud this initiative in an area which presents a policy dilemma for the United States. Our Board of Directors addressed this issue on February 19 when they approved the following statement:

"The Chamber supports the prevailing practice of U.S. firms operating abroad of conducting their activities in accordance with the legal requirements of host countries. Businesses and their foreign affiliates should obey local laws, refrain from unlawful intervention in the domestic affairs of host countries and uphold the highest standards of business conduct.

"It is normal and customary in the conduct of both domestic and international business that a commission or fee be paid for a sale or service rendered. Such commissions or fees are in and of themselves proper and are generally determined by the market place. Practices involving the payment or the solicitation or extortion of bribes, payoffs, or kickbacks are improper and should not be employed. To be fully effective, both U.S. and foreign government policies and regulations should be consistent with these principles."

We hope that a solution to this vexing problem can be reached through international negotiation either through the GATT or through other international fora, such as the Organization for Economic Cooperation and Development.

WORLD TRADE IN COMMODITIES

The problems associated with international trade in basic commodities have been studied, analyzed, and discussed extensively for over a century. Nevertheless, there has been a resurgence of interest in this subject recently, resulting in a number of commodity-related proposals. This renewed concern with commodities has arisen from a coincidence of several basic factors:

(1) Concern with stabilization of export earnings on the part of less developed countries.

(2) The very high price of commodities in 1973–74, followed by a levelling off, or decline in some cases, to very low levels.

(3) The successful example of the OPEC cartel associated with: the fear of the developed world that it could spread to other basic commodities; the wish of the developing world to emulate its success.

Less developed countries (LDCs) relay heavily on the foreign exchange earnings derived from their exports—a sector of their economies which, in many countries, represents the only dynamic part of an essentially agrarian society. Outside of aid or other forms of concessional assistance, exporting provides the sole means of earning sufficient foreign exchange for purchase of the capital goods required for economic advancement. A development plan often hinges entirely on the reliability of those export earnings. Balance of payments deficits, cause by a shortfall in export earnings, can consequently create "ripple" effects on the domestic economy of an exponentially greater magnitude than that of the shortfall itself.

LDCs are often unable to adjust to such fluctuations in the export sector since they are characterized by a resource inflexibility traceable to their excessive reliance on generally no more than three primary products. In fact, many LDCs depend on a single product for the bulk of their export earnings. Most of these products are characterized by low price elasticity and generally uncontrollable and erratic supply and demand changes which have resulted in a chronic historical pattern of sharp price fluctuations.

This unpredictability of price behavior in their major export earner—basic commodities—has resulted in LDC advocacy of two means aimed at lending stability to this situation: (1) Indexation; and (2) Negotiation of commodity agreements. Both proposals rest on the Third World's belief that free trade is descriminatory because it forces payment of high prices for industrial products while severely depressing the price of raw materials it produces. As a recent UN study indicates that prices of manufactured goods from industrial countries have not been rising faster than the price of raw materials, excluding oil, a true indexation scheme could work against the interests of the Third World countries.

The National Chamber rejects the notion that international commodity arrangements with either price floor/ceiling or supply limitation agreements can measurably assist the countries entering into them. Such arrangements involving market sharing and specific price ranges can have a chance of success only when total world supply and demand for that commodity is in reasonable balance. When prices are either abnormally high or low—the kind of situation such agreements are intended to avoid—unresolvable strains begin to develop.

We do not suggest dismissal of problems relating to world trade in primary products, but rather, that those difficulties cannot be solved through attempts at structuring the international markets in which they have arisen. The United States, it is often forgotten, is both a major producer and consumer of basic materials. Should we choose the unwise path of either future commodity agreements, we probably would encounter efforts aimed at international price controls not only on bauxite and rubber, but on corn and soybeans as well. We believe the very real problems associated with commodities trade can best be solved by specific programs aimed at the difficulties themselves—not at the market place in which they occur. The following recommendations, approved by the National Chamber's Board of Directors in November, 1975, are directed toward that end:

(1) *Improvement of the International Monetary Fund's Compensatory Financing Facility.*—The compensatory financing facility, established in 1963, is designed to alleviate the special problems which primary producing countries can face because of particularly large swings in their export earnings. The facility enables these countries to draw funds when their export earnings are abnormally low, and calls for them to repay as export earnings improve. Improvement and liberalization of this facility, as was done by the IMF in January, seems to us the most direct manner of getting at the major problem posed to LDCs dependent on the exportof commodities: the fluctuation of their export earnings.

(2) *Negotiation of Long-Term Consumer/Producer Agreements.*—The National Chamber believes that negotiation of long-term supply agreements between *private parties* in the countries concerned, represents a sensible and market-oriented approach. The details of such contracts are appropriately left to the private signatories and should not generally be the concern of either multilateral or bilateral government negotiation. To the extent that such contracts commit the producer and consumer to a long-term arrangement involving both price and supply, it will introduce stabilizing elements into the market.

(3) *Greater International Exchange of Information.*—Part of the difficulty in creating a stable environment for world trade in commodities is that the volatility of such trade greatly exacerbated by the lack of demand and supply projection information available on an international basis. The United States is the most open country in the world in the publication of information relative to the commodities in which we trade. We hope our government will take the lead inter-

nationally in encouraging other countries to be similarly enlightened. Even if producers and consumers are reluctant to enter into the kind of long-term agreements discussed in (2) above, the full and free international exchange of information on this would allow both private and public policy planning on a more informed and consequently more intelligent basis.

(4) *Improvement of World Bank Loan Facilities Supporting Diversification of Production.*—The National Chamber supports efforts of the World Bank Group to promote the diversification of production in less developed countries, on an economic basis. Such efforts should be aimed at three objectives: (i) projects which produce primary products appearing to face relatively favorable long-term market prospects; (ii) projects suitable for the country in question, that process locally-produced primary products; and (iii) research aimed at reduction of production costs and development of new uses for primary products.

(5) *Encouragement of Private Investment Supporting Diversification of Production.*—Multinational corporations can substantially contribute to achievement of investment objectives such as those outlined in (4) above. They cannot help in this endeavor, however, if they are not reasonably well assured of the safety of their investment. The National Chamber therefore urges efforts to encourage and protect such investment, including the use of joint venture with local partners.

CONCLUSION

In the subject areas we have addressed, such as trade in commodities, it is clear that the maximum any government can or should provide is an enlightened and equitable atmosphere, encouraging solution of such problems through the creativity and initiative of the enterprise system. As we participate in a restructuring of the international economy at the MTN and in other fora, we must strive to see that the resultant structure reflects the new realities of economic interdependence. We must be equally sure that it reflects an undiminished will to resolve significant international problems through the proven success of the private sector.

STATEMENT BY DAVID J. STEINBERG[1]

PRESERVE THE INTEGRITY OF THE INTERNATIONAL TRADE COMMISSION

Congress having enacted the Trade Act of 1974, including criteria for judging whether industries have been seriously injured by imports, the Senate Finance Committee and other sectors of Congress should refrain from prodding the International Trade Commission to make more "injury" findings in such proceedings. There unfortunately seems to be Congressional pressure on the Commission to "make the Trade Act work"—a seemingly worthy thought, except that more injury findings, and hence more import controls, are what these legislative pressures seek to achieve.

The International Trade Commission, in turn, should steadfastly resist pressures from both the Congress and the Administration (and anywhere else) to compromise in any degree the most meticulous adherence to the highest standards of professional objectivity in deciding these and other cases on its docket. The Commission, and individual Commissioners, should in no way tailor their judgments to political considerations of any kind, including any interest in cosmetic alteration of the Commission's decision record. There is at least a semblance of such concessions in the recent ITC judgment concerning the escape-clause petition of the specialty-steel industry.

All four Commissioners who found injury in that 4-to-1 decision went beyond the 1970–1975 statistical documentation developed in the Commission's official investigation and, instead, significantly predicated their judgments on a comparison of recent imports with those as far back as 1964 (in the case of one Commissioner, with 1968). This extraordinary, unrealistic and unjustifiable recourse to trade data outside the statistical documentation developed by the official investigation—appearing to seek years to compare which would clearly show the import increase on which a finding of injury must be based—may suggest an interest in accommodating the recent insistence of certain members of Congress that the Trade Act be made to "work". These Congressional sources had expressed serious

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[1] The writer, presenting his personal views, is president of the U.S. Council for an Open World Economy. The Council is a nonprofit organization engaged in research and public education on the merits and problems of achieving a more open world economy.

misgivings over the Commission's failure to find injury in any of the four previous escape-clause cases it had decided under the Trade Act of 1974.

The intent of Congress in this policy area must be respected and implemented. But, whatever the intent of certain Senators and Congressmen who want import restrictions to help certain industries, it is the Commission's job to work painstakingly within the criteria established by the Act, and to do so with the highest professional standards of which it is capable and which the public has every reason to expect. Making the Trade Act "work" the way certain Senators and Congressmen favoring import control for certain industries want it to work is not the job of the International Trade Commission.

Members of Congress, and the Administration, should let the Commission do its work without policy pressure of any kind. Accordingly, if, say, 10 escape-clause cases are decided consecutively for or against the petitioning industries (10 one way or 10 the other), neither of these circumstances warrants intervention by either Congress or the Administration to press the Commission to change its pattern of findings. The Commission should be under no pressure to improve its "box score" for the sake of considerations that have nothing to do with the facts and merits of the cases it is called upon to judge, even if (assuming continued findings of "no injury") this should result in protectionist pressures on Congress for import-control legislation. If critics from Congress or the Administration do not like the way the Commission is interpreting the Trade Act, they should seek legislative reforms of the provisions in question.

U.S. trade policy, already seriously wanting, must not be further impaired by loss of independence and integrity in the independent agency entrusted with such important responsibilities as those given the International Trade Commission in this important area of national policy.

[From the New York Times, Dec. 28, 1975]

TRADE POLICY

TO THE FINANCIAL EDITOR: William D. Eberle performed a useful service in attempting to counter foreign (mainly European) allegations that the United States is turning protectionist in its trade policy ("U.S. Trade Policy—Appearance and Reality," Dec. 7). The real purpose of such charges from across the Atlantic is not very clear. It is to be hoped that Mr. Eberle's effort to stimulate determined use of the current trade negotiations as a forum for solving many of the world's economic ills will succeed.

One of the problems in coping with concerns about the future of trade policy centers on the Trade Act itself—its adequacy for the many years it is designed to serve as the legislative centerpiece of United States policy in this field. The fact that only one finding against foreign interests has thus far been made out of 15 investigations concluded since enactment of the Trade Act is not the only measure of the protectionist potentials in United States policy. The permissiveness of the new import-relief criteria may itself be deterring import-promotion efforts by many United States companies. Such deterrence is protectionism.

The record of escape-clause and other decisions is thus far tilted toward freer trade. But the International Trade Commission and the President may well feel impelled now and then, especially in rather tight cases, to opt in favor of domestic producers in order to show more "balance" in the box score of Trade Act implementations. If one purpose of the Trade Act reforms was to "help restore domestic support for our liberal trade policy," evidence that the grievance procedures "work" will be considered politically useful. If this and the deterrent effect of the Trade Act on import expansion are ways to restore domestic support for our liberal trade policy, the meaning of "liberal trade policy" is something to ponder.

The chairman of the International Trade Commission gave this answer on Dec. 8 to whether the act is a veneer of free-trade platitudes over a hard core of home market protection: "probably not, but the final verdict is still out." Uncertainty about the course of United States trade decisions in the years ahead suggests that the trade legislation is less than adequate for what the United States should be trying to achieve at this critical time.

David Rockefeller said in a recent address, "We have reached the point in our post-war history where nothing short of a new grand design is necessary" to deal with international interdependence and restore confidence in the free market system.

We are far short of the strategy needed to raise the world's sights as high as they must be raised, thus overcoming gnawing doubts about the future in general and United States trade policy in particular.

DAVID J. STEINBERG,
President, United States Council for an Open World Economy.

OUTLOOK DIM FOR NTB REFORM

(By David J. Steinberg, President, U.S. Council for an Open World Economy)

Much as more tariff cutting would be useful, and should be sought with fullest utilization of the too limited tariff-cutting authority in the Trade Act of 1974, the prospects for freer world trade depend even more or removing or substantially reducing nontariff barriers (NTB's) and preventing new ones. These prospects are not bright, particularly in view of (a) the Congressional obstacles that could stymie implementation of NTB concessions negotiated, and (b) the U.S. proclivity for trade-restricting international agreements. Such agreements not only add new barriers; they seem to lessen the urgency of removing old ones.

The reaction of most liberal-trade advocates to these NTB issues is less than praiseworthy.

CONGRESSIONAL MINE FIELD

When the Trade Act was wending its laborious way through Congress, most liberal-trade advocates gave little if any attention to the mine field being established between the negotiation of NTB agreements and their implementation. Such agreements can easily be exploded by the tripwires of Congressional review established by this legislation. One or another of these agreements might get through this obstacle course. But this prospect is no basis for optimism on the overall outlook for NTB negotiations, particularly those on highly controversial issues. The times call for much more than just a little more progress toward an open world economy. They call for substantial progress toward this worthy goal. The current trade negotiaitons are *the* round of the 1970's. There won't be another until the 1980's.

CONGRESSIONAL STRATEGY NEEDED

The Administration should devise a strategy to defuse potential Congressional opposition to the removal or reduction of nontariff barriers that are not in the overall public interest. To expect to get these concessions through the Congressional mine field, one after another, by warning Congressmen and Senators of the risk to the overall U.S. negotiating leverage if any of the agreements exposed to Congressional review is boobytrapped is an exercise in political naiveté. Rather, the Administration should make assessments of the real problems and real needs of the industries for whose benefit the respective trade barriers had been established, and show its readiness to discuss with any affected industry the kind of domestic policy assistance the industry may consider necessary to prevent the removal of these NTB's from causing material hardship. Such assistance (to the extent that government help is needed at all) should encompass reform of any domestic laws or regulations found to be imposing unfair burdens on the industry's adjustment efforts. Extraordinary aid should be through a coherent industry-assistance policy, subjected to continuing government review to make sure it always serves the public interest.

Readiness to deal with the legitimate needs of the affected industries in this fashion should help all NTB agreements to pass Congressional muster.

NEW "SAFEGUARD" STANDARDS

Another important NTB issue concerns the standards to be applied in judging the need for new trade restrictions as a remedy for industrial dislocation attributable substantially to import competition. A new international "safeguard" or "escape" clause should be negotiated ruling out new import restrictions of any

kind except as marginal measures of last resort found to be temporarily indispensable to buy adjustment time for coherent industry-adjustment programs emphasizing domestic-policy remedies. Such a ground rule is far preferable to the escape clause in current U.S. law. The U.S. negotiating position in this matter should not be tied to the current U.S. legislative standard as to a Procrustean bed.

Industry-assistance policies of this type should in fact be applied unilaterally—immediately and setting an example—to any escape-clause cases under existing law where the President accepts an International Trade Commission finding of serious injury. Such innovation in escape-clause methodology would not conflict with existing legislation. It would serve the useful purpose of hastening removal of such escape-clause import controls as may be imposed.

TRADE-CONTROL PACTS

The U.S. should abstain from any efforts to negotiate international restrictive agreements (on steel, shoes or whatever) except where such restrictions on carefully selected products are found to be indispensable as a marginal part of a coherent policy of government aid along the lines defined above. In other words, no restrictive steel-trade policy without a coherent steel policy, and no restrictive shoe-trade policy without a coherent shoe policy, etc.

Such policy standards are far from the conventional wisdom even among "free traders". In fact, agreements to restrict trade outside such a policy framework seem to have anesthetized most "free traders", who apparently see the process of negotiation as giving such protectionism respectability. Besides distorting international trade and liberal-trade principles, such pacts are shortsighted and simplistic responses to industry problems that demand constructive attention and real solutions.

The proclivity for ill-founded, trade-restricting agreements makes one wonder: Are the Geneva negotiations a charade, or do we really mean to seek a much more open world economy? Is the American public aware that cartels are not reserved solely for raw-material producers? And are all those government official and business executives who loudly blow the trumpet of "free enterprise" hearing and heeding their own message?

In short, current NTB strategy and prospects, weighed in the balance, seem seriously wanting.

(The U.S. Council for an Open World Economy is a nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system.)

[From the Washington Post, Jan. 16, 1976]

NATIONAL SECURITY AND OIL IMPORTS

One of the faults J. W. Anderson did not mention (hardly anyone ever does) in his review of U.S. unpreparedness in petroleum policy ("The Lessons of the Oil Crisis," December 28) is the national security clause of U.S. foreign trade legislation, under which oil imports were restricted by quota controls for 14 years (1959 to 1973). By its simple-minded concentration on import control in dealing with import-related impairment of the mobilization base, the national security clause turned out to be a threat to national security.

The trouble was that only one type of government action—import restriction—was required in response to such impairment. The statute did not require a coherent, constructive policy (with import control only one permissible component) addressing the real problems of the domestic industry and aimed at ensuring effective repair of that sector of the mobilization base. It did not even require sustained, incisive congressional review of the effectiveness of controls that might be imposed for national security purposes.

The result was that, quite aside from the merits of import quotas as a tool, no coherent, constructive petroleum policy was adopted; there was no systematic congressional review of the action that was taken: and the nation drifted into what we now call the energy crisis. Statutory requirement of a coherent oil policy in this national security context would not inherently have produced a very different result. But it would have at least stimulated a more rational handling of the problem.

So government, business and others concerned with trade policy have learned their lesson from such simplistic recourse to import controls for national security

purposes—right? Wrong. That same national security clause was blithely renewed just a year ago. And virtually no one cared, or cares even now. One more example of U.S. unpreparedness on the foreign trade policy the nation urgently needs at this critical time.

DAVID J. STEINBERG,
President, U.S. Council for an Open World Economy.

AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.,
Gaffney, S.C., February 19, 1976.

Hon. RUSSELL B. LONG,
Chairman, Senate Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The American Textile Manufacturers Institute is the central trade association of the American textile industry representing approximately 85% of the capacity in the United States for spinning, weaving, knitting, and finishing textile products of cotton, wool, silk, and man-made fibers. For many years the textile industry has had a vital stake in U.S. trade policy, particularly as it affects international textile trade. For this reason, we have followed with a great deal of interest your Committee's oversight hearings on this subject.

You, of course, are aware of the long standing policy of our government, as well as that of many other nations, to treat textiles separately from overall international trade considerations. There are many reasons for this, but suffice it to say that most of the world's trading community recognizes the unique and special situation occupied by textiles in both developed and developing countries.

Because of the special nature of textile trade and because of the enormous importance of maintaining a strong and viable domestic textile industry, we are enclosing a statement outline the development of what has become known as "U.S. Textile Trade Policy." It also includes our views on the treatment of textiles in the current multilateral trade negotiations. We would appreciate it being included in the record of your oversight hearings.

Sincerely,

JOHN M. HAMRICK, *President.*

Enclosure:

STATEMENT OF JOHN M. HAMRICK, PRESIDENT, HAMRICK MILLS AND PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

The textile industry is the only industry trade in whose products is regulated under authority of a special GATT agreement—the Multifiber Arrangement (MFA) as effective January 1, 1974. In addition, the Trade Act of 1974, in Section 503, specifically exempts from the Generalized System of Preferences (GSP) "textile and apparel articles which are subject to textile agreements." Hence, a brief review of United States Government policies and actions over the years dealing with textiles in a special way, may be of interest.

In 1935, President Franklin Roosevelt appointed a Cabinet Committee composed of the Secretaries of State, Agriculture, and Labor and chaired by the Secretary of Commerce, to study the textile import problem and recommend a solution. The Committee suggested that so far as imports of cotton textiles (then the major industry product) from Japan—then the dominant supplier—were concerned, a voluntary export quota be negotiated with the Japanese.

The pertinent recommendation of the Committee in its report to President Roosevelt on August 20, 1935, was ". . . we recommend that to deal with this special situation steps be taken to control these imports, preferably by means of a voluntary and friendly agreement with Japan on limitations of shipments of cotton products to the American market." This was done.

It is particularly significant that the father of the Reciprocal Trade Agreement concept, the then Secretary of State, Cordell Hull, served on this Cabinet Committee. Remembering that the first Reciprocal Trade Agreement Act had been adopted in the preceding year, 1934, it is clear that the need for handling textile import matters parallel to and separate from general trade negotiations is well established as a key facet of U.S. trade policy.

A few years later, with the outbreak of World War II, the textile import problem disappeared. Indeed, for a number of years after the conclusion of

that war, the United States had the only major intact textile industry operative in the world. But by the mid-1950's U.S. textile imports again became a significant threat to the continued health of the domestic industry. Cotton textiles were still the major product of the textile industry and Japan again the major supplier of imports. In 1956 President Eisenhower directed that negotiations be undertaken with Japan and after some six months of intensive discussions, Japan announced a five-year program of export restraints effective January 1, 1957.

However, other uncontrolled low-cost, low wage countries, particularly Hong Kong, rapidly became important exporters of cotton textiles to the United States. At the end of the 1950's an unsuccessful effort was made to have Hong Kong undertake a voluntary restraint program.

As the 1960's opened, wool textile imports were rising rapidly and man-made fiber textiles were becoming a significant factor in both domestic and foreign trade. With this situation in mind, but not limited thereto, the contracting parties to the General Agreement on Tariffs and Trade (GATT) meeting in Tokyo in 1960, agreed to the following definition of market disruption by imports:

"These situations (market disruptions) generally contain the following elements in combination:

"(i) a sharp and substantial increase or potential increase of imports of particular products from particular sources;

"(ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country;

"(iii) there is serious damage to domestic producers or threat thereof;

"(iv) the price differentials referred to in paragraph (ii) above do not arise from governmental intervention in the fixing or formation of prices or from dumping practices.

"In some situations other elements are also present and the enumeration above is not, therefore, intended as an exhaustive definition of market disruption."

Textile industry witnesses appeared before the platform committees of both major parties in 1960 and during that campaign both presidential candidates—then Vice President Richard M. Nixon and Senator John F. Kennedy—addressed themselves to the textile import problem.

On October 3, 1960, Vice President Nixon, after endorsing the overall national reciprocal trade policy, stated:

"But I emphatically do not believe that this national trade policy means marking certain industries, such as the textile and garment industries, as expendable. It doesn't make sense to me to require one or a few industries to bear the whole burden that foreign policy decisions may require. Nor does it make sense to me that an industry like cotton textiles bear an inequitable burden as a result of efforts to adjust wartime agricultural policies to peacetime needs.

"To the end of assisting the textile and garment industries and their workers to meet the problems ahead, I am determined to explore every constructive line of action."

On August 31, 1960, Senator Kennedy made public a letter to then Governor Ernest F. Hollings of South Carolina. In that letter Senator Kennedy said:

"I agree . . . that sweeping changes in our foreign trade policies are not necessary. Nevertheless, we must recognize that the Textile and Apparel industries are of international scope and are peculiarly susceptible to competitive pressure from imports. Clearly the problems of the Industry will not disappear by neglect nor can we wait for a large scale unemployment and shutdown of the Industry to inspire us to action. A comprehensive industry-wide remedy is necessary."

On May 2, 1961, a few months after his inauguration, President Kennedy announced at the White House a seven-point program of assistance to the U.S. textile industry. The sixth point read as follows:

"I have directed the Department of State to arrange for calling an early conference of the principal textile exporting and importing countries. This conference will seek an international understanding which will provide a basis for trade that will avoid undue disruption of established industries."

That conference met at Geneva in July 1961 and negotiated the Short Term Arrangement for Cotton Textile Trade (STA) to cover the period October 1, 1961–

September 30, 1962, during which period a five-year arrangement (LTA), based on the principle of market disruption as set forth in the GATT definition quoted earlier, was to be agreed upon. Renewed in 1967 during the Johnson Administration and in 1970 during the Nixon Administration, the LTA was succeeded on January 1, 1974, by a new multifiber GATT arrangement covering trade in textile products man-made fiber, wool, cotton, and the blends thereof.

By 1973 there were 32 governments signatory to the LTA and some 50 governments participated in the negotiation of the new multifiber arrangement under the aegis of GATT. During the Kennedy and Johnson administrations and the first Nixon Administration, there were various unsuccessful Government initiatives to extend coverage of the LTA beyond cotton products as the import penetration in wool textiles approached 30% and man-made fiber products became the dominant product of the American industry. During the 12 years of the GATT cotton textile arrangements presidents and presidential candidates spoke to the issue.

In the 1964 presidential campaign, on October 26, President Johnson stated:

"When this administration took office it recognized the importance of the textile industry and the special nature of its problems. It was determined to find answers.

"We worked hand in hand with Congress to develop a Seven Point Program for Textiles. This program would not have been possible without the far-sighted leadership of Carl Vinson. He served as the Congressional spokesman on textile matters and worked closely with the Administration.

"The result is a classic example of the benefits of constructive cooperation between government and business.

"A number of bilateral and multilateral trade arrangements have been negotiated and implemented to bring about more orderly world trade in cotton textile products . . . . Even in the difficult area of wool products, . . . we have taken significant steps to stem the tide of certain imports which have entered this country through unintended loopholes in our tariff laws.

"We intend to keep cotton textile imports from disrupting the market.

"Wool product imports must be kept at reasonable levels, for it is essential that the wool textile industry be restored to good health."

Senator Goldwater on October 14, 1964, telegraphed Senator Strom Thurmond of South Carolina, a member of the Senate special textile subcommittee:

"I also want you and all the people concerned with the domestic industry to know that my administration will be willing to look with you towards a permanent solution to the problems posed to all in the domestic textile industry as a result of legislation that has unduly favored foreign production."

By 1968 textile imports had experienced very substantial growth and the presidential candidates addressed themselves to the problem. On October 7, 1968, Governor George Wallace spoke to the National Press Club in Washington. On that occasion he said:

"We believe strongly in the free enterprise system for America and in encouraging free trade between this and other nations. However, should the increasing in-flow of imports from low-wage nations endanger employment or marketing by American industry, we will approve reasonable quantative limits on such imports. We feel that our home industry is entitled to a fair share of the present market and of future growth. We would seek negotiations in this area before requesting legislation."

On October 2, 1968, Senator Hubert Humphrey spoke in Charlotte, North Carolina, saying:

"When I am your President, I pledge to use all the resources of our Government to achieve orderly international trade in textiles and apparel and to see to it that our markets are protected and that our exports are expanded."

On August 21, 1968, the Republican presidential candidate, Richard Nixon, sent a telegram to every Republican member of Congress who had sponsored import control legislation. The telegram included the following pledge:

"The Johnson-Humphrey Administration has failed to carry out the Program initiated by President Kennedy and reaffirmed less than four years ago. At the same time, it has permitted much of the rest of the world to establish or maintain barriers to the products of our industry while we have provided foreign textile producing nations virtually unlimited access to our markets.

"As President, my policy will be to rectify this unfair development and to assure prompt action to effectively administer the existing Long-Term International Cotton Textile Arrangement.

"Also, I will promptly take the steps necessary to extend the concept of international trade agreements to all other textile articles involving wool, man-made fibers and blends."

During President Nixon's first term bilateral agreements were negotiated with Japan, Taiwan, Hong Kong, and South Korea covering imports of products manufactured from man-made fiber and wool and efforts were begun to attain agreement in GATT on a general multifiber textile arrangement to follow the cotton LTA scheduled to expire in 1973. On March 22, 1972, President Nixon sent the following message to the annual convention of the American Textile Manufacturers Institute:

"As you know, our last four Presidents have recognized the special importance of safeguarding the jobs of textile and apparel workers. Therefore, I was delighted that it was this Administration which, for the first time, secured comprehensive agreements covering all textile fibers from principal foreign suppliers to limit their exports to the United States.

"Concluding these agreements took hard work and great patience, and Ambassador David Kennedy is endeavoring at this moment to build on the progress of the past. He is laying the groundwork for negoitations with other countries, looking toward a multi-lateral, all-fibers agreement. This multi-national effort is only one part of my Administration's plan to strengthen our economy for the benefit of all Americans, a commitment which I know each of you share."

When the first GATT textile agreement was negotiated in Geneva in 1961, on the initiative of President Kennedy, and covering cotton textile trade, U.S. imports of cotton products amounted to 5.2% of U.S. domestic consumption. In 1973, when the new GATT textile agreement covering products of man-made fiber and wool as well as cotton was negotiated, imports bore the following relationships to domestic consumption of similar fiber products: man-made fiber 10.3%; wool 25.5%; and cotton 14.3%.

The record clearly shows that over the past sixteen years both political parties in the United States as well as the governments of both developed and developing nations have treated textile quotas as a special problem to be handled apart from general trade matters. Thus the GATT cotton textile trade agreement was originally negotiated in 1961, two years prior to the beginning of general tariff negotiations in GATT's Kennedy Round.

The United States has the world's largest textile industry. That industry is more closely tied to the agricultural economy than is any other major manufacturing activity. Cotton and wool are produced in many of our states, as well as in a large number of overseas countries at all stages of development. The U.S. textile industry normally consumes two-thirds of our cotton crop and virtually all of our wool clip, plus a similar quantity of imported raw wool.

The employment potential of this industry is of increasing importance within the United States itself. The textile-apparel complex is our largest employer of factory labor today, providing one in every eight jobs.

The American labor force is growing rapidly and new jobs must be continually created in our country. This industry continues to serve as a threshold occupation for unskilled workers entering the labor force for the first time. Black employment grew in textiles four times more rapidly than in all U.S. manufacturing during the past decade, and the textile labor force is now 17% black as compared with 11% for manufacturing as a whole.

The industry is fulfilling a critical role in our underdeveloped regions such as Appalachia, where there are a million textile-apparel jobs in the region and its periphery.

Employment of females in textiles is far greater than in manufacturing generally, and because of family responsibilities many of these workers cannot move, despite pronouncements to the contrary by male advocates of adjustment assistance. Women constitute 45% of our textile mill labor force and 80% of all apparel workers. The all-manufacturing average is only 27%.

The textile industry remains a key industry in mobilization planning, and must be in place in this country prior to any emergency that would interdict overseas supplies. The Quartermaster General of the Army has stated that textiles were second only to steel in strategic importance during World War II.

Why is the textile industry so much mixed up in world trade and development problems? Among the answers are these:

(1) Its products are traded at every major stage of production from yarn to apparel.

(2) Its raw materials are produced and traded worldwide.

(3) Its products are used by every person alive.

(4) Its production techniques vary from a simple handloom operation in India to the most sophisticated computer-controlled operation in a highly automated American mill.

(5) Employment in textile and apparel manufacturing being of major importance in both developed and developing areas, it has great social and political significance.

The GATT Multifiber Arrangement (MFA) came into force January 1, 1974, for a period of four years and covers textile products containing cotton, wool, or man-made fiber. Article 8 of the MFA authorized unilateral imposition of quantitative import restraints to deal with market disruption. Article 4 authorizes negotiation of bilateral agreements for the same purpose.

All signatory governments, now some 50 in number, comprise the GATT Textiles Committee. Eight of these governments, elected annually, sit on the Textiles Surveillance Body (TSB), which is in virtually continuous session at Geneva monitoring the functioning of the MFA. The current members of the TSB are: the United States, the European Community, Japan, Korea, Mexico, Egypt, Finland, and Austria. There is a neutral chairman—presently Ambassador Paul Wurth of the Swiss diplomatic service.

The United States has bilaterals in force with Colombia, Egypt, Haiti, Hong Kong, India, Japan, Macao, Malaysia, Mexico, Pakistan, the Philippines, Portugal, Romania, Singapore, South Korea, Taiwan and Thailand. Seven bilaterals have been dropped in favor of a safeguard clause: Greece Jamaica, Malta, Nicaragua, Peru, Spain, and Yugoslavia.

In June 1975, negotiations were begun at Brasilia, looking toward a multifiber bilateral agreement with Brazil, and those negotiations are to resume in Washington on March 8. Apart from Brazil, the remaining uncontrolled low-wage supplier of textiles to the United States is the People's Republic of China. No negotiations have yet been undertaken with that country, despite the fact tha imports are rising very rapidly.

In calendar year 1974 the United States imported 85 million equivalent square yards of textiles (cotton, wool, and man-made) from the People's Republic of China. In 1975 imports totaled 140 million yards, with 85 million imported in the fourth quarter.

Both Houses of the Congress have recently expressed themselves on current textile trade issues.

On November 11, 1975, the Special Senate Commerce Subcommittee on the Textile Industry wrote the President as follows:

"At the moment the industry is recovernig from a deep recession, but a flood of imports from low-cost countries would reverse this favorable trend.

"We believe, therefore, that it is in the national interest to maintain a healthy textile-apparel-fiber complex in this country. Experience over the years has shown that this requires an effective system of quantitative import restraints functioning within the context of our present tariff rate structure.

Specifically, we urge:

(1) That the United States exercise its rights under the GATT Multifiber Arrangement more stringently to control textile/apparel imports, with urgent attention to the need to reduce excessive and unused quotas already negotiated.

(2) That the United States promptly bring under control imports from the People's Republic of China, which constitutes the major remaining uncontrolled low-cost producer. Last year 84 million square yards of cloth came in from China, even without most-favored-nation tariff treatment. While imports have fallen in 1975 as business has declined, large orders are now being placed in China for 1976 delivery.

(3) That the Multilateral Trade Negotiations now underway at Geneva should be conducted on a sector basis so far as textiles and apparel are concerned.

During the Kennedy Round, when only cotton textile trade was subject to GATT-approved volume controls, the sector approach was used. With the GATT Multifiber Arrangement now covering textile products of wool, man-made fibers, and blends as well as cotton, the sector approach is essential.

(4) That present textile/apparel tariff rates should not be reduced. They are needed to moderate market-disruptive import pricing. The present rates are certainly not excessive for it was under them that the import problem became so acute as to make necessary negotiation of the Multifiber Arrangement at GATT."

On November 20, 1975, a total of 182 members of the Informal House Textile Committee wrote the President, as follows:

"Developments in the international trade arena could create grave problems for the textile/apparel/fiber industry, and we want to alert you to our concerns thereabout.

"1. We support the GATT Multifier Arrangement (MFA) as a stabilizing influence providing the domestic textile and apparel industry with some confidence that imports will not be disruptive of the domestic market. We look forward to its extension beyond 1977.

"2. The MFA contains provisions whereby the United States and other importing countries may unilaterally restrain imports which disrupt their markets. But its implementation by the U.S. government can and should be improved. For instance, in spite of approval of the MFA in 1974, import ceilings have in some cases been substantially increased; goods embargoed as a result of quotas being filled have been permitted entry; specific ceilings have been dropped and large basket groupings created, making some agreements virtually unenforceable by the U.S. We urge that such weaknesses in the present Multifiber Arrangement and in its implementation be corrected and that the U.S. enforce its rights more effectively.

"3. There should be no tariff cuts on textile and apparel products in the upcoming Multilateral Trade Negotiations. American consumers do not need additional tariff cuts to assure adequate imports at reasonable prices, but further cuts could seriously jeopardize the future of the domestic industry.

"4. There has been no decision to date to treat textiles and apparel on a sectoral basis in the Multilateral Trade Negotiations. We feel that textiles and apparel must be considered within a sector limited to these products. To do otherwise will make this important sector vulnerable to tariff cuts or other concessions.

"We believe that affirmative action on each of these points is essential if more jobs are not to be lost to imports and if the industry is to remain viable as a major contributor to the national security and the economic and social well-being of our country. We respectfully request that the Administration give careful attention to our recommendations."

ATMI is happy to associate itself with these sentiments.

APCAC,
THE ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE,
Tokyo, Japan, February 13, 1976.

MR. MICHAEL STERN,
Staff Director, Senate Committee on Finance, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: With regard to the hearings being conducted by the Senate Finance Committee on U.S. foreign trade policy and administration of the Trade Act of 1974, APCAC would like to advice of the position we have taken with respect to U.S. foreign economic policy and call your attention to the statement contained in our brochure on the organization of the U.S. Government, which is reproduced below:

The Asia-Pacific Council of American Chambers of Commerce (APCAC) was formed in 1968 to present the views and opinions of American businessmen in the Asia-Pacific region to the U.S. Government, the Legislative Branch (Senate and House of Representatives), the Executive Branch (White House and Departments of Commerce, State and Treasury), U.S. domestic business—large and small—labor unions and the American people.

From the outset APCAC emphasized the need for a new U.S. Government/business diplomacy for the Asia-Pacific region. APCAC gave affect to these views in its white paper, "A New Economic Diplomacy for the 1970's," published in 1970 and read into the U.S. Congressional Record on August 19, 1970. Among its main points were:

The greatest shortcoming of U.S. policy was that America had no coordinated foreign economic policy program.

The United States urgently needed to re-orient its policies in Asia-Pacific away from military and political priorities in order to provide equal stature for its overall economic interests.

The great need for the 1970's must be the adoption of a well defined "Economic Policy" by the U.S. Government as the keystone of its foreign policy; only through close cooperation between the U.S. Government and American businessmen can "Economic Diplomacy" work.

Subsequently, APCAC applauded the President of the United States' call for a new "Economic Diplomacy" and the establishment on January 19, 1971 of the Council on International Economic Policy (CIEP) to coordinate all U.S. Government departments and agencies for increased cooperation with private enterprise.

These developments led to public pronouncements by the various departments of the U.S. Government, primarily Commerce and State, to provide greater support to U.S. export development, U.S. investment abroad and to overseas American business. Unfortunately, any support was limited by initial policies and, subsequently, ineffective.

In 1974, APCAC strongly recommended the early establishment of a new cabinet-level Department of International Economic Planning and Operations (DIEPO) with authority for all government-sector planning, administration and coordination of U.S. international trade and investment to implement the accepted policy of "Economic Diplomacy". APCAC further recommended that portions of existing U.S. Government departments and agencies involved with U.S. international trade and investment be transferred to DIEPO.

Given the critical atmosphere surrounding economic relations between all nations, and particularly those in Asia-Pacific, APCAC views with alarm the procrastination regarding the implementation of "Economic Diplomacy" in the United States. Under present circumstances, long-term, international economic policy is formulated and implemented by the Departments of State, Commerce, Agriculture, Labor, Justice, Treasury and others, without any apparent coordination—a system which has proved inadequate.

In November 1975, and still deeply concerned by the lack of a coordinated U.S. international economic policy, APCAC announced a program to take its plea for the creation of a new cabinet-level Department of International Economic Planning and Operations (DIEPO) to Congressional leaders for action. This department would coordinate all functions of government necessary to provide the United States with an integrated international economic policy.

Pending such congressional action, APCAC urges the President to appoint immediately a senior international business executive to cabinet rank to administer the existing Council on International Economic Policy (CIEP), supported by an advisory group of experienced international businessmen.

We trust you will find this brief statement on how American businessmen residing overseas view the organization of the U.S. Government of value. It would be appreciated if you could make these views known to Chairman Long and his committee.

Thank you very much.

Sincerely yours,

EDWIN W. BEEBY,
Chairman.

STATEMENT OF THE LEAD-ZINC COMMITTEE

The Lead-Zinc Producers Committee is pleased to have the opportunity to submit our views on certain aspects of the multilateral trade negotiations (MTN). The following companies are members of the Lead-Zinc Producers Committee:

AMEX Inc.
ASARCO Inc.
The Anaconda Co.
The Bunker Hill Co. (a subsidiary of Gulf Resources and Chemical Corp.).
National Zinc Co. (a subsidiary of Engelhard Minerals and Chemicals Corp.).
The New Jersey Zinc Co. (a subsidiary of Gulf and Western Industries, Inc.).
St. Joe Minerals Corp.

While we are interested in the broader development of U.S. international economic policy, and in particular in issues concerning international commodity policy, this statement will be confined to a selection of multilateral trade negotiation (MTN) and trade law implementation questions raised in the Finance Committee's announcement of these hearings.

On May 29 of last year, we set forth our views on goals and objectives in the MTN in a statement filed with the Special Trade Representative. Background information on the U.S. lead and zinc industry is provided in our April 16, 1975, testimony on the trade negotiations presented to the International Trade Com-

mission. A brief summary of some salient statistics bringing the U.S. primary lead and zinc situation up to date is attached to this statement as Attachment A. As can be seen from Attachment A, 1975 was a poor year for the zinc industry, as it was for many industries. While U.S. producer efforts to restore shrunken domestic zinc refinery capacity continued, notwithstanding the shutdown of still another zinc metal-producing facility at Amarillo, Texas, the prospects are clouded. With the loss of over 50% of primary domestic zinc smelting and refining capacity since 1968, the U.S. in 1975 appears to have imported more than 40 percent of the refined zinc it consumed. This state of affairs is costly to the Nation, and can be changed only by restoration of the domestic zinc refining industry.

The long-run success of U.S. zinc industry efforts to rebuild, efforts involving modernization and expansion of existing facilities and construction of new facilities, will be much affected by the outcome of the trade negotiations.

The near-term outlook for the domestic zinc industry will be determined in large measure by the development of the import situation and potentially by the implementation of the import relief provisions of the Trade Act of 1974, one of the key questions to be addressed at the present hearings.

The primary lead industry in the United States is also faced with substantial problems, although the competitive position of this industry is somewhat stronger than that of the zinc industry. Nevertheless, such facts as the persistent presence or threat of dumping by foreign competitors, the uncertainty of litigation in the federal courts affecting the important gasoline antiknock compound market in the U.S., and the general development of lead refining capacity worldwide strongly suggest that the U.S. primary lead industry too will be vitally affected by the performance of U.S. trade negotiators and by the implementation of U.S. trade laws. In short, we feel these hearings are a most timely and appropriate exercise of Congressional responsibility.

Because of our very great current interest in the effective functioning and forceful implementation of the 1974 Trade Act's provisions for relief from unfair and excessive import competition, we would like to focus on these issues first, commenting on the MTN later in our statement. We were most gratified to see this implementation question specifically listed on the Committee's announcement of these hearings.

I—IMPLEMENTATION OF THE TRADE ACT: IMPORT RELIEF PROVISIONS

As is well known, the lead industry has been the victim of dumping activities in the U.S. market. In 1974, the International Trade Commission (then the Tariff Commission) determined that dumping of lead from Australia and Canada was causing or threatening injury to the domestic industry. Dumping findings in both cases are now outstanding. In mid 1972, the Commission unanimously found that the U.S. industry had suffered injury from Japanese producers' dumping of cadmium (a zinc byproduct).

Now, the domestic zinc industry faces a serious import situation. Notwithstanding a substantial curtailment of domestic production during 1975, the virtual cessation of GSA zinc sales and some falling off of imports, by mid year, U.S. producer stocks of zinc built up to the highest levels of recent years. Later in the year, as these stocks were gradually beginning to be reduced in a poor but slowly recovering market, slab zinc imports surged to over 160,000 tons in the last quarter of the year. That level of imports represented 65 percent of total U.S. consumption [1] in the quarter, 145 percent of domestic primary slab production, and *155 percent* of primary producer shipments. At a time when U.S. production was curtailed because of a weakened domestic market, these imports were particularly significant. And this may not simply be a three-month phenomenon.

Over the years since 1968, we have seen substantial import penetration of the domestic market for slab zinc, from 23% of consumption in 1968 to more than 40% in 1975. In too many cases, these imports are not the product of steady suppliers. Rather, they arrive in the U.S. when foreign producers, concluding that they have built up excessive stocks, seek to unload them outside their home markets, perhaps hoping to take advantage of U.S. conditions which they perceive to be somewhat better. A quick surge of trade, some of which may occur at LTFV prices, and they leave the U.S. market. But the damage is done. And when

[1] Consumption estimate based on U.S. Bureau of Mines figure for October, estimate for November, with December treated as average of October/November.

this is repeated, as it has been over time, it undermines the basic strength of the domestic industry. As a result, we are today vitally interested in the implementation of U.S. foreign trade laws.

Of particular interest to us has been the effectiveness of Section 201 of the Trade Act of 1974, the so-called escape clause. Quite frankly, we were concerned about the inability of several petitioners to obtain relief, even after the clear Congressional decision to modify the unduly restrictive escape clause provisions of the TEA of 1962. We were, therefore, pleased to see that the International Trade Commission provided relief in its recent decision on speciality steel, thus signaling its willingness to enforce the newly revised escape clause provisions.

A not unexpected result of that ITC action was the rapid development overseas of cries of "protectionism" and a buildup of pressures to negate the Commission's recommendations. It is not "protectionism" to provide temporary relief from excessive import competition which is threatening serious injury to domestic industry. All governments engage in these practices (frequently without resort to the kind of public hearings provided for in the Trade Act) and they are clearly provided for under long accepted GATT rules. We hope that in the future the Commission will resist any temptation or pressure to balance its output of opinions so as to avoid such criticisms.

As the new Trade Act escape clause is interpreted on a case-by-case basis, and the requirements for success become more clear, it would not be surprising to see increasing numbers of domestic industries provided relief. This would not necessarily mean that the International Trade Commission, or the President who has the next responsibility, has become protectionist. It would more likely mean that the elements of a successful escape clause case were clear and widely understood. A natural result would be that only qualifying industries with strong cases were filing actions. We hope the ITC will not adopt a defensive posture about making affirmative findings. By the same token, we would hope that the President will not be unduly concerned about the foreign reaction to his own implementation decisions. If the facts merit action in more than a few cases, so be it.

Countervailing Duty Provisions

Recent determinations at the Treasury Department have also raised questions about the effectiveness and the interpretation of the countervailing duty statute (Section 33, Trade Act of 1974). We wish to note here our special concern about the negative findings in countervailing duty determinations concerning regional aids programs affecting the float glass industries in Belgium and Germany. (December 24, 1975, 41 Fed. Reg. 1299-1300—see Attachment B) These cases appear to raise questions which we feel deserve the closest scrutiny by your Committee. Frankly, we are disturbed at the apparent reasoning reflected in the published decisions. (Attachment B) A number of elements were noted in apparent support of the negative determination in these cases. But the fact, for example, that the foreign governments concerned financed incentive programs designed to offset the economic disadvantages of locating facilities in depressed areas seems irrelevant to the issue of whether the government program constituted a subsidy for purposes of the countervailing duty statute. To the extent the government removes this alleged disadvantage, it provides funds not otherwise available. Furthermore, even the factual bases for the decisions seem questionable. We wonder, for example, how Treasury knows the dollar value of the claimed regional disadvantage. What data were available? How could the relative disadvantages of locating in one or another region of Belgium be assessed by the Treasury? How were they? Would the plan have been built anywhere else without the subsidy?

These countervailing duty cases also rest their denial or relief on the relatively small subsidy per unit of output. But over what period? How was the amortization period calculated and was the real impact of the initial subsidy taken into account? Once the plant is built with government assistance, what pressures exist to maintain production regardless of market conditions? These questions are not clarified in the published Treasury ruling. Perhaps a more detailed statement would answer them satisfactorily. On the few facts presented, however, the denial of relief in these cases raises serious questions about the Treasury interpretation of the countervailing duty law. These items should be of serious concern to the Congress and to the Senate Finance Committee in particular, which in 1974 demonstrated its interest in sound enforcement of this Act. For our part, we know that regional aids programs reach well beyond float glass production.

Timeliness of Relief

Another important issue, much discussed in earlier hearings, is the timeliness of relief. Every effort should be made to expedite the processing of complaints, both at the ITC and, in antidumping and/or countervailing duty cases, at the Treasury. While statutory time limits have been set, a fine and perhaps long overdue step forward, one could hope for a time when decisions are made in advance of the final due date. In dumping cases, a full year for investigations and decisions seems too long for dealing with the usually immediate and disruptive market effects of this predatory pricing practice. The Finance Committee should consider the possibilities for improving the timeliness of these decisions. If increasing personnel available and/or adoption of new internal agency procedures would help, these options should be considered.

In essence, as we review the escape clause, antidumping and countervailing duty provisions as possible avenues of relief from some of the severe problems impacting the domestic zinc industry, we want only the reasonable assurance that the process will be swift, and that its decision makers will respond on the merits.

II—THE MTN: CRUCIAL NON-TARIFF ELEMENTS

Lead and zinc are world-traded commodities, with new production facilities at both the mine and smelter stages under development in many countries. At present, however, the major countries and entities involved in the lead-zinc trade situation are the U.S., the European countries, and Japan, as leading producers and consumers of refined metal, with Canada and Australia having major positions as producers of ores, concentrate and metal. The U.S. and the European countries are also very large producers of ores. A return to worldwide industrial expansion will accelerate development of major new projects in a number of countries from Ireland to South Africa.

Peru, Mexico, Morocco, Zaire and Zambia are substantial developing-country producers of lead and/or zinc, at ore, concentrate and in some cases refined metal stages. Over the long term, developing countries are likely to play an expanding role in the supply of these metals.

In our view, the most important components of the MTN will involve non-tariff measures which affect international trade and competition. While tariffs have an impact on the United States lead and zinc industries and are particularly important during periods of weak domestic and world markets and in connection with dumping problems, they do not carry the force they once did. Thus, U.S. zinc tariffs were set in 1930 at a specific rate then equivalent to more than 35% ad valorem. Today, with intervening inflation and some negotiated reductions, the ad valorem equivalents are 2% for zinc and 6% for lead.

With the overall impact of tariffs declining, many countries have developed programs involving other forms of assistance which have helped their own lead and zinc industries expand production for both domestic and overseas markets. In some countries, and this is a rising trend, direct government ownership or participation in lead and/or zinc projects has become important.

Another difficult non-tariff problem in the MTN is that involving access to all industrial raw materials. For many reasons, a number of countries—or component entities thereof—have made it increasingly difficult or even impossible to export raw materials. The desire to export finished products of all materials and continually to upgrade domestic processing operations is strong throughout the world. But the U.S. also has a large domestic processing industry, and freer access to the vital U.S. market—perhaps the single largest prize in the trade negotiations—must not be given without solid assurance of equal competitive conditions and opportunities for U.S. industry and labor, including access to raw materials. Actual or threatened denial of reasonable access to needed raw materials must compel the United States to re-think its national policy of open market access for products of all types, a policy premised on equality of competitive opportunity.

Continuance of subsidy, incentive and other programs putting foreign government resources into basic industry construction are not compatible with the notions of international fair trade and competition under which U.S. industries, which do not receive such assistance, operate. The issue here is not the validity of the social goals of these programs, but their net impact on world production and trade, an impact which is continuously felt in the home and foreign markets of U.S. producers. The U.S. zinc industry has had first-hand experience with these

problems, and the present condition of the industry is unfortunate testament to their impact.

In today's trading environment, the effects of these foreign subsidy programs are not always seen in direct trade developments, but may appears as harder-to-track trade diversions. For example, Country X loses a market in Country Y because Country Y has subsidized a new plant meeting part of its domestic needs. Country Y does not export. Country X, acting without subsidy or incentive, ships its now marketless material to a new market. Too often, the "new market" turns out to be the U.S., putting added pressure on U.S. domestic production and employment. If we are to carry out one of the principal mandates of the Trade Act of 1974 "to harmonize, reduce and eliminate barriers to trade on a basis which assures substantially equivalent competitive opportunities for the commerce of the U.S.", a comprehensive look at issues raised in this type of situation is required.

The Lead-Zinc Producers Committee has commented on similar issues in a statement submitted to Ambassador Dent's office on the issue of countervailing duties, subsidies and incentives. We believe these to be still valid questions, and had hoped they would be negotiated in the MTN. We are quite concerned that the Treasury determinations discussed earlier may weaken the U.S. cases in such talks, but hope that Ambassador Dent will press ahead in this field notwithstanding these recent Treasury rulings.

III—THE SECTOR APPROACH

We feel that the comprehensive approach which we see as essential to the success of this round of multilateral trade negotiations can best be achieved through sector discussions. Problems affecting the development of trade and production in the nonferrous industries are related. In many cases, we have little doubt that they are different from the problems confronting other domestic industries, and/or agriculture. We believe the negotiators will gain a better understanding of all aspects of our situation on a worldwide basis if they deal with issues affecting our industry at one table rather than piecemeal in a series of separate negotiating groups. In some cases, a negotiation on subsidies and countervailing duties aimed at improving access to foreign markets for U.S. exports may well be irrelevant to a U.S. industry with few exports where subsidies and incentives tend to expand foreign production and increase import pressures on the U.S. market. Labor intensity, local availability of natural resources, capital intensity and a host of other factors differ markedly from one industry to the next. Thus, a result good in one case may be neutral or even harmful in another. We do not see why the negotiations must or should be conducted together, or treated alike. These differences should be recognized in the negotiations, and we feel this is most likely to occur in a sector-oriented negotiation.

It is argued that other major countries do not support the idea of sector negotiations. Perhaps the vigor of their opposition suggests its merit from the U.S. point of view. We believe that the preponderance of subsidies, incentives and non-tariff protective measures lies abroad. We believe the world trade figures show this, and that these negotiations should be aimed at rectifying this situation. Others may well feel they have too much at risk in such a context, but that is no reason for the United States to back away. Regardless of whether all or part of the talks are sector based, and regardless of the final definition of individual sectors, opening negotiations on a sector basis appears to us to be more likely to be productive than continuation of negotiations on a general cross-cutting subject basis.

The UN's International Lead-Zinc Study Group has produced much information on production, trade and consumption of these metals. A detailed examination by that body of all forms of governmental assistance to the industry is now in progress. That study, formally launched at the Group's last meeting in November, could begin to show some useful results in the near future. We hope that these will be available, and of good enough quality, in time for use in the MTN schedule for 1976 which focuses so heavily on data gathering and analysis.

Work is needed on the definition of a sector, and on the purpose of the sector approach. Thus far there has been much discussion about the "sectors" question—even to the extent of setting up a working group on "sectors"—but virtually no negotiations about particular industrial sectors. We are advised that among Geneva negotiators, sectors are understood to be appropriate when a concensus

exists that greater trade liberalization is possible. We question whether this is the Congressional understanding of sectors. For our part, the question is not so much one of degrees of trade "liberalization" as it is of attempting to restore essentially fair conditions of international competition in a period of rising governmental assistance, intervention, participation and even ownership. We do not argue for the adoption by the U.S. Government of incentive programs equal to those available overseas, but rather for some methods of reducing the impact of unfair competition which so often has its roots in foreign governmental programs. The motivations of these programs, or even their particular techniques, need not overly concern the trade negotiators. What should be at issue for them is the impact of such interventions on the total environment for production and trade of these commodities. Equalization of competitive opportunities for American commerce is a worthwhile goal for the U.S. negotiators. It would seem to make more sense that excessive concern with the traditional but ephemeral negotiators' question of who "gives" or "gets" more in a particular negotiation. Our interest is in the relative positions of respective national industries at the end of the day as compared with those existing at the outset.

Obviously, we are also concerned about the risks in these negotiations. Statements such as that by the Secretary of Agriculture to the effect that the U.S. must be prepared to make concessions in the industrial area in order to obtain improved access for U.S. agricultural exports do not impress us with the desirability of a non-sector approach. Indeed, they have an opposite effect. Negotiations in agriculture may well represent a re-fighting of the last war—as implied in Chairman Long and Chairman Ribicoff's recent report—but whether it is the last or the next war, we are unable to se how America's basic lead and zinc industry can possibly benefit from engagement in that essentially *separate* agricultural struggle. Perhaps the only thing more futile than re-fighting the "last war" is paying for the privilege.

We also are inclined to question the wisdom of this strategy from the agricultural point of view. If, as is frequently argued, the EEC's, CAP and export subsidy programs are doomed to fall of their own weight, and if world food demands will inevitably expand enormously in the coming decades, why should the U.S. pay in trade concessions to increase access for agriculture to European and world markets? It is hard to see how foreign consumers will allow these governments to bar American foodstuffs. Furthermore, we have yet to see any real consideration of the concessions U.S. agriculture might make in order to improve its overseas marketing possibilities. We hope the Committee will pursue these questions in its oversight hearings.

As we have tried to suggest, primary lead and zinc mining and production is not the same as, say, aircraft, electronics or shoe production, much less agricultural production. Our needs and objectives differ. It will be much harder to focus on these individual needs in a grab-bag trade-off situation than in a more intensive discussion of each industry's needs and opportunities.

It is not essential at this point to decide on precise definitions of appropriate sectors. Canada's approach is to take a material and move vertically to define its appropriate sector. Another approach could be to take basic mining and primary manufacturing in the group of generally related materials—eg., nonferrous metals. Lead and zinc could be a sector for purposes of negotiation, but we do not regard this as essential. What is important is that the sector be tailored to cover the problems confronted by groups competing for essentially the same world markets by essentially similar techniques and technologies.

IV—INDUSTRY SECTOR ADVISORY COMMITTEE

One of the implicit goals of the Trade Act of 1974 was better coordination of industry-government relations during the negotiations. We are, of course, firm believers in the importance and usefulness of consultations to this end. At this time, we feel that Ambassador Dent and his organization have underway a very sound program of industry-government consultations which should be equal to the needs of these negotiations. The true test of such a program, of course, is whether consultations are sought before decisions are taken, and whether the decisions are, in fact, influenced by the consultations. While we are generally confident that this so far has been the case, the real tests are ahead. We plan to be available for consultation here or in Geneva on an as-needed basis. The Congress fundamentally changed the relationships between industry and govern-

ment in this round of international trade negotiations, and it is incumbent upon all participants in the process to see that the change works.

For the longer run, review and oversight not only of the MTN but of the legislative provisions on import relief is most desirable. There is no inherent reason why trade legislation should be considered only at 8 or 10-year intervals when conditions are changing much more rapidly.

Again, we thank the Committee on Finance for receiving our views.

SETH M. BODNER, *President,*
Lead-Zinc Producers Committee,
1101 15th Street, NW., Washington, D.C.

LEAD STATISTICS

[Thousand short tons]

	1974	1975
Mine production (recoverable lead)	664	[1] 614
Imports, ore and concentrates (metal content)	94	[1] 84
Production (refined lead at primary refineries)	673	[1] 637
Imports, refined metal	119	[2] 90
GSA disposal		
Consumption (total primary and secondary)	1,599	[1] 1,230
Producer stocks at plant [3] (monthly average, end of month)	23	90

[1] Preliminary report (U.S. Bureau of Mines).
[2] Based on 1-mo. plus December at October/November average.
[3] Lead Industries Association.
Source: Bureau of Mines and Lead Industries Association.

ZINC STATISTICS

[In thousand short tons]

	1974	1975
Mine production (recoverable zinc)	500	[1] 474
Ore/concentrates imports (metal content)	240	[1] 150
Slab zinc imports	540	[2] 384
Slab zinc, primary production	556	445
GSA disposals (slab zinc)	267	5
Consumption, slab zinc	1,288	953
Producer stocks, slab zinc, monthly average end of month	24	[2] 88

[1] Estimated by Bureau of Mines.
[2] Estimate based on 11-mo. and December at October/November average.
[3] 10-mo. average, (10-mo. average for 1974: 23).

Source: Bureau of Mines, Bureau of Census.

[From Federal Register, Vol. 41, No. 4, Jan. 7, 1976]

(Office of the Secretary)

FLOAT GLASS FROM BELGIUM

NOTICE OF FINAL COUNTERVAILING DUTY DETERMINATION

On July 3, 1975, a "Notice of Preliminary Countervailing Duty Determination" was published in the FEDERAL REGISTER (40 FR 28104). The notice stated that, on the basis of an investigation conducted pursuant to section 159.47(c), Customs Regulations (19 CFR 159.47(c)), it had been preliminarily determined that benefits had been received under various regional development programs maintained by the Belgian Government, which were of a type that could, in some circumstances, constitute the payment of a bounty or grant, directly or indirectly, within the meaning of section 303 of the Tariff Act of 1930, as amended (19 U.S.C. 1383) (referred to below as the "Act"). These benefits included investment grants for capital expenditures, low interest loans, employment premiums, reduced rate of capital gains tax, exemptions from registration fees levied on increases in assets, exemptions from real estate taxes, accelerated depreciation, exemption from local taxes and tax exemptions for interest rate subsidies and capital grants on in-

vestments. At the time, insufficient information was available to determine the nature and effect of the benefits.

The notice further stated that, before a final determination would be made, consideration would be given to any relevant data, views, or arguments submitted in writing, within 30 days of the date of the notice. The period for written comments was extended to September 3, 1975, by notice published in the Federal Register August 15, 1975 (40 FR 34423–34424).

Information has now been received that permits a more complete analysis of the alleged bounties and grants. Under various regional development programs administered by the Government of Belgium, low interest loans, investment subsidies in the form of cash grants, special accelerated depreciation rates and exemption from real estate taxes have been given to producers of float glass. The Belgian Government has advised the Treasury Department that these benefits have the effect of offsetting disadvantages which would discourage industry from moving to and expanding in less prosperous regions. Inasmuch as the recipient glass producers sell a preponderance of their production in the European Community (not less than 85 percent), the level of exports to the United States is a small percentage of the amount exported, and the amount of assistance provided by the regional incentive programs is less than 2 percent of the value of float glass produced, these benefits are not regarded as bounties or grants within the meaning of section 303 of the Act. All other benefits alleged in the petition are found either not to be bounties or grants or not to be applicable to the producers of float glass in Belgium.

Accordingly, for the reasons stated above, it is hereby determined that no bounty or grant is being paid or bestowed, directly or indirectly, within the meaning of section 303 of the Act, upon the manufacture, production, or exportation of float glass from Belgium.

This notice is published pursuant to section 303, Tariff Act of 1930, as amended (19 U.S.C. 1303).

ROLAND RAYMOND,
Acting Commissioner of Customs.

Approved: December 24, 1975.

DAVID R. MACDONALD,
Assistant Secretary of the Treasury.

[FR Doc.76–321 Filed 1–6–76;8:45 am]

FLOAT GLASS FROM WEST GERMANY

NOTICE OF FINAL COUNTERVAILING DUTY DETERMINATION

On June 30, 1975, a "Notice of Preliminary Countervailing Duty Determination" was published in the Federal Register. The notice stated that, on the basis of an investigation conducted pursuant to section 159.47(c) Customs Regulations (19 CFR 159.47(c)), it had been preliminary determined that benefits had been received under various West German Federal and State Government regional development programs. These benefits, including investment grants for capital expenditures, low interest loans, and special railway tariffs, were of a type that could, in some circumstances, constitute bounties or grants within the meaning of the law. At the time insufficient information was available to determine the nature and effect of the benefits.

The notice further stated that, before a final determination would be made, consideration would be given to any relevant data, views or arguments submitted in writing, within 30 days of the date of the notice. The period for written comments was extended to September 3, 1975, by notice published in the Federal Register August 15, 1975 (40 FR 34423–34424).

Information has now been received that permits a more complete analysis of the alleged bounties and grants. Under various regional development programs administered by the Federal and State Governments, low interest loans and investment subsidies in the form of cash grants and tax credits have been given to producers of float glass. The German Government has advised the Treasury Department that these benefits have the effect of offsetting disadvantages which would discourage industry from moving to and expanding in less prosperous regions. Inasmuch as the recipient glass producers sell a preponderance of

their production in the West German home market (not less than 80 percent and up to 99%), the level of exports to the United States is a small percentage of the amount exported, and the amount of assistance provided by the regional incentive programs is less than 2 percent of the value of float glass produced, these benefits are not regarded as bounties or grants within the meaning of section 303 of the Tariff Act of 1930, as amended (19 U.S.C. 1303). All other allegations alleged in the petition are found not to be applicable to the manufacturer, producer or exporter.

Accordingly, for the reasons stated above, it is hereby determined that no bounty or grant is being paid or bestowed, directly or indirectly, within the meaning of section 303, Tariff Act of 1930, as amended (19 U.S.C. 1303), upon the manufacture, production, or exportation of float glass from West Germany.

This notice is published pursuant to section 303, Tariff Act of 1930, as amended (19 U.S.C. 1303).

Approved: December 24, 1975.

ROLAND RAYMOND,
Acting Commissioner of Customs.
DAVID R. MACDONALD,
Assistant Secretary of the Treasury.

[FR Doc.76-320 Filed 1-6-76;8:45 am]

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., January 29, 1976.

WHEAT GROWERS CHALLENGE ADMINISTRATION POLICIES

WASHINGTON, D.C.—With a $1 million fund now being established to mount possible court action against administration export policies, wheat growers today urged Congress to "curb Secretary of State Kissinger's excessive and misguided use of power."

In meetings with members of the Senate Finance Committee on the eve of an appearance by Kissinger, Jerry Rees, Executive Vice President of the National Association of Wheat Growers, reported that "unwarranted intervention in free markets has cost U.S. grain growers an estimated five to seven million tons in lost sales and driven the price of wheat below the cost of production in many areas." Rees said losses to growers during the price decline since announcement of the Russian grain pact are now in the range of $2 billion.

Rees reported that a Washington law firm hired several weeks ago by the wheat growers to prepare a legal analysis of Administration's export policies has concluded that the President did not have constitutional authority to enter into the Russian grain agreement. The firm also concluded that the Administration's system of export licensing is inconsistent with provisions of the Export Administration Act, and that by the manner in which the 1975 moratorium on sales was brought about may represent a violation of anti-trust laws.

Meeting last week in Billings, Montana, the Wheat Growers National Board of Directors approved establishment of a special fund to challenge these actions in the courts.

"The keystone of our Government's full agricultural production policy has been the promise of unfettered access to export markets," Rees said. "Based on this assurance, growers have increased wheat production 25% since 1972 and 19% in the last year. Current annual production levels exceed our domestic requirements by about ⅓'s, and this excess production must move into the export market if producers are to have the incentive to sustain current output."

"Agricultural producers want to be assured that when they go into debt and produce record crops that the Government won't by-pass statutes and call on grain companies to stop making sales," according to Rees. "They simply want to be able to place trust in the laws passed by Congress and Government policies and know that pledges of market access will not be broken."

Spokesmen for leading farm export commodity organizations will testify Thursday, February 5 before the Finance Committee on the impact of Administration export policies.

Appendix B

Written Questions Submitted by Members of the Committee

Department of Agriculture—Responses to Questions of the Chairman

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., February 27, 1976.

Hon. RUSSELL B. LONG,
U.S. Senate

DEAR SENATOR LONG: In your recent letter you requested that I submit written answers for the record to several questions as an addition to my January 30 testimony on the foreign trade policies of the United States before the Committee on Finance. I am pleased to submit the enclosed responses.

Sincerely,

RICHARD E. BELL,
Assistant Secretary.

Enclosures.

Question 1. Which Department had primary responsibility for negotiating the U.S.-Soviet grain deal? Why? Was that a Presidential determination?

Answer. It was the President's decision to conduct negotiations of the U.S.-U.S.S.R. grain agreement. The negotiation was conducted under State Department's leadership because of State's overall primacy in foreign policy matters. As in all negotiations on agricultural commodities trade, the Agriculture Department was consulted at each step, was an active participant in the talks with the U.S.S.R., and played a major role in the formulation of our negotiating position.

Question 2. Do you receive sufficient information from the U.S.S.R. on the expected size of their harvests and any shortfalls far enough in advance for effective policy planning?

Answer. We do not receive all the information we would like from the U.S.S.R. However, this is the case for a large number of countries which either do not have adequate crop estimating systems or do not make their estimates public. Under the terms of the 1973 U.S.-U.S.S.R. Agricultural Cooperation Agreement, the United States and the Soviet Union agreed to exchange information on forward estimates of production, consumption, demand and trade of major agricultural commodities. The Soviets thus far have provided little actual data, although bilateral talks are held twice each year on the current situation and outlook for agricultural production, utilization and foreign trade in the two countries. We have seen some improvement in the data we are getting from the Soviets in other areas, and are continuing to try to obtain better information on forward estimates through a combination of pressure and education.

Despite Soviet resistance to complying with this provision of the Agricultural Cooperation Agreement, we are confident that the information on Soviet harvests which we have from other sources permits effective policy planning. On the basis of agricultural attache reports, weather data, and other pertinent information, we have been able to make reasonably accurate estimates of the Soviet harvest.

Question 3. If we had not sold grain to Russia in 1972 and 1975 what would have happened (a) to the Russian people, (b) to the Soviet's relative priorities in the defense, food production area?

Answer. The United States is a large producer and exporter of grain but it is not the only one. Canada, Australia, Argentina and the European Community also export large amounts of grain and other countries export grain in smaller quantities. In most years, including years of poor Soviet harvests such as 1972 and 1975, these other suppliers could meet most, if not all, of Soviet grain needs.

In the event of a U.S. grain embargo against the Soviet Union, there would more likely be a large realignment of trade flows. Since other grain exporting countries would be supplying more of Soviet needs, the rest of the grain importing world would turn to the U.S. for a relatively larger share of its import requirements. Consequently, a U.S. grain embargo against the U.S.S.R. would

probably cause some diversion of grain among exporting and importing nations but, in all likelihood, at least in the short run, would not significantly affect either the absolute level of Soviet grain imports or U.S. exports.

We do not believe that a complete U.S. grain embargo in 1972 or 1975 would have resulted in any significant change in Soviet economic priorities. In recent years, the U.S.S.R. has embarked on a campaign to increase significantly the Soviet standard of living and, in particular, to increase the supply of quality food products such as meat. Improved performance in the agriculture sector is a stated goal of the Soviet leadership. During the 1971–75 five-year plan, agricultural investment reached record levels and it appears that this trend will continue into the next five-year plan.

Also, as part of its program to improve the Soviet living standard, billions of dollars' worth of grain for food and feed have been imported.

Question 4. What kind of *quid pro quos* do you feel we should seek from the Russians in exchange for access to our grain supplies, if any?

Answer. In recent years we have pursued a policy of unrestricted production and market orientation. Farm exports are a vital part of this policy since without exports, the American farm community would not be able to operate anywhere near its full productive capacity. If the U.S. is to use its full agricultural potential and to produce most efficiently, the American farmer must be assured of access to overseas markets for his products.

A large and valuable market for U.S. agricultural commodities is developing in the U.S.S.R. Our farm exports to the Soviet Union and other countries create jobs and bring in valuable foreign exchange which make a positive contribution to our balance-of-payments. We believe it is against our best interests to put restrictions on our farm exports, since these are vital to both the continued growth and prosperity of American agriculture, and the best means to abundant and efficiently produced food supplies for the entire world. Our agricultural trade with the U.S.S.R. stands on its economic merits and we sincerely hope that further interference in this trade will be unnecessary in future years.

Question 5. What are your Department's plans in the sugar area? Do you feel we should become a member of an international sugar agreement? What kind of agreement, if any, do you feel would benefit the U.S. producers, consumers and refiners?

Answer. The Department feels that there is no present need to change administration policy as stated in Presidential Proclamation No. 4334 of November 16, 1974, which establishes a seven million ton global quota with a 62.5 cents per hundred pounds duty rate.

The Department feels that international agreements inhibit the economic functions of the free market. We oppose the U.S. initiating or being a party to an international sugar agreement at this time.

We do not believe quotas and other restraints which constitute the international sugar agreements of the past would be beneficial to overall U.S. interests.

Question 5(a). Is there a "free market" in sugar?

Answer. Most of the sugar in the world is produced under some form of national program or control and most of the sugar is consumed where it is produced. The balance of about 15–20 percent of the annual production is traded on a free market.

Question 5(b). Can you describe the European sugar program and its impact on the world market?

Answer. The EC sugar program uses a variable levy and an intervention price mechanism to protect domestic producers. In addition, the EC buys the amount of its import requirements, currently estimated at between 1.2 and 1.4 million tons annually on a negotiated price based on the EC intervention price. This amount corresponds to the now defunct Commonwealth Sugar Agreement. There are presently many struggling factions with the EC and any world market impact would depend on how the program is administered by Brussels.

Question 6. Do you feel the Europeans intend to make any meaningful changes in the C.A.P.? What would you characterize as "meaningful" for U.S. trade interests?

Answer. Clearly the European Community intends *not* to make any meaningful changes in its Common Agricultural Policy in the present Multilateral Trade Negotiations. The question for the United States is whether we can nevertheless obtain meaningful agricultural trade concessions from the EC. If we give this effort less than top priority, other countries will continue to follow the EC lead,

and we risk obtaining no meaningful benefits for U.S. agriculture from the negotiations, and we risk further that we will establish the principle that because of the so-called "special characteristics" of agriculture, barriers to agricultural trade will be nonnegotiable in the future.

While it should be possible to negotiate a significant reduction in EC customs duties on some agricultural products, meaningful changes in the C.A.P. implies action by the EC on some nontariff border measures as well. Consequently, we believe the most important action which we can realistically hope to achieve is elimination of some export subsidy practices because failure to eliminate them will make EC exports liable to U.S. countervailing duties.

Some other meaningful changes should also be possible, namely, elimination or binding of variable levies on some products, and EC participation in a code to encourage the use of international quality standards and make procedures for establishing and implementing standards more open to the public comment and justification. Further meaningful changes in the C.A.P. will be very difficult to obtain.

Question 7. If the Europeans were willing to modify the C.A.P.'s effect on our grain sales in return for a modification of our policies on dairy, would that be a reasonable trade-off from the Administration's perspective?

Answer. A modification of the C.A.P.'s effect on our grain sales in return for a modification of our policies on dairy products would not be a reasonable trade-off either from the U.S. or the EC point of view. It would not be reasonable for the U.S. because our dairy farmers would need the further assurance that if U.S. import barriers are removed they will not have to face competition from subsidized exports of other countries or even unsubsidized exports of other countries diverted in large quantities to the U.S. market because of import restrictions in other parts of the world. Further, the trade-off would not be reasonable for the European Community, since the EC's imports of U.S. grains are many times greater than U.S. imports of EC dairy products.

Question 8. Does the Department feel that our meat import law should be on the negotiating table at Geneva?

Answer. The Meat Import Law was enacted when the U.S. market was relatively open and attracted certain kinds of meat that could not be freely imported into other markets. This situation is even more true today than it was prior to the enactment of the Meat Import Law in 1964. Unless some equivalence of access can be achieved, the Department feels that no liberalization of the U.S. law should be considered.

Special Representative for Trade Negotiations—Responses to Questions of the Chairman

THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
Washington, D.C., March 5, 1976.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your recent letter. I appreciated the opportunity to participate in the hearings held by the Committee on Finance on foreign trade relations of the United States.

There is, I believe, inadequate understanding throughout the country of our national trade policy, a policy based upon the landmark trade legislation that your Committee was instrumental in shaping. Public hearings by your Committee help to build the national consensus necessary for successfully conducting foreign trade policy under our system of government.

Attached are replies to the questions that were enclosed in your letter. I would be happy to expand on these answers in any of our meetings with you and our other Congressional advisers to the negotiations, since more detailed replies would in some cases involve a discussion of specific U.S. negotiating strategy.

Sincerely,

FREDERICK B. DENT.

Attachment.

Question 1. What is your assessment of progress made in the Geneva trade negotiations in 1975?

(*a*) What are the "toughest issues"?

(*b*) Can you give us any indication of what agreements may be submitted to the Congress in 1976; 1977?

(*c*) Do you feel that the European Community has any intention of making significant modifications in the C.A.P.? If so, what kinds of modifications would the U.S. deem significant for our trade?

Answer. During 1975, we made significant progress in analyzing the issues and establishment guidelines, objectives and framework for the specific bargaining to come.

In my testimony I reported in detail on the current status of work in the individual negotiating groups and subgroups in Geneva.

The Trade Negotiations Committee (T&NC) met in February 1975, in the middle of a world-wide recession, to initiate negotiating plans and procedures for the MTN. As a result, governments were as concerned throughout most of 1975 with staving off protectionist appeals at home as with further liberalizing the conditions of world trade. Few were eager to move forward rapidly in the MTN until economic conditions improved. Fortunately, the world economy began to turn around in the latter part of the year.

Also affecting the pace of the MTN was the fact that it was only at the beginning of 1975 that the United States adopted its negotiating mandate, in the form of the Trade Act of 1974. We then had to assemble and organize a delegation to carry out the U.S. negotiating effort at the MTN. The U.S. delegation in Geneva reached full strength in the early fall.

Even more important, the formulation of U.S. trade policy was being carried on within the framework of new legislation that required, among other things, extensive consultations with the private sector and the Congress. Activating this consultation process and ensuring that it functioned properly was a very large undertaking, which took months of effort by the Departments of Commerce, Agriculture, and Labor, and my own staff. The process has generated a massive amount of basic information and advice that must be given careful consideration. It was only by the beginning of 1976 that enough advice had been assimilated so that a series of United States initiatives could be taken in Geneva.

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Despite these factors, major discussions on trade liberalization were launched in 1975. An organizational structure for the MTN was established and a lengthy and ambitious list of negotiating topics were agreed to. Although the organizational structure was continually in dispute because of our disagreement with the EC as to how to handle agriculture, we nevertheless succeeded in 1975 in reaching a series of procedural compromises with the EC, the latest in December, which allows substantive discussions on all issues to move forward.

Individual negotiating groups and subgroups set up by the TNC agreed to work programs and began detailed discussions on the subject matter involved. The most progress was made by the Tropical Products Group, the Non-Tariff Measures subgroups on standards, subsidies and countervailing duties, and quantitative restrictions; the Sectors Group; and the Safeguards Group.

At the end of 1975 at Rambouillet, the United States and its major trading partners reaffirmed their commitment to an open world trading system and to the MTN in achieving such a system. A target date of 1977 was set for concluding the MTN. It is clear that the work we accomplished in 1975 in the MTN has laid a firm foundation that will help us to meet that goal.

1(*a*). There are several issues in the MTN that can be considered the "toughest issues."

First, the issue of how to treat agriculture in the negotiations in order to attain our objective of substantial liberalization in world agricultural trade poses major difficulties. The resistance of the EC and, to a lesser extent, Japan to our negotiating aims in agriculture must be satisfactorily resolved if the MTN is to conclude successfully.

Second, the establishment of a new set of rules governing subsidies and countervailing duties is an extremely difficult negotiating problem, partly because it is intimately intertwined with agriculture but primarily because of the distance that exists between our position and the positions of most of the rest of the participants in the negotiations.

Finally, there is the issue of how best to reconcile the aspirations and economic needs of the developing countries with the objectives of trade liberalization of the developed countries. Our objective is to bring these countries more meaningfully into the trading system, to share both the system's benefits and its obligations. The issue must be resolved insofar as possible to the satisfaction of all countries, both developed and developing, if the MTN is to accomplish the aims established for it in the Tokyo Declaration. This issue also involves the issues of supply-access and commodity policy—which are "tought" negotiating problems.

1(*b*). Given the 1977 target date for concluding the MTN, and the fact that most delegations wish to evaluate the negotiated results in all areas when more results are apparent, it is unlikely that any agreements will be ready for submission to the Congress in 1976. We would, however, plan to consult with the Congress throughout this year on the potential means for implementing the more advanced nontariff codes.

If we succeed in meeting our 1977 target date, we hope to be submitting to Congress agreements in 1977, or possibly early 1978 if the negotiations in Geneva extend to late 1977. We expect agreements to be concluded in all areas currently under negotiation. Each of these would be submitted for approval. Since many of these agreements will be interrelated in the negotiations, they are likely to be reviewed domestically near the end of the negotiations. The principal agreements currently taking shape are a standards code, a government procurement code, and a subsidies/countervail code.

1(*c*). It is too early at this stage of the negotiations to attempt to judge what modifications the European Community might make in the CAP. It is unrealistic to expect that the EC will agree to abandon its Common Agricultural Policy, or CAP as it is called, which is primarily a domestic support program. Any sovereign country, including the EC countries, has the right to determine how best to support the interests of its farmers. Where the CAP in our view becomes a matter for international concern and negotiation is where it has an adverse impact on international trade through measures at the border, i.e., through variable levies which limit our access to the European Community's market or through the use of export restitutions which create unfair competition for our exporters in third country markets or at home. We have made it clear to the Community that these subjects are appropriate topics of discussion in the MTN. We believe that if we can obtain commitments from the EC to limit and reduce the impact of levies on our trade as well as to adhere to a code which would prohibit or greatly reduce

its export subsidies; this would substantially reduce frictions in our relations with the EC and also provide greater assurance of markets for U.S. agriculture.

Question 2. It is our understanding that "border tax rebates" by the E. C. were intended to be in the prohibited category under the U.S. concepts paper on subsidies. Is this correct?

Answer. Not all border tax adjustments made with respect to exports can be considered "prohibited" within the meaning of the U.S. concepts paper. It would be impractical and counter-productive in seeking a resolution to this international trade problams to seek to ban (or allow countries to freely retaliate against) all of the indirect tax exemptions on exports that are common practice for all countries.

The division of subsidy practices under the code proposal into three categories does not by itself solve the border tax rebate problem. These international tax practices are too complex for treatment under a single rule.

The U.S. concepts paper on subsidies, which was tabled in Geneva, was designed to correct many of the major inadequacies of the current GATT rules on subsidies and their relationship to countervailing duties. This paper sets forth a negotiating framework which acknowledges the generally accepted fact that certain subsidy measures, by their very design and nature, seriously distort international trade while others are intended for other purposes but may, nevertheless, have a distortive effect on trade. Under the U.S. proposal the first type of subsidy would be prohibited and countervailable without injury whereas the second type would be conditional and only countervailable in the event of injury. A third type of subsidy measure, that which has a *de minimus* impact on trade, would not be countervailable. The U.S. proposal also recognizes that for certain subsidy measures, whether prohibited, conditional, or permitted, special rules might be desirable. In such cases, these rules could be embodied in supplementary protocols to the general rules.

When we tabled the U.S. concepts paper on subsidies, we stated that the border tax adjustment question had to be dealt with in the MTN. There is a strong probability that this would be best done in the subsidies group, perhaps as a protocol to the subsidies code. Our proposal would have to be framed in a way that preserves our fiscal sovereignty, and that of our States, while attacking the trade distortions that tax policies have created.

We are currently working on developing a proposal for modifications in the present international rules on border tax adjustments and other tax measures. This problem will be the subject of extensive work and consultations with the Congress in the coming months, to find the most effective means to carry out the Congressional mandate of Section 121 of the Trade Act with respect to border tax adjustments.

Question 3. Specifically, in which areas of formulating or implementing U.S. trade policy does STR have a predominant role? In what areas do State, Treasury, Commerce and Agriculture have a predominant role? Are there any differences of opinion on the division of responsibilities within the Executive? Since the Congress has the constitutional duty to "regulate commerce with foreign nations" don't you feel it should be informed in advance of any significant differences of opinion or policy initiatives?

Answer. Under the Trade Act of 1974 the STR is to "report directly to the President and to the Congress, and be responsible to the President and the Congress for the administration of the trade agreements program." Pursuant to the 1962 Trade Expansion Act, the STR chairs the interagency cabinet-level committee which makes recommendations to the President on basic policy issues arising in the administration of the trade agreements program. President Ford defined the Trade Agreements Program by Executive order to include all activities consisting of or relating to the negotiation or the administration of international agreements which primarily concern trade and which are concluded pursuant to trade agreements legislation or the President's Constitutional authority. Unless otherwise designated by the President, the STR is the chief representative of the United States for each negotiations under the Trade Agreements Program, and under the Trade Act the STR is given this function with respect to Title I and section 301 negotiations. (STR's responsibilities abroad are dealt with further in my answer to your other questions.)

Other cabinet agencies have various international trade responsibilities. State traditionally has had a predominant role in trade discussions in the U.N.,

UNCTAD, regional economic organizations, certain commodity negotiations, and recently has taken the lead in several new forums, such as CIEC. Treasury has a lead role in the East-West Foreign Trade Board, the Customs Cooperation Council, the GATT Antidumping Committee, and is active in other discussions relating directly to its trade responsibilities in the customs, tariff and countervailing duty areas. Commerce has the lead role in administering the Export Administration Act, and is active in standards and government procurement matters, as well as in a broad range of service areas, statistical reporting, and export promotion. Agriculture has led the London grains talks, the GATT meat consultative group, discussions in the FAO in Rome, and in a number of similar agricultural trade activities abroad. Commerce, Agriculture and Labor each have major responsibilities for administering the Trade Act's private sector advisory system, and for providing support for many areas of the MTN.

Differences over division of responsibilities among these agencies of course occur from time to time. As several Executive Branch witnesses testified, there can be better coordination, and greater interagency participation within the limits of available resources.

I am not aware of any major trade policy differences within the Administration on negotiating issues which are not known to the Congressional advisers to the negotiations. With respect to the normal process of trade policy development, publicizing interagency differences of view, which are, of course, quite common, would inhibit reaching decisions on recommendations to the President and be inappropriate. However, Congress should be made aware of any disagreements that impair the development or implementation of trade policy.

Question 4. When Secretary Kissinger went before the U.N. and made a speech committing this country to specific trade objectives for foreign policy reasons, did your office participate fully in the formulation of those objectives? If so, why did you not check with our Committee and the Ways and Means Committee?

Answer. As Secretary of State Kissinger and I testified, there should have been more extensive interagency coordination in the preparation for this speech as well as broader consultation with the Congress on this matter. There were a number of time pressures that were alluded to during the course of the hearings which adversely affected what should be the normal process of coordination and consultation. Your oversight hearings high-lighted this issue and I believe greatly diminished the probability that this situation will re-occur.

Question 5. What is your role in the trade issues involving the U.N., the OECD, the UNCTAD and other multilateral forums where trade issues are discussed?

Answer. STR has the lead role in the Multilateral Trade Negotiations, and in related negotiations, such as the one dealing with the Government Procurement Code in the OECD. Where trade is an important matter, STR participates fully in international meetings and in the preparation of the United States position for those meetings. For example, STR co-chairs the U.S. delegation to the OECD Trade Committee and to ad hoc committees on trade matters in the OECD. STR has the opportunity to participate in the U.S. delegations to meetings of oher international organizations where trade issues are discussed, and a decision is made by STR on a case-by-case basis whether we will participate, based on available resources and the importance of the issues involved.

Question 6. I understand the important negotiations in Geneva this year will be bilateral meetings between the U.S. and individual countries. Will Congressional delegates and designated Committee staff have access to all these bilateral meetings? The Trade Act, the legislative history and commitments by your predecessor, Mr. Eberle, all make it clear that this oversight function will be honored by the Executive.

Answer. I am fully committed to the closest possible cooperation and coordination with those in the Congress having responsibility for trade matters. A number of Members and staff have had the opportunity to sit in on various negotiating sessions in Geneva and I believe that this has had a favorable effect abroad by demonstrating to foreign nations that the United States Congress is interested in, and is following the negotiations closely.

As you suggest, we are now moving into a phase in the negotiations when there will be substantially more activity in the form of bilateral negotiating sessions with individual countries as opposed to the larger plenary sessions of formal negotiating groups. In most instances, it will be entirely appropriate for Congres-

sional advisers and staff to participate in these meetings to the extent that Congressional advisers and staff are available. There will be a large number of such occasions. There will be other occasions, I am sure you would agree, when special circumstances indicate that a Congressional presence might not be appropriate. These instances should be examined on a case-by-case basis. I can assure you that my policy will remain one of maximizing participation in all phases of the negotiations for Congressional advisers and staff, and that I will consult closely with you on the administration of this policy.

Question 7. In light of the effects of the recession on the U.S. and its major trading partners, do you believe the 1977 goal for concrete results in the Geneva Trade Negotiations is realistic? Why are you seeking results by a specific date?

Answer. Current economic projections show a strong improvement of the world economic outlook by the end of 1977. Even if all the major countries have not reached the peak of economic activity by that time, the overall level of economic activity should be satisfactory and the prospects for a continuation of stable growth over the succeeding years should be excellent. If so, the climate for concluding significant trade agreements should be good.

A specific date for concluding negotiations is useful to maintain the momentum of the negotiations. Most governments have committed important resources to these negotiations. Without the prospect of significant negotiating results within a near term, many of these resources would be shifted to other activities. Also, as negotiations drag out, much of the existing political will committed by governments to a successful conclusion of these trade negotiations would be dissipated.

However, the final date of approval for all agreements will be set only after each negotiating participant has assured itself that the results are as close as possible to the achievement of its own objectives.

Question 8. In light of the recent protectionist measures taken by the United Kingdom and other European countries, how do you believe the President should act in cases where U.S. domestic industry, such as the specialty steel industry, is injured?

Answer. The President has consistently stated to our trading partners that the United States will oppose protectionism within the United States and has urged foreign governments to resist such pressures within their own countries. I have held discussions with the chief trade officials of our major trading partners to emphasize this United States view. We oppose protection which is unwarranted by acute and unique economic factors, or unjustified under international economic rules.

These views were made known to the United Kingdom, among others, before that country recently imposed limited import restrictions. As a general matter, our policy and concerns are shared by the major industrial countries, and have been remarkably successful in limiting trade restrictive actions during a period of worldwide economic recession.

The President has indicated that, consistent with this overall policy, he will respond to justified domestic requests for import relief under the terms of the Trade Act. While our national economic interest dictates that very great care be exercised in imposing any restrictive trade measures, equity also requires that individual industries which have been seriously injured, or threatened with injury, by imports receive relief pursuant to the procedures provided in the Trade Act, consistent with our overall national economic interest.

The specialty steel case is currently under interagency consideration in the Executive Branch, and recommendations are being made to the President for his decision. In this case, or in the case of any other affirmative import relief finding of the U.S. International Trade Commission, the Trade Act's provisions will be administered fairly, taking fully into account all the factors cited in the statute.

Question 9. The less developed countries have asked for differential treatment in the multilateral trade negotiations. In what areas is the United States willing to offer differential treatment?

Answer. In 1973 the United States agreed to the Tokyo Declaration which established the basis for the Multilateral Trade Negotiations, including the provision, where feasible and appropriate, of special and differential measures benefiting developing countries. The United States Government has agreed to consider proposals for special and differential treatment on a case-by-case basis in the various working groups of the MTN. An example of special and differential

treatment is the priority being given to the tropical products negotiations as agreed to in the Tokyo Declaration.

Question 10. The Tokyo Declaration and the Trade Act require that a sector negotiation be carried out as a "complementary negotiating technique". However, the Executive Branch's policy seems to be to frustrate a sector negotiation. In your view, what is the nature of a sector negotiation?

Answer. A sector negotiation is an effort to negotiate simultaneously all significant impediments to trade—tariffs, nontariff measures, and other factors which affect trade flows—in a particular product sector. The objectives of the sector negotiation will vary depending on the problems of the sector being considered. The major objectives will be to remove or reduce as many barriers as possible, and to achieve substantially equivalent competitive trading opportunities in that sector among developed countries. For some sectors, a major objective will be to harmonize trading conditions for products in that sector.

Despite serious opposition by the European Communities, Japan, the Nordic countries, Switzerland and a number of developing countries, the United States has been successful in initiating within the MTN Sectors Group a series of studies covering a broad spectrum of sectors. The first stage of this work covered the ores and metals sector, which includes steel and aluminum. The second phase, which is expected to be completed before the next Sectors Group meeting in early April, will expand the ores and metals study and add several other sectors, including chemicals, electrical machinery and electronics. Consideration of these studies in the Sectors Group provides the United States with a negotiating forum for examination of a broad range of barriers and other distortions which affect trade in those product sectors. In the coming months, as the issues are narrowed and the outlines of the negotiations become clearer, the Executive Branch will continue its consultations with the private sector, Congress, and with our negotiating partners in order to identify those industrial sectors where sectoral negotiations are feasible and appropriate within the terms of section 104 of the Trade Act of 1974.

Executive Branch policy is in no way designed to frustrate sector negotiations, in fact, quite the contrary is the case, as reflected in our successful efforts, despite opposition by most of the other participating countries, to secure Secretariat studies along sectoral lines. At the same time, it should be recognized that sectoral negotiations are not a goal in themselves. What we seek are agreements which achieve sectoral objectives. Clearly, some of these objectives are obtainable through general rules negotiated in the existing functional groups. Others may, indeed, require special sector treatment. It is important that the implications of any proposed agreement or negotiating approach be evaluated along sectoral lines to ensure consistency with sectoral objectives. This we are doing and will continue to do. Where it is feasible and serves the objective of advancing our negotiating interests, we will not hesitate to press for specific sectoral negotiations.

Question 11. On January 1, the United States extended less developed countries increased duty-free treatment for entry into our market. What U.S. trade effects do you expect and what has been the reaction of the less developed countries?

Answer. Very little effect can be expected over the short-run, because non-import-sensitive items found eligible for GSP treatment total only 2½% of U.S. imports. However, as this treatment encourages developing countries to expand their exports in manufactured and semi-manufactured goods, it will give them a competitive advantage in a $25 billion U.S. import market for these products, now largely being filled by imports from other industrialized countries. LDC reaction to GSP has ranged from moderately favorable to highly critical of its more discriminatory features.

Most individual developing countries welcome the U.S. GSP as offering improved trade opportunities for them. Many have recognized that the responsibility rests in their hands to utilize these opportunities. There has been some criticism in international fora that the U.S. scheme excludes certain countries from beneficiary status. The main political thrust comes from the failure to include the OPEC members, particularly those which did not participate in the oil embargo. The failure to designate Venezuela and Ecuador has become a focal point for Latin American objections to the Trade Act.

Other criticisms of our system center around the failure to grant GSP on sensitive products on which the LDCs are particularly efficient—Textiles, shoes, handbags, and glassware—and the quantitative (competitive need) limitations on imports from specific countries for individual products.

Question 12. The Europeans recently negotiated a "voluntary" agreement with Japan under which Japan would limit its exports of steel to the European Community. The U.S. Trade Commission recently found the U.S. stainless steel industry is being seriously injured by imports involving major trade issues. Does not this whole situation call for a multilateral steel agreement under GATT supervision similar to what we have in textiles, which you fought so hard for when you were in the textile industry?

Answer. A number of special problems common to steel warrant a special review of this industry. Government interference in this industry is widespread throughout the world, in the form of direct ownership, as well as in other forms of assistance. The steel industry is not only important to a country's national defense, but is, in many countries, maintained also as a matter of national prestige. The steel industry also tends to be affected, more so than are many other industries, by cyclical changes in demand, which are often offset by foreign governmnent measures. This factor tends to aggravate trade problems for privately owned industry.

The Multilateral Trade Negotiations should result in improved solutions to the problems faced by the steel industry, as well as in substantial trade liberalization. I have consulted closely with the industry, as well as with members of Congress, on this matter, and will continue to do so as our negotiating position is developed further. I do not believe that the problems of the steel and textile industries are the same, nor do they warrant identical solutions. Instead, solutions suited to our steel industry's problems should be pursued as a priority matter in the Multilateral Trade Negotiations.

Special Representative for Trade Negotiations—Responses to Questions of Senator Dole

Question 1. Considering that imports have taken nearly one-half the U.S. market for corrective eyeglass frames, would it not be proper to reconsider the decision to include these products among those treated as duty-free?

Answer. Title V of the Trade Act prohibits designation of articles determined to be import sensitive in the context of the Generalized System of Preferences. Although there is deep import penetration in the corrective eyeglass frame industry, most of it is from developed countries which are not eligible for GSP. For the first nine months of 1975, only 4.6% of imports of opthalmic frames (TSUS 708.4720) were from eligible beneficiary developing countries.

We have informed the optical manufacturing industry of recently published procedures for petitioning for changes in the GSP product list. We have provided the Optical Manufacturers' Association with regulations governing petition procedures, and assured its officials that upon receipt of their petition, we will give it prompt consideration.

Question 2. Just how far should the U.S. permit its capacity for domestically producing critical products to be eroded—especially products directly related to the health of over half the citizens of the country (110 million Americans wear corrective glasses)?

Answer. We understand that domestic U.S. regulations are currently being considered to establish nationwide standards for optical equipment. If such standards were adopted, they would apply to imports as well as domestically manufactured products.

Question 3. Should not our trade negotiators give some special consideration to industries in the U.S. which are relatively small, and especially those whose operations are labor-intensive, to assure that the small entrepreneur is not eliminated from our economy entirely by foreign goods—some of which are of dubious quality?

Answer. The interagency Trade Policy Staff Committee chaired by STR is currently analyzing all pertinent advice, including industry advice, advice of the USITC and that received at public hearings, on which products to recommend for inclusion in the multilateral trade negotiations. This analysis takes into account the effect of import competition on labor-intensive domestic industry.

State Department—Responses to Questions of the Chairman

GOALS OF THE MTN

Question 1. What do you perceive to be the principal goals of the Geneva trade negotiations?

Specifically, what hierarchy of importance does the State Department assign to:

(*a*) Reform of the GATT rules;

(*b*) Rules governing access to supplies;

(*c*) General reduction of tariffs to provide substantially equivalent market access;

(*d*) Preferential treatment for goods of developing nations;

(*e*) Commodity agreements?

Answer. The current round of multilateral trade negotiations encompass a broad agenda of trade issues, each of which has importance in itself. It is our hope to make progress on each of these bearing in mind that our principal goal is improving the conditions by which trade contributes to the strength and growth of our economy and to improved relations internationally.

At some point in the negotiations—probably toward their end—we will be faced with choices over what is and is not achievable. For now, however, we prefer to seek progress across a broad front, pursuing on their own merits the specific objectives set out in the Trade Act of 1974.

We attach importance to each of the issues noted in the question and, indeed, to others which are not mentioned. We doubt that these negotiations will be considered a success by the Administration, the Congress or the American public if we do not achieve a significant reduction in tariffs or meaningful reform of the existing rules of the trading system, including those pertaining to restrictions on our access to essential supplies.

It is clearly to our adavntage if we can end these negotiations with the developing countries more firmly committed to and integrated into the world trading system. To achieve this we will have to have a system which, to the extent feasible, takes into account their development needs. At this stage, we see only limited possibility that we will negotiate commodity agreements in the traditional sense in the MTN.

CONSULTATION WITH CONGRESS

Question 2. Does the Department of State feel that it has any obligation to consult formally with Congressional Committees and receive prior authorization from Congress before entering into any Executive agreement which has the affect of regulating trade with foreign nations?

Answer. There can be no doubt that close consultation between the Administration and Congress on trade policy matters as well as on our foreign relations generally is essential if the United States is to conduct a coherent and credible foreign policy.

Section 102 of the Trade Act of 1974 is quite explicit regarding the obligation to consult with the House Ways and Means Committee, the Senate Finance Committee, and other relevant committees of Congress prior to the entering into any trade agreement under the authority of this section of the Act. The Executive Branch will meet this obligation.

EFFECT OF OPEC PRICING POLICIES

Question 3. Do you feel that the OPEC cartel pricing policies have had a serious detrimental effect on the economies of (a) the developing nations; (b) the developed nations? Can you quantify to the maximum extent feasible what this effect has been and is likely to be in the foreseeable future?

Answer. Yes. The impact of higher oil prices has had a serious detrimental effect on the economies of the developed and developing nations. The impact

has both short and long term aspects which affect the balance of payments, growth and inflation rates. The longer term aspects are particularly difficult to evaluate. In the short term, we can examine what has happened thus far and what is likely to happen in 1976.

On the balance of payments, the higher oil prices accounted for most of the collective current account deficit experienced by the OECD area (industrial countries of Western Europe, Canada, United States, Japan, Australia and New Zealand) in 1974 and 1975. This deficit (including official transfers) amounted to $33 billion in 1974 and $5 billion in 1975. Prior to higher oil prices, this group of developed nations traditionally ran a collective current account surplus of several billion dollars per year. The non-oil developing countries also ran a collective current account deficit of $28 billion (excluding official transfers) in 1974 and of $37 billion in 1975. Concerning the outlook for 1976, the OECD deficit (including official transfers) is expected to increase to the $15 billion range and the non-oil LDC deficit (excluding official transfers) decrease slightly to the $34 billion range.

The short term effect on growth and prices is more difficult to quantify. The OECD Secretariat estimates, however, that the direct impact alone of higher energy prices raised the OECD price level by 3½ percent in 1974. This would have accounted for roughly half of the acceleration in OECD price inflation in 1974 over the rate of inflation in 1973. Concerning growth, extension of a recent analysis by the Brookings Institution suggests that 1975 real GNP in the major industrial countries might have been roughly 5 percent higher in the absence of the oil price rise. These influences have also been passed indirectly to the non-oil developing countries with which the major industrial countries trade. Thus, the greater than-otherwise recession in the developed nations reduced the demand for the exports of the non-oil developing nations and tended to increase the price of what they import.

Over the longer run, the accumulation of oil-related foreign debt by the developing countries and the buildup of financial claims by OPEC on the developed countries represents a claim on their real resources. For the developing countries, in particular, this represents a severe hardship. Part of their adjustment to higher oil prices may well take the form of lower growth rates, assuming aid flows do not fully compensate for the impact of higher oil prices. For the industrial nations there is also likely to be some lowering of the rate of potential output because of the need to adjust production to higher cost energy.

COMMODITY AGREEMENTS AND OPEC

Question 4. How can commodity agreements ameliorate the effect of the (OPEC) cartel?

Answer. There is little doubt that oil price increases since early 1974 have slowed the development process in many oil-consuming developing countries. Funds that might have gone into development activities have been diverted to essential oil imports. Many developing countries have come to believe that commodity agreements that transfer resources from consuming to producing countries through a mechanism setting artificially high prices for raw materials are at least a partial answer to their development difficulties.

The United States rejects the concept of commodity agreements as an effective mechanism to transfer resources to developing countries. Administratively fixed commodity prices result in misallocation of resources, market rigidities, and excessive government intervention in markets. Moreover, developed countries—Australia, Canada, South Africa, the U.S. and the Soviet Union—are among the principal producers and exporters of a variety of important raw materials, and would be major beneficiaries of such a transfer of resources. A large number of developing countries that import these commodities would be net losers.

We recognize the very real concerns of developing countries over commodity trade problems. Our policy objectives, as set out in Secretary Kissinger's address to the Seventh Special Session of the UNGA in September, are to seek assured and adequate supplies of raw materials at reasonable prices; avoid excessive price fluctuations; and address the concerns of producing countries—especially developing countries that significantly depend on earnings from raw material exports. We have succeeded in opening a dialogue on commodity problems with the developing countries in a variety of international forums.

We remain convinced that the market mechanism is the best and most efficient means of balancing supply and demand, and best serves the interests of both producers and consumers. We also recognize, however, that there are certain specific cases where it may be desirable and feasible for producers and consumers to cooperate in actions designed to strengthen and improve the functioning of markets. In such cases, joint producer/consumer cooperation in commodities can set an example and provide an alternative to producer-only cartels.

ROLE OF THE STATE DEPARTMENT IN TRADE POLICY FORMULATION

Question 5. Specifically, in which areas of trade policy does the State Department have a leading role within the Administration.

Answer. We would like to think that the Department of State takes a leading role in all areas of trade policy if by that is meant the active and meaningful participation of State Department officials in the formulation and pursuit of our trade policies.

As the Secretary stressed in his testimony before the Committee in January, trade policy within the Administration is the result of close coordination among the agencies concerned and the President's Special Trade Representative who has special responsibilities in the negotiation of trade agreements and the administration of the trade agreements program under Title I of the Trade Act. In determining policy the agencies concerned have equal status and where a consensus cannot be found—which is rare—the final decision rests with the President.

Clearly each of the agencies involved in the policy formulation process has interests which reflect its primary area of governmental responsibility and its traditional areas of concern. The State Department is primarily concerned with the relationship between our overall foreign policy goals and those of our trade policy. These are not—as some have tended to claim—incompatible. Indeed, foreign trade policy is part of the overall foreign policy continuum. An effective foreign policy requires an effective and supportive trade policy, and vice versa.

OIL EMBARGO CONTINGENCY

Question 6. Would you favor any quantitative restrictions on oil imports from countries which embargoed the United States if the anticipated level of imports from those countries is likely to rise to a point when a future embargo would cause severe damage to U.S. national interests? Does the Department have any contingency plans to deal with a future embargo?

Answer. We do not propose the introduction of QR's. These would introduce price distortions and logistical dislocations. They would be a signal to our allies that they too should scramble competitively for the world's insufficient supply of non-Arab oil. Although the United States stepped up its purchases of non-Mideast OPEC oil between 1973 and 1975 (notably from Nigeria and Indonesia), declining Canadian and Venezuelan export capacity has contributed to an increase in the share of the U.S. oil market held by the states which participated in the 1973–74 embargo. For an indefinite future their production is essential to meet free world demand for oil.

Proceeding from the principle that consumer solidarity is essential to meeting an embargo contingency, to which any single industrialized country is to some degree vulnerable, the member countries of the IEA have adopted an emergency sharing program. Operating with a large degree of automaticity in the event of an embargo, the member countries will share equitably the oil that is available to the group. The IEA countries have also agreed to build up strategic oil reserves for national use in an embargo situation. Authority for U.S. participation in these measures is contained in the Energy Policy and Conservation Act.

LONG TERM OIL SUPPLY

Question 7. What are the prospects of entering into long term supply contracts with oil producing countries which did not embargo the U.S. in the last Arab-Israeli war?

Answer. The past record of long term supply contracts by other governments shows that these are not necessarily secure from interruption or breakdown and are generally on less favorable terms than alternative possibilities. They are inherently vulnerable to linkage with other issues or disputes that may arise in bilateral relations between the two countries. We would have to weigh a num-

ber of factors carefully, including the effects on consumer countries' solidarity, security and price objectives, and logistical efficiencies in considering any such proposition for government action. In addition to these factors, we would also have to consider the likelihood that our ability to negotiate such agreements with the OPEC member countries which did not embargo the U.S. would be hampered by the fact that the Trade Act of 1974 has required that these countries be excluded from inclusion in the U.S. generalized system of tariff preferences.

LONG TERM OIL SUPPLY

Question 8. Would such supply contracts require the government to establish an oil purchasing facility, or can they be enforced through import quotas?

Answer. In the absence of any decision to seek such contracts we have no view on the mechanics.

POSSIBLE OIL AGREEMENT WITH THE USSR

Question 9. Would any oil agreement with the USSR be submitted to Congress either as a treaty or a trade agreement? Can you describe the approximate amounts of oil which may be imported from the USSR under such an agreement?

Answer. Negotiations for an oil agreement were resumed in Washington on January 26 on the basis of the letter of intent signed in Moscow on October 20, 1975. These negotiations were recessed indefinitely on March 9 because of inability to reach agreement on the premium shipping rates required by U.S. flag vessels. The agreement was to have amplified the letter of intent, but it would not commit the United States or U.S. companies to any obligation to purchase Soviet oil.

While this agreement would not be concluded under the authority of the Trade Act of 1974, we are prepared to consult with the Finance Committee in executive session concerning this negotiation.

The letter of intent provides for an annual Soviet offer of ten million tons of crude oil and petroleum products for sale to the United States. This amount is equivalent to about 200,000 barrels per day. A copy of the letter of intent is enclosed. It has been provided to the Congress and was also published.

U.S. AND U.S.S.R. NEGOTIATING ON PURCHASE OF SOVIET OIL

Following is a letter of intent dated October 20 signed by Charles W. Robinson, Under Secretary for Economic Affairs.

HIS EXCELLENCY,
N. S. PATHOLICHEV,
Minister of Foreign Trade,
Moscow, U.S.S.R.

DEAR MR. MINISTER: This is to confirm the understanding arising out of our discussions that our two Governments intend to commence negotiation promptly to conclude an Agreement concerning the purchase and shipment of Soviet oil. This Agreement will provide for the following:

(1) The Government of the Union of Soviet Socialist Republics will, for a period of five years, offer for sale annually ten million metric tons of crude oil and petroleum products.

The Government of the United States may purchase the crude oil and petroleum products for its own use or, by the agreement of the Parties, the purchase of crude oil and petroleum products may be made by United States' firms.

(3) About 70 percent of the total quantity offered for sale will be crude oil. The remainder may be petroleum products, in particular diesel oil and naphtha.

(4) Some portion of the crude oil or petroleum products will be shipped to the United States, partly in tankers used to transport grain from the United States to the Soviet Union.

(5) Some portion of the crudeoil or petroleum products may be delivered to Europe or other agreed marketing areas.

(6) Prices for crude oil and petroleum products will be mutually agreed at a level which will assure the interests of both the Government of the United States and the Government of the Union of Soviet Socialist Republics.

In addition it is further understood that both Governments will work for the extension and expansion of the cooperative efforts already underway in the field

of energy. Such efforts will be particularly directed toward the fuller application of the technological capability of both countries in increasing energy output from existing sources and in developing new sources of energy.

Sincerely yours,

CHARLES W. ROBINSON,
Under Secretary of State for Economic Affairs.

U.S.-SOVIET TRADE RELATIONS

Question 10. Could you describe the status of U.S. commercial relations with the U.S.S.R. in the light of the Angolan situation and other international political trends. Specifically, under what change in circumstances would the Executive seek any changes in title IV of the Trade Act of 1974?

Answer. U.S. commercial relations with the USSR continued to expand in 1975. Our exports were $1.8 billion, compared with $0.6 billion in 1974. Grain sales account for much of this increase, although our non-agricultural exports have been rising steadily since 1973. Our trade surplus with the Soviet Union in 1975 was more than $1.5 billion, and it accounted for about 14 per cent of our global surplus.

In addition to depriving us of additional export opportunities, Title IV has, as the Secrettry said in his statement at your hearing, reduced our ability to use the process of normalizing trade as a flexible and constructive element in our relations with the USSR and other Communist countries.

We had originally intended to consult more actively with the Congress at this time to see whether modifications of the MFN or credit restrictions might be possible. In view of the Soviet intervention in Angola, we do not consider that this is an appropriate moment to come before the Congress with such a request. The timing of any decision to move ahead will depend on the evolution of our relations with the Soviet Union, on their performance on humanitarian issues, and on the receptivity of the Congress to such an initiative.

Monitoring U.S. technology exports

Question 11. How do you intend to monitor the export of technology from U.S. corporations and their foreign affiliates to state controlled economies?

Answer. United States' controls over the export of "goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the security of the United States" are governed by the Export Administration Act of 1969, as amended. The Transaction Control Regulations, administered by Treasury, are aimed at U.S. foreign affiliates and are discussed in the answer to question 23. In addition to these unilateral controls, the United States participates in COCOM, the "coordinating committee" of the NATO countries (except Iceland) and Japan for strategic export controls, under authority of the Mutual Defense Assistance Control Act of 1951 (Battle Act).

In accordance with law, the Department of Commerce in consultation with other agencies, including the Departments of Defense and State, the Nuclear Regulatory Commission, ERDA, NASA, and the Central Intelligence Agency, administers the controls established by the Export Administration Act. As Chairman of the East-West Foreign Trade Board, the Secretary of the Treasury participates ex officio in the Cabinet-level Export Administration Review Board, which sets policy and resolves interagency disputes on export-licensing cases.

U.S. unilateral controls cover not only the export of militarily significant technology from this country, but also reexport of U.S. technology from other countries. Exports, whether of goods or technology of U.S. origin, from foreign affiliates of U.S. firms are therefore also subject to U.S. export-control laws and regulations.

The countries which belong to COCOM maintain their own national systems of strategic export controls, to which U.S. foreign affiliates in those countries are also subject. These controls apply to the export of goods and technology listed by COCOM as having potential application in the development, production, or utilization of arms, ammunition, or the implements of war. Items listed by COCOM, or related technology, may not be exported from a COCOM country to a Communist destination without the unanimous approval of the COCOM countries.

U.S. firms which seek to export unpublished design or production technology to Communist countries must apply for permission to execute the transaction

to the Office of Export Administration in the Department of Commerce. Foreign affiliates of U.S. firms in COCOM countries are subject to the national controls in those countries, which include control over technology related to COCOM-listed items. All U.S. foreign affiliates, wherever located, are subject to the Transaction Control Regulations.

Applications for permission to export describe the nature and value of the technology, the consignee, the ultimate end user, and the end use.

These control systems provide the United States Government with very complete information on, and strategic control over, the export of technology from U.S. firms and their foreign affiliates to state-controlled economies. The East-West Foreign Trade Board relies on information developed through the mechanisms described above, and submitted to it by the Department of Commerce, to carry out its monitoring responsibilities under Section 411 of the Trade Act of 1974.

PRIOR REVIEW OF EAST-WEST TRANSACTIONS BY THE EAST-WEST FOREIGN TRADE BOARD

Question 12. Can you describe how the State Department views the role of the East-West Trade Board in reviewing *a priori*, transfers of technology which may be sensitive to our security, or major East-West commercial transactions involving, say, over $1 billion in goods, or any extension of government credits on concessional terms?

Answer. The Department of State considers the role of the Board and its Working Group in reviewing these matters before and after final decisions are made to be both useful and appropriate.

U.S. Government controls over the transfer of technology sensitive to our security were briefly described in the answer to question 11. Within the framework established by the Export Administration Act of 1969, as amended, policy is set, and key licensing decisions are made, by the interagency Advisory Committee on Export Policy (ACEP), chaired by Commerce at the Assistant Secretary level. Interagency differences not resolved in ACEP are referred to the Export Administration Review Board (EARB), whose members are the Secretaries of Commerce, State, and Defense. All these agencies are represented on the East-West Foreign Trade Board, whose chairman participates *ex officio*, in the EARB.

The Department of State considers that the ACEP and the EARB remain the appropriate mechanisms for administration of strategic export controls. When licensing cases have important political, as well as security, implications, it is customary for the East-West Foreign Trade Board's Working Group, and if necessary the Board itself, to discuss the cases before licensing decisions are taken. The Board and Working Group are informed after the fact of licensing decisions on more routine cases. State is satisfied with these arrangements.

Major East-West trade transactions involving U.S. firms are discussed by the Board's Working Group, and as appropriate by the Board, before the transactions are consummated. Transactions involving $1 billion in goods would certainly be regarded as major. The Board neither has nor seeks the authority to disapprove transactions on strictly commercial grounds, but it can advise U.S. agencies which may be involved in some aspect of the transaction of its views on the degree of U.S. Government support it considers appropriate. The Board's analysis of proposed transaction in accordance with its mandate to ensure that East-West trade is conducted in the national interest.

The Export-Import Bank and the Commodity Credit Corporation now provide financing for transactions with only two countries—Poland and Romania—within the Board's purview. Proposals for Eximbank financing which are significant, either by their size or for other reasons, are carefully considered by the Board or its Working Group before the Bank issues its commitment. Routine transactions are reported to the Board after a commitment is issued. The Bank is a member of the Board and Working Group and participates in their discussions. Views expressed in these discussions are taken fully into account by the Bank's Board of Directors, which retains the authority to make a final decision on issuance of a commitment and on its terms. The NAC reviews Exim transactions involving exposure of $30 million or more and gives the Eximbank Board its advice on each transaction. Any transaction involving over $50 million in Eximbank financing for a Communist country requires as well a separate Presidential national-interest determination, and must be reported to Congress.

The Department of Agriculture reports regularly on CCC financing made available to Poland and Romania.

STATE DEPARTMENT ROLE IN THE MTN

Question 13. What role does the State Department play in the Geneva trade negotiations?

Answer. The State Department fully participates with the other agencies concerned in the interagency mechanism out of which come the policy guidelines governing the positions we take in Geneva. In addition, Departmental officials are frequently members of delegations to specific MTN meetings held in Geneva.

We have made a conscious effort as well to keep U.S. diplomatic posts overseas informed of developments in the negotiations so they can assess and report pertinent developments in other countries which may have an effect on the MTN. We also look to overseas U.S. posts to support the positions we take in Geneva in their discussions with key officials in foreign capitals.

OPEC POWER AND TRADE AND INVESTMENT NEGOTIATIONS

Question 14. Many feel that the OPEC cartel is now at the peak of its strength, and that the present is not the best atmosphere in which to negotiate the mechanisms for trade and investment flows for the next decade. Do you feel that there is any disadvantage to using the OPEC cartel as the backdrop against which to negotiate?

Answer. We do not agree that the OPEC cartel is now at the peak of its strength if by this is meant that OPEC will soon lose its control over the supply and price of oil to the consuming countries. OPEC is likely to retain its dominant power over the oil market unless supply and demand relationships are altered over the medium and long term through development of non-OPEC oil resources, use of non-oil energy sources and application of energy conservation measures.

At the same time, the course of the global economy in recent years has brought about a greater appreciation of the interdependence of the economic welfare of the industrialized countries, the oil producers and the non-oil developing countries alike. General agreement on this reality has made it possible and appropriate to engage in a global dialogue now on the problems of energy, raw materials, development and related financial questions, as we are doing in Paris through the commissions of the Conference on International Economic Cooperations (CIEC).

We do not believe the continuing potency of OPEC constitutes an impediment to successful economic negotiations. The results of the sharp increase in oil prices brought about by OPEC have, in fact, made every nation more aware of the world's increasing economic interpendence and have provided added incentive to work toward agreement aimed at strengthening the international economic structure.

POSSIBLE OIL AGREEMENT WITH THE USSR

Question 15. The Committee is informed that discussions between the U.S. and Russia on an oil agreement began this week in Washington. Is this correct?

If a U.S./Russian oil agreement is reached, do you not agree that it will affect oil trade between the U.S. and Russia? In other words, won't such an agreement be a trade agreement?

It seems that any agreement insuring access to supplies of oil or any other commodity must be a trade agreement and therefore must be submitted to Congress under the expedited procedures in the Trade Act. Do you agree?

Answer. As noted in response to question 9, we believe it is premature to comment on the possible outcome of the oil negotiations or the procedures which might be followed if negotiations are concluded successfully. However, we are not now proceeding under the authority of the Trade Act, nor do we anticipate concluding an agreement and submitting it to Congress under the authority and procedures of that Act.

With regard to your more general question, agreements concerning supply access negotiated pursuant to the new authority in Title I of the Trade Act of course would be submitted to the Congress under the expedited procedures of that Act. However we do not believe that all agreements relating to supply of any commodity to the United States necessarily will be negotiated and concluded under the authority of Title I of the Trade Act. In some cases, agree-

ments, such as multilateral commodity agreements, may be done as treaties and would accordingly be submitted to the Senate for its advice and consent. In other cases, the President may have independent constitutional or statutory authority outside of Title I of the Trade Act to conclude an agreement relating to or affecting supply access. Thus, although agreements negotiated pursuant to the authority of sections 102 and 108 of the Trade Act would be submitted under the expedited procedures of the Act, such submission of commodity or supply access agreements will not always be necessary or appropriate.

IMPACT OF OPEC OIL PRICE INCREASE

Question 16. What has been the impact of OPEC price increases on both the inflation in the world, the recession and the plight of poorer developing countries who have no oil? Would you characterize it as minimal, significant or major? Has the State Department done any studies on this?

Answer. The impact of higher oil prices on the welfare of both developed and non-oil developing nations has been of major significance in terms of the balance of payments, growth and inflation. The answer to question three above gives some indication of this impact. The answer to question 19 below describes in greater detail the implications for the non-oil developing nations' financing needs.

EFFECT OF OIL PRICE INCREASE ON INFLATION

Question 17. Three days ago, Under Secretary of State Charles Robinson and Assistant Secretary of Treasury Gerald Parsky told one of our subcommittees that the OPEC price increases accounted directly for about one-half the inflation in developed countries between 1973 and 1974 and that the indirect effects may even be greater. Can you supply us with the basis of these estimates?

Answer. Yes. The basis of these estimates was an earlier study by the OECD Secretariat in Paris which indicated that the direct impact of higher energy prices raised the OECD price level (an aggregate weighted figure for 24 countries) by 3½ percent in 1974. Since the 1974 rate of price increase measured on this basis was about 13 percent and the 1973 rate of increase about 7.5 percent, the 3.5 percent increase in the level of prices due to the direct impact of higher oil prices accounted for about half of the acceleration in prices between the two years.

It is reasonable to believe that the indirect impact through the wage/price mechanism would have added an increase in prices at least equivalent to the direct impact, although it is difficult to be precise about the exact amount.

EXECUTIVE BRANCH PROCEDURES

Question 18. STR is negotiating on trade in Geneva, the State Department is negotiating with the less developed countries in Paris at the Conference on International Economic Cooperation, the Treasury is negotiating on monetary affairs in Jamaica, and so on. Who in the Administration decides what subjects will be discussed in what forum and how are all these pieces drawn together to make a coherent international economic policy for the United States?

Answer. Almost every international economic policy issue is worked on simultaneously by several agencies. Their efforts are coordinated through informal discussions and formally through established interagency mechanisms. In the trade area this is generally accomplished through the Trade Policy Committee and its sub-groups. In almost all cases, the U.S. position reflects a consensus of the views of the agencies with an interest in the issue. In those rare cases where differences cannot be resolved at the staff level or—even rarer—at the Cabinet level, the President makes the final decision. As the Secretary stated in his testimony before the Committee on January 22, jurisdictional questions are not a problem and coordination among the agencies in the trade area is better than that in some other areas of policy.

The President, of course, has the responsibility for initiating and conducting negotiations with other countries, and he determines which agency will lead a negotiation, drawing on the agency with the more direct responsibility and competence. In the case of trade agreements, the chief negotiator for agreements entered into pursuant to Title I and Section 301 of the Trade Act of 1974 is the President's Special Trade Representative.

As the principal agency responsible to the President for the conduct of our foreign relations the State Department has a clear interest in that aspect of our

foreign policy which concerns trade. We cannot conduct a successful trade policy outside the context of our political, security and general economic relations with other countries. The State Department is, therefore, among the principal agencies involved in the formulation and the conduct of our trade policy.

In addition to the coordination procedures established through the Trade Policy Committee and the East-West Trade Board pursuant to the Trade Act, interagency procedures have been set up pursuant to various statutory and executive authorities to coordinate decisionmaking with regard to multilateral export controls (COCOM) through the Economic Defense Advisory Committee and to unilateral export controls through the Export Administration Review Board and its subsidiary, the Advisory Committee on Export Policy. Other examples of bodies created to ensure coordination of other facets of our international economic policy could be cited. The result is close and thoroughgoing coordination throughout the Executive Branch in the making of foreign economic policy.

LDC BALANCE OF PAYMENTS PROBLEMS

Question 19. What are your current estimates of the abilities of the LDCs (i.e., the non-oil producers) to deal with their serious overall balance of payments problems in 1976?

Answer. If there is a developing country financing problem in 1976, it will be a problem associated with individual countries rather than a problem in the aggregate. The financing capabilities of the non-oil exporting developing countries vary widely. Some have been able to adjust relatively quickly to the recent changes in the world economy, and seem to be in full control of their balance of payments deficits. Others have increased their reliance on either private capital markets or traditional aid donors to finance their large deficits. Some countries, however, have serious adjustment problems, including heavy dependence on a single export product or political constraints on their policy options, and may be vulnerable to financing difficulties.

The small low-income developing countries are a special problem. Most have experienced extremely slow growth in recent years and are heavily dependent upon concessional resource flows which may or may not be adequate to avoid further reductions in growth rates and development plans. In context, however, the absolute magnitude of the financing deficits of these remaining countries will benefit from the expanded Compensatory Financing Facility of the IMF, the Trust Fund, and expanded access to IMF credit. However, to facilitate the adjustment process, any increases in bilateral and multilateral assistance may have to be directed toward these countries.

While the 1976 deficit of the non-oil exporting countries may now be "manageable", the continuation of large current account deficits has implications which extend beyond the short-term, particularly in the areas of external debt and growth.

SUPPLY ACCESS AGREEMENTS

Question 20. Do you think that the existence of such payment problems represents a unique opportunity for the U.S. to conclude supply access agreements on non-oil products, on terms favorable to the United States? In other words, does their distress increase their willingness to negotiate?

Answer. As the answer to question 19 indicates, the balance of payments problems faced by LDCs are not evenly distributed. In many cases, LDCs facing financial problems are not significant exporters of vital raw materials. The majority of our imports of non-oil raw materials are from developed countries. The negotiating leverage presupposed by question 20, therefore, does not exist to any great extent.

We are, however, attempting in the MTN and elsewhere to deal with the problems presented to LDC producers of raw materials and to importers of those raw materials. We are prepared to join with other developed countries to negotiate reduction in tariff escalation under which tariffs increase at higher stages of processing. At the same time we have stated our willingness in principle to make and to request specific supply access commitments, and have indicated our interest in negotiating rules governing export restrictions.

Some countries have suggested that they would guarantee access to their raw materials in exchange for a guarantee by the United States Government that we would pay high fixed prices for those commodities. We do not have authority to make such agreements, nor do we we consider it to be in the national to do so.

EMIGRATION FROM ROMANIA

Question 21. Since the Congress approved the U.S./Romanian Trade Agreement and extended Romania most-favored-nation treatment, the numbers of people emigrating from that country have fallen drastically. In your mind, does this performance constitute a policy of freer emigration?

Answer. Concurrent with Congressional approval of the U.S./Romanian Trade Agreement, emigration from Romania to the United States and Israel increased susbtantitally. The total number of Romanian emigrants to the United States in the last six months of 1975 was 763, compared to 177 during the first half of the year. In calendar year 1975, 890 persons emigrated to the United States from Romania compared to 328 in fiscal year 1974. According to our records, the 1975 flow to the United States was significantly higher than in any year since 1965. Emigration from Romania to Israel also increased markedly in the last half of 1975. The attached tables provide statistical information on emigration to the United States by month, January 1975–January 1976; by year since 1965; and data on emigration to Israel, January 1975–January 1976. We believe these figures indicate that the Government of Romania is thoroughly aware of and has been responsive to U.S. concerns about emigration.

STATISTICS ON ROMANIAN EMIGRATION TO THE UNITED STATES IN 1975

Immigration visas issued by Embassy Bucharest in 1975, by month

January	27
February	13
March	14
April	24
May	20
June	29
Total first 6 months	127
July	110
August	182
September	181
October	131
November	62
December	56
Total second 6 months	722
Total Immigration Visas issued 1975	849
Total emigration 1975 (includes 41 TCP's)[1]	890
January 1976 (includes 4 TCP's)	74

[1] *"Third-country processing":* Refers to persons who received exit permits from the Romanian Government and obtained U.S. immigration visas outside of Romania.

STATISTICS ON ROMANIAN EMIGRATION TO THE UNITED STATES SINCE 1965

Immigration visas issued by Embassy Bucharest by fiscal year

Fiscal year:	
1965	274
1966	104
1967	19
1968	28
1969	154
1970	372
1971	629
1972	269
1973	357
1974	511
1975	828
Calendar year:	
1975	849

[ENCLOSURE NO. 3]

Emigration to Israel from Romania in 1975 [1]

January	62
February	41
March	102
April	60
May	46
June	199
Total first 6 months	510
July	403
August	288
September	262
October	350
November	180
December	115
Total second 6 months	1,498
Total for 1975	2,008
January 1976	328

[1] While these figures are provided in precise terms, there are some slight inaccuracies. We believe these figures are however correct to within one or two percent.

U.S.–SOVIET TRADE RELATIONS

Question 22. Briefly, how would you describe the status of U.S.-Soviet commercial relations? Are discussions currently underway to revive the 1972 trade agreement?

Answer. The status of our commercial relations with the Soviet Union, and of our interest in seeking an amendment to Title IV of the Trade Act so that the 1972 trade agreement can enter into force, are discussed in the answer to question 10.

TECHNOLOGY EXPORTS FROM U.S. FIRMS IN EUROPE

Question 23. You are a member of the East-West Foreign Trade Board, a group established to review the export of technology to communist countries. Isn't it possible for a U.S. company to transfer very sensitive technology to the Soviet bloc by exporting it from a European subsidiary?

Answer. Both the U.S. Commerce and Treasury controls and the multilateral COCOM controls take account of this possibility. As the committee is aware, the controls exercised by the Department of Commerce apply to U.S. goods or technology supplied to foreign subsidiaries or other foreign firms. Thus, a manufacturer of products in another country must obtain U.S. Government approval before incorporating American technology, components, or parts in the end product for sale to a Communist destination. While there are questions as to where the line should properly be drawn in this somewhat extraterritorial application of U.S. regulations, nonetheless the authority of the United States to control goods and technology of U.S. origin is well established and, we believe, is effective in respect of strategic goods.

In addition, any American subsidiary or affiliate located in a COCOM country would be subject to the strategic export control regulations of the host country. In the case of COCOM countries, these regulations parallel the controls exercised by the United States. Moreover, in accordance with the provisions of the Battle Act, the United States informs countries in addition to the COCOM countries of the lists of goods considered strategic for Battle Act purposes and seeks their cooperation when this is necessary.

To support and supplement the COCOM, Battle Act, and Commerce strategic control arrangements, the Treasury Department exercises the Transaction Control Regulations, which prohibit Americans, including foreign subsidiaries of U.S. firms, from participating in the purchase or sale of strategic commodities as defined by COCOM for ultimate shipment from any country outside the United States to the Communist areas without prior approval from Treasury.

Under these circumstances, the possibility of an American firm using a foreign subsidiary for purposes of evading strategic controls is extremely limited and would be difficult to sustain undetected for any lengthy period.

To the contrary, our experience has been that the large American corporations prominently engaged in international trade and multinational operations are conscious of their responsibility to reflect correctly not only the letter of applicable U.S. laws but the essence of U.S. policy and are careful to consult with American authorities in matters that might raise a question of strategic trade.

State Department—Responses to Question of Senator Ribicoff

STATE DEPARTMENT VIEWS ON AGRICULTURAL TRADE

Question 1. There has been much talk and some confusion about the Agricultural policies and objectives of the United States. What is the State Department's views on Agriculture? What should the American objectives in this area be? What is the relationship between our international Agricultural Trade objectives and food reserves? What is the relationship between our agricultural objectives and any possible agreements on coffee, cocoa and tropical products?

DEPARTMENT OF STATE VIEWS

Answer. The State Department is keenly aware of the importance of agriculture to our economy, our trade and balance of payments positions and to our foreign relations generally. We continue to work closely with the Department of Agriculture in ensuring that our farm community benefits fully from its position as an efficient producer and the world's largest exporter of agricultural commodities.

U.S. OBJECTIVES

As with many of our policies, our foreign agricultural policy is designed to serve several objectives. Among these are:

(*a*) achieving open markets for agricultural products to the maximum extent permitted by political and social factors in the various countries through a lowering of import barriers and export subsidies;

(*b*) international cooperation in improving nutritional levels and in meeting food emergencies;

(*c*) establishing a system of internationally coordinated but nationally held grain reserves to help offset grave shortfalls in world grain supplies due to crop failures or other natural disasters;

(*d*) international cooperation to accelerate the growth of food production, especially in food deficit developing countries.

RELATIONSHIP BETWEEN TRADE OBJECTIVES AND GRAIN RESERVE NEGOTIATIONS

In discussing grain reserves, we have aimed at achieving an agreement in which the responsibilities and benefits would be balanced among the participants. In its simplest terms, this has meant that, in exchange for commitments by major grain exporters to make available fixed additional supplies of grains during years of major shortages, major importers would acquire and hold an agreed amount of reserves in years of major surpluses. We see this effort as fully compatible with the objectives mentioned above. In addition, we have taken the position that the results of any reserves agreement would have to be folded into the Multilateral Trade Negotiations and be taken into account in any agreements on grains there.

RELATIONSHIP BETWEEN AGRICULTURAL OBJECTIVES AND POSSIBLE AGREEMENTS ON COFFEE, COCOA, AND TROPICAL PRODUCTS

These objectives are consonant with our policy to consider possible commodity agreements on a case-by-case basis with a view to limiting the extreme fluctuations in prices which have occurred in world trade in products such as coffee and cocoa for many years. In so doing, we seek to ensure that the export earnings of producer countries remain at a level capable of supporting further economic development of those countries but without putting an unreasonable burden on our consumers. Where an international agreement promises to meet these objectives without compromising other U.S. policy goals, we will urge its adoption.

A case in point is the International Coffee Agreement of 1975, which we intend to sign. A different case is that of the International Cocoa Agreement of

1975, which contains rigid price provisions and inadequate protection for consumer interests. We will not sign the cocoa agreement unless it is substantially modified in renegotiation.

In the Multilateral Trade Negotiations, we are prepared to negotiate improved access to our market for tropical products produced by developing countries. Increased export earnings of the countries marketing such products in turn increases their capacity to buy from us. Developing countries will be expected to make appropriate trade contributions to the Multilateral Trade Negotiations, which can serve to improve access of U.S. agricultural and manufactured products to their market.

STEEL COUNTERVAILING DUTY CASE

Question 2. What do you perceive as the proper role of the State Department in any efforts that might be undertaken to avert the international crisis that is likely to develop out of the pending U.S. Steel countervailing duties cases or from the government subsidies—countervailing duties issue in general?

Answer. The Department of State is following closely U.S. Steel's actions with regard to the company's claim that the rebate of the value added tax is a bounty or grant under U.S. countervailing duty law. This contention by U.S. Steel has been formally rejected by the Department of Treasury, which has responsibility for execution of U.S. conntervailing duty laws.

On February 19, 1976, U.S. Steel filed a summons in Customs Court that would enable it to initiate at any time within the next two years a legal challenge to the Treasury Department's rejection of the U.S. Steel petitions concerning imports from the UK, France, the Federal Republic of Germany, Luxembourg, Belgium, Italy, and the Netherlands. Therefore, it will be necessary to await the outcome of this litigation.

With regard to the general subsidies/countervailing duty issue, the Department of State is working with other interested Government agencies under the chairmanship of the Special Trade Representative toward the objective of negotiating new international rules concerning the use of subsidies and countervailing duties. We and other agencies consider these negotiations to be an extremely important aspect of the Multilateral Negotiations. We would expect these negotiations to clarify many of the disputed aspects of the subsidies problem including the question at issue in the U.S. Steel case of the remission of indirect taxes.

EXECUTIVE BRANCH PROCEDURES

Question 3. How do you determine whether an issue or negotiations properly come under the jurisdiction of the Department of State, the Department of Treasury, the Department of Commerce, or the President's Special Representative for Trade Negotiations? What are the State Department's areas of jurisdiction over matters affecting trade? Could you cite the specific authorities under which you decide jurisdiction or undertake negotiations. What procedures do you have for coordinating commercial policy, including commodity policy, export control policy, and all other areas of policy having a direct or indirect effect on trade?

Answer. Almost every international economic policy issue is worked on simultaneously by several agencies. Their efforts are coordinated through informal discussions and formally through established interagency mechanisms. In the trade area this is generally accomplished through the Trade Policy Committee and its sub-groups. In almost all cases, the U.S. position reflects a consensus of the views of the agencies with an interest in the issue. In those rare cases where differences cannot be resolved at the staff level or—even rarer—at the Cabinet level, the President makes the finanl decision. As the Secretary stated in his testimony on January 22, jurisdictional questions are not a prob lem and coordination among the agencies in the trade area is better than that in some other areas of policy.

The President, of course, has the ultimate responsibility for initiating and conducting negotiations with other countries, and he determines which agency will lead a negotiation. In the case of agreements entered into pursuant to the authority of Title I and Section 301 of the Trade Act of 1974, the chief negotiator is the President's Special Trade Representative. In the case of other agreements, other agencies may be designated to lead negotiations.

The President's authority, with respect to both the choice of policy advisers and the decision as to who shall lead negotiations, is constitutional. The President, of course, is the constitutionally responsible head of the Executive Branch, and, as indicated by the Supreme Court in *United States* v. *Curtiss-Wright* Corp., 299 U.S. 304, 319 (1936), the President alone is entrusted with the constitutional power to negotiate with foreign governments.

As the principal agency responsible to the President for the conduct of our foreign relations the State Department has a clear interest in that aspect of our foreign policy which concerns trade. We cannot conduct a successful trade policy outside the context of our political, security and agency economic relations with other countries. The State Department is, therefore, among the principal agencies involved in the formulation and the conduct of our trade policy.

In addition to the coordination procedures established through the Trade Policy Committee and the East-West Trade Board pursuant to the Trade Act, interagency procedures have been set up pursuant to various statutory and executive authorities to coordinate decision making with regard to multilateral export controls (COCOM) through the Economic Defense Advisory Committee, and to unilateral export controls through the Export Administration Review Board and its subsidiary, the Advisory Committee on Export Policy. Other examples of bodies created to ensure coordination of other facets of our international economic policy could be cited. The result is close and thoroughgoing coordination throughout the Executive Branch in the making of foreign economic policy.

Question 4. What are the criteria for determining how an agreement affecting trade should be labeled and handled between your Department and the Congress? Specifically, what do you see as the difference between a treaty, an executive agreement, a commodity agreement and a trade agreement, assuming that each directly affects the trade of the United States?

Answer. The proper procedures which the Department of State may follow with respect to the Congress for a given international agreement affecting trade may vary according to a number of factors. For example, for agreements negotiated under the new authority in section 102 of the Trade Act, there are of course procedures set forth in Title I for consultations and Congressional approval, though we would expect the Special Trade Representative, as chief negotiator of such agreements, to assume the leading role in the Executive Branch for implementing those procedures.

For agreements which may affect trade but which are negotiated under some other authority, the procedures which might be followed depend on the nature of the authority, the type of agreement and the nature of U.S. commitments under the agreement. For example, if the President determines to negotiate an orderly marketing agreement to provide import relief in response to an International Trade Commission finding under section 201 of the Trade Act, this determination would be reported to the Congress under section 203(b)(1) of that Act.

On the other hand, there are no similar requirements for important restraint agreements concluded under the authority of section 204 of the Agriculture Act of 1956, and formal Congressional approval would not normally be necessary in light of the authority in that Act. To take still another example, multilateral agreements regulating trade in a particular commodity, such as the International Coffee Agreement, are customarily done in the form of treaties, requiring the advice and consent of the Senate to ratification.

You asked specifically about our view of the differences between a treaty, an executive agreement, a commodity agreement and a trade agreement. For purposes of U.S. law, a treaty is an international agreement to which the Senate has given advice and consent to ratification and which the President has then ratified. An executive agreement is any other international agreement to which the United States is a party. All international agreements of the United States thus are either treaties or executive agreements. "Trade agreement" has a specific meaning under the Trade Act, but the term is also used more generally to mean an agreement affecting trade. In the latter, more general sense, a trade agreement may be concluded either as an executive agreement or a treaty, while a "trade agreement" negotiated under Title I and submitted for approval of both houses of Congress would be an executive agreement. "Commodity agreement" does not have a specific legal meaning. The term is usually used to describe multilateral agreements regulating trade in a particular raw material, but may also mean bilateral agreements affecting commodities. Multilateral commodity

agreements are generally negotiated as treaties and submitted to the Senate for its advice and consent to ratification.

Customarily, certain agreements, such as security treaties or multilateral commodity agreements, have been done in the form of treaties. Agreements done as treaties with the advice and consent of the Senate have the same constitutional status as federal legislation, but obviously it is not always necessary or appropriate to follow the treaty-making procedures of the constitution, and the great majority of our agreements are executive agreements. Executive agreements may be submitted to the Congress for approval by joint resolution, particularly if private rights within the United States would be affected. Furthermore, implementing legislation may be necessary in the case of either an executive agreement or a treaty in order to carry out U.S. obligations. Finally, we of course, notify to the Congress all executive agreements pursuant to the Case Act, whether or not approval or implementing legislation is desirable or necessary.

It should be added that beyond the legal aspects of this question, we try to consult with the Congress through the appropriate committees on a broad range of agreements and negotiations. We recognize that this is particularly important in the area of foreign commerce, where the Congress has constitutional responsibilities. If we are to have a coherent foreign economic policy, we believe that we must work together in the national interest.

ARAB BOYCOTT

Question 5. In November, the President made a strong statement that firmly committed his administration to opposing the Arab Boycott of American firms. Recently, the Department of Justice filed suit against the Bechtel Corporation for alleged violations of the antitrust laws stemming from possible compliance with the boycott.

During your testimony, you stated that you had advised the Attorney General of the possible adverse effects of this case on our foreign policy, but that neither you, nor any representative of the State Department had tried to stop or delay the suit. You stated that the potential adverse effects of enforcement and prosecution in connection with the boycott do not mean that "foreign policy considerations should override provisions of our law." You stated that you therefore support the Department of Justice in its prosecution of the Bechtel case.

Would you therefore support other steps, including the rigorous enforcement of other laws, in connection with compliance by American firms with the Arab Boycott? Would you support legislation directed toward minimizing the effects of the "secondary boycott" on American trade and commerce?

Answer. We believe both the President's statement of November 20, 1975 and Secretary Kissinger's testimony before the Finance Committee speak for themselves.

We strongly believe that the Arab boycott is but one reflection of the Arab-Israeli conflict and that its scope will be reduced in direct proportion to the success of our efforts to resolve that conflict. In our view the adoption of new anti-boycott legislation or innovative application to the boycott of existing U.S. laws never previously considered relevant to the Arab or other politically motivated boycotts will not bring about relaxation of the boycott.

To the contrary, such action might jeopardize our efforts to promote a settlement thereby perpetuating the boycott. We do not share the view that the Arabs are so dependent on U.S. technology that they will ignore their own boycott laws once confronted on the boycott issue by the United States Government.

To play a conciliatory role in the Middle East, the United States must retain the credibility of both sides by avoiding actions perceived by either side as fundamental shifts in our national orientation on basic aspects of the conflict. Our effectiveness also depends upon leverage generated by increased U.S. trade with the middle East which also carries substantial benefits for the U.S. economy and employment. Legislation or innovative application of existing laws directed at the Arab boycott threatens all these objectives.

Decisions to adopt legislation or to apply existing laws for the first time to long-standing problems generally involve the weighing of a substantial number of policy considerations. Although the State Department is not charged with making these decisions, we are sure that officials who do have these responsibilities will be mindful of our basic national objective in the Middle East and of its crucial linkage to elimination of the boycott.

Treasury Department—Responses to Questions of the Chairman

Question 1. Do you believe the current U.S. tax laws (combination of "direct"; "indirect" taxes) best serve the U.S. international competitive position?

Answer. The structure of U.S. taxation reflects a variety of competing interests and objectives. The international competitive position of the United States has seldom ranked among the foremost objectives. Thus, the United States has not structured its tax laws so as to achieve the maximum level of border tax adjustments on imports and exports. GATT rules permit the rebate of indirect taxes on imports. However, under GATT rules, no border adjustment can be made for direct taxes, such as the corporate income tax.

The United States might alter its tax structure so that a wider range of taxes were eligible for destination principle border tax adjustments (tax rebated on exports, and tax imposed on imports). However, any major shift in the U.S. tax structure must be justified primarily for domestic rather than international reasons. Thus, if the United States wishes to make wider use of destination principle border tax adjustments, a change in GATT rules, coupled with new U.S. border tax provisions, might offer a more appropriate avenue than a change in the domestic tax structure.

Question 2. Could you compare the U.S. tax mix (direct; indirect taxes) with that of West Germany and the relative inflation and unemployment rates in both countries?

Answer. Table 1 shows 1973 tax revenues as a percent of GNP for Germany, the United States, and selected other countries. The overall tax burden is heavier in Germany (37 percent of GNP) than in the United States (28 percent of GNP). Germany relies to a greater extent on sales, excise, and social security taxes than the United States. Conversely, Germany places less reliance on corporate income and property taxes.

Table 2 shows recent unemployment and inflation rates in both countries. Unemployment rates have been lower in Germany, but rising. In 1972–1973, consumer prices increased less rapidly in Germany than the United States, but in 1974–1975, the positions were reversed.

TABLE 1.—TAX REVENUE AS A PERCENT OF GNP FOR SELECTED COUNTRIES, TOTAL REVENUE AND BY TYPE OF TAX, ALL LEVELS OF GOVERNMENT: FEDERAL, STATE, LOCAL—1973

[All figures read as percent]

Country	Total	Sales and excises [1]	Social security [2]	Corporate income	Noncorporate income [3]	Property [4]	Other [5]	Total, excluding sales and excise [6]
Belgium	36.61	10.89	10.98	3.00	10.23	9.00	1.51	25.72
Canada	33.86	10.12	2.92	4.06	11.47	3.22	2.07	23.74
Denmark	44.14	14.38	2.33	1.40	22.62	1.80	1.61	29.76
France	36.94	12.24	15.17	2.24	4.03	.68	2.58	26.70
Germany (Federal Republic)	37.30	9.39	12.88	1.90	10.91	.83	1.39	27.91
Italy	29.23	9.65	12.05	2.05	3.60	.28	1.60	14.58
Japan	22.64	3.87	4.14	4.73	6.07	1.12	2.71	16.88
Luxembourg	37.00	7.88	10.29	5.70	9.88	1.37	1.88	29.11
Netherlands	43.75	10.54	16.00	2.99	12.09	.74	1.39	23.21
Sweden	43.50	12.31	8.68	1.86	17.58	.24	2.83	31.19
Switzerland	26.38	5.69	7.20	1.99	8.87	1.48	1.15	26.68
United Kingdom	32.78	8.42	5.51	2.51	10.83	3.68	1.83	24.56
United States	27.99	4.72	6.14	3.19	9.29	3.56	1.09	23.27

[1] Includes general sales, value added, and specific excise taxes.
[2] Includes contributions of employers, employees, and self employed. Category is broadly defined to include all tax payments to institutions of general government providing social welfare benefits, provided they are levied as a function of pay or as a fixed amount per person. Thus, for the United States, this category includes contributions to the railroad retirement fund, unemployment insurance fund, workmen's compensation fund, and civil service retirement program in addition, of course, to the more familiar social security-type payments made pursuant to the Federal Insurance Contributions Act (FICA).
[3] Includes income taxes on individuals and unincorporated enterprise, such as proprietorships and partnerships.
[4] Includes taxes on net wealth and immovable property. Thus, for the United States this category would largely be made up of the state and local taxes on real and personal property.
[5] Includes taxes on employers based on payroll or manpower, taxes and stamp duties on gifts, inheritance, and capital or financial transactions, and miscellaneous taxes.
[6] Computed by subtracting sales and excises from total.

Source: Revenue Statistics of OECD Member Countries, 1965-1973, pp. 73-81.

TABLE 2.—RATES OF UNEMPLOYMENT AND CHANGE IN CONSUMER PRICES, GERMANY AND THE UNITED STATES

[In percent]

	1972	1973	1974	1975
Unemployment rate:				
Germany (Federal Republic)	1.1	1.3	2.6	[1] 4.9
United States	5.6	4.9	5.6	8.5
Consumer prices (rates of increase):				
Germany (Federal Republic)	5.5	6.5	7.0	[2] 5.5
United States	3.5	5.5	10.5	[2] 7.7

[1] Mid-1975 rate.
[2] Preliminary figures.

Source: "Economic Indicators," January 1976; IMF, "Recent Economic Development in the Federal Republic of Germany," July 1975 (confidential).

Question 3. Do you feel the income tax is borne by the producer or is, at least in part, passed on to the consumer?

Answer. This is one of the more contentious issues in the field of public finance. Most of the disagreement, however, is over how quickly an income tax is shifted to consumers rather than whether or not such shifting actually occurs. In the case of the corporate income tax, there is little doubt that in the very short run it is borne by capital in the corporate sector. But this is not the full story. Owners of capital in the corporate sector will be dissatisfied with their rate of return and will seek to move their capital to less heavily taxed non-corporate

sectors. The after-tax returns to capital will thus tend to be equalized across sectors and will probably be somewhat lower due to the tax. The movement of capital out of the corporate sector will mean lower output and higher prices in that sector. Thus, over time, consumers of corporate sector output will be burdened by higher prices because of the tax.

Question 4. Do you feel the GATT rules on subsidies reflect realistic tax shifting of direct and indirect taxes?

Answer. Current GATT rules on border tax adjustments are based on historical trade practices to avoid double taxation and on administrative convenience. The economic justification of the rules was developed later. The doctrine was developed that the GATT rules would be trade neutral if the taxes that are adjusted for at the border (i.e. indirect taxes), were fully shifted forward into consumer prices, and taxes not adjusted for at the border (i.e. direct taxes) were fully absorbed by producers. We do not believe that these assumptions on the shifting of prices are correct. Modern economic analysis indicates that there is no economic basis for drawing major distinctions between the shifting of direct and indirect taxes, except in the short term. It is generally recognized that the degree of tax shifting depends primarily on the demand for the commodity, the actions of monetary authorities, the stage of the business cycle, and the degree of competition among producers.

Question 5. What kind of changes in the GATT rules on subsidies would be fair for all countries, irrespective of the mix of direct and indirect taxes they may have?

Answer. The present GATT rules permit destination principle border tax adjustments for indirect taxes but not for direct taxes. These rules were written at a time when indirect taxes appeared to be declining in importance, and the major trading countries (including the United States) were anxious to confine the extent of border tax adjustments. Later, when value added taxes came into widespread use, the GATT rules were "explained" on the basis of different shifting assumptions for direct and indirect taxes. However, the supposed difference in the incidence of direct and indirect taxes has never been widely accepted by economists. The present GATT rules work to prevent those countries which rely more heavily on direct taxes from making more extensive use of destination principle border tax adjustments for those direct taxes. We are studying this problem. We do not yet have a position on how to change GATT rules to make them more fair.

Question 6. Do you feel that the DISC should be modified in the absence of any changes in the GATT rules on subsidies, or the European border tax program? Could you elaborate?

Answer. The Administration believes that DISC should not be modified except in exchange for concessions from European and other industrial countries within the context of the multilateral trade negotiations. The range of possible concessions, which might include recognition of DISC as an appropriate border tax adjustment measure, has not been explored with our trading partners.

Question 7. The Treasury Department has done some work on a possible value added tax for the United States. Could you supply the Committee on Finance with results of Treasury's research in this area, particularly with regard to the revenue raising potential and how a VAT might be made progressive so as not to burden low income taxpayers?

Answer. Attached are summaries of Treasury Department work on the VAT presented in question and answer form. The revenue potential and regressivity issues are covered in the attachments.

Briefing Questions and Answers on the Value Added Tax

Question 1. What is a value added tax?

Answer. It is a tax on the value added by each firm in the production and distribution process. Value added is the difference between a firm's sales and its purchases. Since each firm's value added is taxed once, the full value of the product is taxed once and there is no pyramiding of tax. Thus, the value added tax is distinctly different from a cascade turnover tax that taxes the value of the product as many times as there are transactions in the production and distribution process.

As it operates in Europe, a firm calculates its value added tax liability by use of the tax credit method. The firm determines its tentative tax liability by

applying the tax rate to its taxable sales, deducs tax paid on purchases made during the period, and remits the difference to the government. In the tax credit system, it is the deduction for tax paid on purchases that assures that there will be no cumulative taxation and that the full value of the product will be taxed only once.

Question 2. Do value added taxes differ in their specific treatment of capital equipment purchases?

Answer. Yes. There are three types of value added taxes: consumption, income, and gross product. Under each, the value added tax which a firm pays on its purchases of intermediate inputs, such as raw materials, is deductible from tax due on sales in the period in which the purchases were made. The three types do differ in their treatment of capital purchases.

The consumption type is the one used by all European countries that have a value added tax and is the only type of value added tax that is under consideration for implementation in this country. A firm calculates its tax liability by deducting, from tax due on sales, the tax paid on all purchases including capital equipment. Since the tax paid on capital purchases is deductible immediately, in the period in which the capital is purchased, capital goods are not subject to value added tax. This form is, therefore, described as a consumption type value added tax.

Under the income type of value added tax, immediate deduction of the tax paid on capital equipment purchases is disallowed. Rather, the tax paid on such purchases is depreciated over the useful life of the asset. If, for example, $100 in value added tax was paid on the purchase of a capital asset with an expected 5 year life, a deduction of $20 would be allowed each year. Since the tax paid on capital purchases is depreciated over the life of the assets, the value added tax is levied on national income and is thus described as an income type value added tax.

Deduction for tax paid on capital equipment purchases is never allowed under the gross product type of value added tax. Since the tax is levied on investment as well as consumption goods, it is described as a gross product type of value added tax.

Question 3. Is one form of value added tax more favorable to capital investment than the other forms?

Answer. Yes. The consumption form of value added tax, by permitting immediate deduction of tax paid on capital equipment purchases, exempts investment goods from the tax. I pointed this out in my October 7, 1971 testimony before the Senate Finance Committee during hearings on the Revenue Act of 1971 by referring to the European value added taxes which generally are of the consumption variety. I said that the effect of this treatment of investment ". . . is the same as if the cost of capital equipment were allowed to be deducted in full in the year purchased, rather than being depreciated over a period of years as we require under our income tax system." In short, the consumption form of the value added tax is a neutral tax with respect to factor choice; it does not increase the cost of capital relative to other factors of production.

By contrast, both the income and gross product forms of value added tax increase the cost of capital relative to the cost of other factors. Under the income form, value added tax is charged on capital equipment purchases, but is depreciated over the life of the asset rather than being deducted in full on a current basis. That is, the firm must finance some of the tax paid on the capital equipment purchase over the life of the asset. The gross product form of value added tax clearly increases the cost of capital relative to other productive factors since capital equipment purchases are taxed and that tax is never deducted or depreciated from the tax due on the firm's sales.

Question 4. Is the value added tax a consumption tax or an income tax?

Answer. The consumption form of value added tax is a tax on spending for consumer goods and services. That is, an individual bears the value added tax in relation to consumption rather than in relation to income. Since the tax is confined to consumption goods an individual can alter his value added tax burden by altering his consumption. It is not an income tax because individuals with different incomes, but identical consumption would, assuming the tax includes all consumption goods, bear the same amount of value added tax.

The other forms of value added tax, income and gross product, are not consumption taxes because they tax capital equipment, and this is likely to have an

impact on the rate of return which savers receive. Accordingly, the income and gross product forms of the value added tax have income characteristics because an individual's value added tax burden does not depend only on his consumption.

Question 5. If the consumption form of the value added tax is a tax on consumption, does this mean that it is superior to an income tax?

Answer. No, not necessarily. It means that the consumption type of value added tax is a tax on consumption whereas an income tax is a tax on income. This type of value added tax exempts savings. An individual incurs no value added tax liability on his savings. Accordingly, the tax does not penalize thrift. This is distinctly different from an income tax. Under that form of tax all income, whether consumed or saved, is taxed. Moreover, the return which an individual earns on his savings is also subject to income tax.

Whether it is "good" or "bad" to tax consumption, rather than income, can be interpreted only in light of current economic conditions. It is true, however, as I said before the Senate Finance Committee on October 7, 1971, that a country by country comparison of capital costs of maufacturing machinery and equipment demonstrates that the tax structures of some of the industrialized countries in the world provide more of an encouragement to capital investment than does the tax structure of the United States. If it is ever determined that the Federal Government is in need of substantial amounts of additional revenues, the value added tax deserves close scrutiny since it offers a way to raise such revenue without increasing the cost of capital relative to other productive factors.

Question 6. Isn't a consumption type value added tax regressive? That is, since consumption is a declining proportion of rising income, would not value added tax payments decline, as a percent of income, as income rises?

Answer. Although the value added tax is a tax on consumption, it need not be regressive. There are many ways by which the initial burden distribution can be altered: exemptions, differential rates, or a refundable income tax credit. It would be possible, for example, to exempt goods on which the poor spend a high proportion of their income. It would be possible to tax "luxury" goods at higher rates than "non-luxury" items. Finally, it would be possible to provide refunds to low income families for value added tax paid on a minimum amount of consumption. By using any of these tools one could devise the burden distribution which he deems to be most acceptable.

Those European countries which have adopted value added taxes have chosen to alter the burden distribution by applying lower rates or exemptions to selected consumption items. This type of system probably creates some administrative problems that would not arise if a single rate with uniform coverage were used.

I would point out that 7 of our states alter the burden distribution of their sales taxes by the use of an income tax credit. This particular method avoids the need to define exempt commodities and enables a given amount of basic consumption to be freed from the tax. It does not, for example, mean that middle and upper income groups pay no tax on their food purchases.

Finally, and perhaps most importantly, it should be emphasized that the charge that this or that tax is regressive is a limited and partial form of analysis. It focuses only on the source of revenue side of the issue and ignores how the revenues are spent. To the extent that value added tax revenues would be spent in such a way that lower income groups would receive, relative to their income, more public goods and services or more tax relief in the form of reduced taxes than higher income groups, the value added tax is certainly not part of a regressive fiscal program.

Question 7. Would the value added tax improve our balance of trade?

Answer. I assume that you are referring to the fact that under the General Agreement on Tariffs and Trade (GATT), indirect taxes, such as the value added tax can be rebated on exports and levied on imports. This border treatment is not accorded direct taxes such as the corporate income tax.

I cannot provide you with a definitive answer on the extent to which, if any, the value added tax would improve the U.S. balance of trade. I can, however, outline for you the conditions under which the value added tax could reasonably be expected to have a salutary effect on our trade balance.

If the value added tax was substituted for a direct tax (such as the corporate income tax or the property tax) that was shifted forward in higher prices and

was unshifted when removed, the effect would probably be for our exports to increase and imports to decrease. The logic is that the tax substitution would leave our domestic price level unchanged. Exports would become lower in price because of the rebate; imports would increase in price, relative to domestically produced goods and services, because they would be subject to the value added tax without having benefitted from the repeal of the direct tax.

To be complete I should remind you that economic opinion is divided over whether direct taxes are shifted forward in higher prices. If they are not shifted forward, the beneficial trade impact is less likely to materialize. The reason is that there would be an absence of downward pressure on prices as the direct tax that was not shifted forward (by assumption) was removed.

If, of course, the monetary authorities pursued a monetary policy that prevented prices from rising as the value added tax was substituted for the unshifted direct tax, exports could again be expected to increase and imports to decrease. Such a trade effect, however, would be attributable more to the monetary policy than to the value added tax. The reason is that a monetary policy that maintains stable prices in response to a fiscal program that substitutes a value added tax for an unshifted (by assumption) direct tax, is somewhat like a monetary policy that results in falling prices in the face of no such fiscal program. Either one could be expected to have a beneficial impact on our trade balance.

Finally, we must constantly keep in mind that any trade effect is dependent, at least in part, on the responses of other countries. As with the shifting of direct taxes, there is considerable division of opinion over how responsive our export sales are to relatively small price changes. Also, some of the other industrialized countries of the world impose corporate income taxes at rates which approach the level in the United States. To the extent that such countries reduce their corporate taxes in response to a similar reduction in the United States, the trade effect which we would expect to observe would be mitigated.

Question 8. You describe the tax as a levy on value added. Could not a firm minimize its tax liability by increasing purchases from other firms and thus reduce its value added?

Answer. No. The reason is that the value added tax is a tax on the full value of the product, but that value is taxed only once. It is correct, as your question suggests, that the firm with a high ratio of value added to sales would have to send more value added tax receipts to the government than a firm with a lower ratio of value added to sales. But remember, and this is crucial, a firm is charged value added tax on its purchases. Therefore, the firm with the low ratio of value added to sales (high purchases to sales ratio) would pay more tax on its purchases than the firm with the high ratio of value added to sales. There is, I submit, no difference, from the firm's point of view, between sending tax receipts directly to the government and sending them indirectly in the form of taxes charged on purchased inputs.

Question 9. A revenue figure of $18 billion has been reported in the press. Can you tell us what tax base and therefore tax rate the Treasury Department relied on in arriving at the $18 billion figure?

Answer. The Treasury Department, I must emphasize, has no value added tax proposal. We have, for some time, been studying the value added tax as part of our continuing reevaluation of the tax structure, but we have no value added tax proposal at this time.

I would, however, like to comment briefly on the issues raised by the $18 billion figure. My understanding is that this is a figure, and this is all that it is, that has risen in connection with the President's request to the Advisory Commission on Intergovernmental Relations to study the broad issue of school financing. It is a figure that is to be used for illustrative purposes and does not reflect a hard and fast policy decision.

Available data on personal consumption expenditures indicate that such consumption currently is running at an annual rate of $670 billion. If all components of personal consumption expenditure were subject to value added tax, a rate of 2.7 percent would be required to raise $18 billion in revenue. If some items were not subject to tax and the base was reduced to, say, $600 billion, a somewhat higher tax rate of 3.0 percent would be required to produce the $18 billion in revenue. If the value added tax base was reduced to $500 billion, a still higher rate of 3.6 percent would be required. In short, there is an infinite combination of rates and bases that would generate $18 billion in

revenue. Therefore, one should not assume that the existence of the $18 billion figure means that rate and base decisions have been made.

Question 10. Wouldn't a Federal value added tax be similar to the retail sales taxes presently levied by many state and local governments?

Answer. A consumption type value added tax, as is a retail sales tax that is confined to consumption goods, is a tax on consumption. The burden of each of these taxes is borne in direct relation to consumption spending. Each of these taxes encourages saving and investment because either tax can be avoided by saving and neither tax is levied on investment goods.

Whether a Federal value added tax would be similar to state retail sales taxes is a very broad question and therefore it is difficult to provide a precise response. There are 46 (including Alaska where it is at the local level only) separate and distinct state retail sales taxes. These taxes differ in their rates, bases, treatment of exemptions, and scope of coverage. Since the Treasury has no proposal for a value added tax and because of the diversity of state retail sales taxes, it would not be possible to delineate the potential areas of congruence between a Federal value added tax and existing state retail levies.

Question 11. State and local governments rely heavily on the retail sales tax as a source of revenue. How do you answer the argument that a Federal value added tax would infringe on this revenue source?

Answer. I would point out that about 19 percent of state and local government tax revenue comes from general sales and gross receipts taxes. That is, from what is commonly recognized as retail sales taxes. The other major sources of state and local government tax revenue are: property tax 41 percent; selective sales taxes, such as gasoline and alcohol taxes 16 percent; individual and corporate income taxes, 16 percent; and miscellaneous taxes, 8 percent.

This distribution reveals a couple of salient points. General retail sales and gross receipts taxes supply the state and local governments with about one-fifth of their tax revenue. These governments have other sources and indeed they rely on these other sources quite heavily. Perhaps more importantly, 37 states have chosen to levy income taxes and these income taxes, to repeat, contribute 16 percent of total state and local tax revenue. The income tax is, of course, the major source of tax revenue for the Federal government. It is clear, I think, that the use by the Federal government of the income tax has not operated so as to foreclose the states from also using it.

Question 12. Isn't a value added tax more complicated than a retail sales tax? It seems that all producers would be subject to a value added tax whereas a retail sales tax is limited to retailers.

Answer. The answer to your question depends, in part, on the type of retail sales or value added tax that we are talking about. There is considerable variance among existing state retail sales taxes with respect to such issues as rate, base, and coverage. Because of these differences it is difficult to evaluate the complexity or simplicity of these taxes against that of a Federal tax that does not exist.

Generally speaking, however, the state retail sales taxes are taxes on retail sales rather than on retailers. Wholesalers, distributors, even producers can and do make retail sales and often are, therefore, liable for payment of retail sales tax. These same firms, moreover, may make some purchases from firms that typically sell at retail. If these purchases are for business use they may qualify as tax exempt. To demonstrate that it is a non-retail sale, the purchaser probably would be required to supply the seller with some proof. The point of all of this is that it is not just the firms which we commonly think of as retailers that are within the state retail sales tax systems. Therefore, I do not think that one can conclude on an apriori basis that one of these taxes is more complicated than the other.

Chapter II—What Specifically Is a VAT?

The broad brush

As can be seen from the history, the VAT developed as an idea, or a theory, and only later was tried out. One particular version of the tax has been the most common type in practice, and consequently is what most people are talking about when they discuss VAT, but there are other versions.

First we can classify VAT's by their treatment of capital goods:

A consumption type.—This version of VAT provides that no tax will apply to capital goods. Since tax will have been paid already on the value added on components that go into capital goods, this requires that when a good is purchased for investment a refund must be allowed for any prior taxes paid. (The general reason for this can be seen from our previous example of value added (p. 1). We showed that value added is equivalent to gross income measured before a depreciation deduction. To avoid taxing capital goods twice, both when purchased and again when it is "sold bit by bit" to customers (as it is used up), it seems sensible to not tax the purchase of capital goods).

An income type.—Instead of exempting capital goods purchases, the VAT could deal with the double tax problems by allowing a deduction for depreciation.

A gross product type.—A third alternative is to put up with the double taxation of capital, i.e., tax capital outlays and allow no depreciation deduction.

In practice all of the current VAT's in Europe are of the consumption type and most of the proposals for VAT in the U.S. are for a consumption type tax.

The issue of a consumption or an income VAT is a tricky one in that a number of VAT supporters whose experience has been limited to the European varieties "never knew there was a choice." Also, the development of VAT as a way of putting more tax on consumption clearly indicates that supporters of this development were thinking of the consumption variety with deduction for capital purchases.

There is good reason for concentrating discussion on the consumption variety of VAT. The fact of the matter is that the income VAT of, say, 3 percent would not be much different from adding 3 points to all rates under the income tax. One difference is that the income VAT will impose some burden on income which escapes income tax, social security, exempt interest on state and local bonds, etc. If one wants to reduce the advantage that the present income tax affords these preferred incomes, this *can*, in principle, be done within the present income tax without having to create a new income-tax-like tax that taxes more income than the old income tax.

The fact is that the consumption type VAT is obviously different from the present income tax since it exempts savings, and this savings treatment is close to being the dominant issue when we ask "Should the U.S. adopt a VAT?" If one doesn't want to exempt savings from tax, then in a country like the U.S. with a fairly good income tax, the advantages of going to VAT at all are very small. Consequently, we will devote most of our discussion to the issue of a consumption type VAT. This is not to say that we want a consumption type VAT, but to say that this is the question, and that a decision to compromise on an income type is very close to not having a VAT at all.

Another dimension of a specific VAT is the way in which it is collected. Two approaches have been discussed in the literature:

The credit method—Each taxpayer is required to complete the tax in two steps:

1. Apply the VAT rate to his taxable sales.
2. Subtract from the tentative tax, the amount of the tax paid on things that the firm purchased.
3. If the credit in (2) is larger than the tentative tax in (1) the taxpayer is entitled to a refund. As an administrative matter, the system might require say quarterly reporting periods with the stipulation that excess credits be carried over to be used next quarter. By the end of the year credits still not used are refunded.

The deduction method.—Each taxpayer is required to compute his value added base (sales less purchases from other firms and less purchases for capital account), and he applies the tax to this net base. Again if there is a negative tax due to heavy capital outlays, a refund is required.

In practice all of the other VAT's in use in the world use the credit method. This has several advantages: there is no need to set up any definitions of what is a purchase from another business (how to treat interest and rent payments, payments to governments, payments to very small firms that may not be taxable, etc.). Under the credit method it is only necessary to see if the invoice includes a tax. An aspect of this on business transactions if it is inconvenient to impose a tax at some level there will be little lost because the next firm will not get a credit.

A disadvantage of the credit method is that it requires the tax to be invoiced separately, at least on business transaction.

We will generally assume that the credit method will be used but we do at a later point include a more detailed discussion of the choice.

Our discussion in the introduction of the meaning of value added implied that value added is the same as (1) total final sales of goods and services in the economy (sales not to other business for resales) or equivalent by the same as (2) gross income in the economy. These two concepts—total *final* sales and total gross income—are two ways to define GNP so potentially the base of a value added tax is GNP. Once we decide on a consumption type tax our base is reduced to GNP less business investment. Many value added tax proposals exempt sales to government on the ground that we would be paying ourselves. As will be noted later, one can make a case for taxing government's value added on the ground that this reflects total cost more accurately, but taxing government expenditures will not produce a net revenue gain. It seems useful, therefore, to provide a revenue estimate which excludes government. In very general terms, Table 1 describes the base of a consumption type value added tax. The table is designed to describe only the broad range of choices. All of the specific exemption issues are discussed in more detail later.

Consumption expenditures are 68 percent of GNP. There are some almost technical items which for economics-statistics purposes are included or excluded from consumption, and for which we should make adjustment in estimating a VAT base. In line 7 we have put down a figure that assumes that we would deal with these things in a fairly tough way. (E.g., we still exclude from the estimate the value added by churches even though that is in GNP). This reduces the base of a quite tough value added tax to about 60 percent of GNP.

Thereafter we list a variety of activities that people might consider for exemption under VAT. We have estimated the revenue effect of allowing a full exemption to these activities. (It will be seen that a partial exemption is also possible under VAT but the present exercise is only to calculate ranges.) If all of these exemptions were granted the tax base falls from about 60 percent to about 33 percent of GNP. Of this 27 point difference, 19 points is involved in 4 items housing, food, medical care and drugs.

To put some meat on these estimated percentages, we could guess that GNP for 1972 will be around $1.15 trillion. The broadest base (60.4 percent) amounts to $7.0 billion per point of VAT as revenue. The minimum base (33.5 percent) amounts to $3.8 billion of revenue.

It will be elaborated below that an efficient way to deal with the problem of regressivity of a VAT, a way far better than a food exemption, is to allow a refund of the tax on some basic amount of expenditure, e.g., the tax on outlays of $800 a person. With a population of 210 million the refund comes to $1.7 billion and combined with the broad based tax would leave net revenue at 1972 levels of $5.3 billion. The refund could be, of course, lower or it could be phased out for people with higher incomes.

There are, then choices involved in a VAT. To summarize broadly, a fairly tough consumption VAT could bring in from $5–$7 billion a point in 1972, and greater generosity in refund levels and/or exempt activities could push the yield down toward $4 billion. (If one finds himself arguing for refunds and/or exemptions that would bring the VAT yield below $4 billion a point, he should frankly admit that his real problem is that he doesn't want VAT in the first place.)

If one wants to consider an income type VAT, he could add about $0.6 billion per point to the revenue estimate. We have considered housing investment to be potentially in a consumption base. The extra business investment is about $110 billion, reduced by depreciation of about $50 billion.

In the next two chapters, we talk in more detail about what a VAT would be like, the pros and cons of various exemptions, the mechanical matters of tax payment, and the question of the choice between a VAT and a retail sales tax. Some readers may choose to skip this material and go directly to Chapters 5 and 7 which discuss major tax policy issues of impact on prices, balance of payments, poor people, economic growth, etc. Some readers who are bored by detail technical tax issues but can still tolerate important technical matters might read at least the exemption discussion in Section (7) of Chapter III.

TABLE 1.—VALUE ADDED TAX BASE

	Percent of GNP	1969 (billion)	1972 (billion)	Percent of maximum feasible base
1. Total consumer expenditures in GNP	63.0	$577.0	$712.0	.....
2. Less rental value of owner-occupied homes (including farms) less goods and services purchased for home operation and maintenance	5.3	49.8	60.0	.....
3. Less foreign travel expenditures (net of expenditures in U.S. by foreigners)	.5	4.3	5.6	.....
4. Less religious and welfare activities	.9	8.2	10.0	.....
5. Broad consumer expenditure component of VAT base outlays on construction of owner-occupied housing	2.5	20.0	28.0	.....
6. Monetary interest paid by individuals	1.6	15.0	18.0	.....
7. Maximum feasible VAT base	60.4	550.0	682.0	100.0
8. Possible base subtractions:				
9. Housing	4.6	43.0	52.0	7.6
10. Purchased food (excluding tobacco and on-premises consumption)	9.9	92.8	112.0	16.5
11. Medical care	3.9	36.3	44.0	6.5
12. Drugs	.7	6.2	8.0	1.2
13. Imputed financial services of banks	1.3	12.6	15.0	2.2
14. Government-owned utilities	1.5	14.0	17.0	2.5
15. Newspapers and magazines	.4	3.8	4.5	.7
16. Legal services	.4	3.5	4.5	.7
17. Handling cost of life insurance	.8	7.5	9.0	1.3
18. Parimutuel receipts	.1	1.0	1.1	.2
19. Private research	.2	2.3	2.2	.3
20. Education	.8	7.4	9.0	1.3
21. Food furnished employees	.2	2.1	2.2	.3
22. Domestic services	.5	4.9	6.0	.9
23. Interest paid by individuals	1.6	15.0	18.0	2.7
24. Total possible exclusions	26.9	252.0	305.0	44.9
25. Minimum base	33.5	298.0	377.0	55.1

Question 8. What is the evolving policy of the Department with respect to regional aids and the countervailing duty statute? If the Department establishes the principle that it will not countervail if it receives adequate assurances that a regional aid serves only to offset local disadvantages, would not a bounty or grant be reduced by a similar amount in affirmative cases? Does not this conflict with the broad intent of the "bounty or grant" words used in the Statute?

Answer. In the cases of float glass from West Germany and the United Kingdom, statements were made in the notices to the effect that the governments have advised Treasury that the regional development programs have the effect of offsetting disadvantages which would discourage industry from moving to and expanding in less prosperous regions. Treasury accepted such evidence in connection with the issue of whether the programs were designed to meet "legitimate domestic purposes." Due to the interdependent nature of the world today, all "domestic programs," no matter how self-contained, produce external effects that are felt beyond the domestic confines of any particular country. So long as those external-effects are kept at an "acceptable minimal level," those incidental external benefits ought not be considered a bounty or grant. However, once that is accepted, the further issue of whether a bounty or grant exists must be dealt with. Thus, as stated in the final determinations in the cases of both West Germany and Belgium, it was determined that these programs did not result in a bounty or grant: "Inasmuch as the recipient glass producers sell a preponderance of their production in the . . . home market (not less than 80 percent in West Germany and not less than 85 percent for Belgium) . . . the level of exports to the United States is a small percentage of the amount exported, and the amount of assistance provided by the regional incentive programs is less than 2 percent of the value of float glass produced, these benefits are not regarded as bounties or grants within the meaning of section 303 of the Act." Thus, because the indirect external effects of what we considered to be essentially domestic programs were kept at an "acceptable minimal level" the programs were not determined to result in a bounty or grant.

At present, the petitioner in the float glass cases has notified us that he intends to protest our negative determinations.

Question 9. What are the costs to Treasury of recent IMF agreements reached in Jamaica?

Answer. We are not aware of any costs to the Treasury resulting from the recent agreements in Jamaica. Under the agreements, the U.S. will be making payments of two kinds to the IMF, neither of which represent budgetary outlays or involve costs. First, the U.S. quota in the IMF will be increased by the equivalent of SDR 1,705 million, to SDR 8,405 million. Consistent with the 1967 recommendations of the President's Commission on Budget Concepts, U.S. subscriptions to and other transactions with the IMF are considered as exchanges of monetary assets—in exchange for our increased subscription, we acquire an increased right to draw foreign currencies from the IMF—and are not expenditures. Second, the U.S. will acquire its quota share (about 23 percent) of the 25 million ounces of IMF gold to be distributed to members. This gold will be purchased from the IMF at the present official price of $42.22 per ounce, also an exchange of one monetary asset for another. The U.S. with others, may also participate as an intermediary for the further disposition of IMF gold for the benefit of developing countries and to help achieve the desired quota distribution of the gold to be sold to members at the official price. In these transactions, the U.S. would act only as an intermediary of "channel" and would incur no cost.

Question 10. (*a*) Do you agree that we need a vigorous enforcement of our unfair trade practice statutes—anti-dumping and countervailing duty laws.

(*b*) What is the Treasury practice on terminating anti-dumping duties in effect; could you describe the "confrontation procedures" for domestic producers and importers under current antidumping rules?

(*c*) Could you tell us whether "indirect tax rebates" are intended to be in the prohibited category under the concepts paper tabled by U.S. representatives in Geneva? (A yes or no answer will suffice.)

Answer. (*a*) The antidumping and countervailing duty laws are important instruments for regulating unfair foreign competition in the United States. As such, they should be, and we feel are, administered diligently and even-handedly.

(*b*) *Revocation policy.*—The Treasury policy for revocation of dumping findings, as reflected in our proposed antidumping regulations, states that no petition for revocation will be considered (1) unless there are no sales at less than fair value for at least two consecutive years subsequent to the dumping finding, and (2) unless the exporting firm provides price assurances that no future sales at less than fair value will ensue. If a party has demonstrated that it has not sold at less than fair value for the period both prior to the petition and thereafter until a tentative determinaion (generally about three years) in combination with its guarantee that no such sales will occur in the future, then we believe a good faith showing has been made that revocation of the finding should be be considered.

On the other hand, in appropriate instances, we will inform petitioners for revocation that if sales at less than fair value are demonstrated subsequent to a revocation based on price assurances from such petitioner, we would initiate a new antidumping investigation. In this situation, however, unlike normal Treasury procedure, there would be a strong likelihood that any "Withholding of Appraisement Notice" issued would be retroactive (the law allows up to 120 days prior to the date of the new antidumping proceeding notice.)

Confrontation Conferences.—"Confrontation conferences" constitute the opportunity for all interested persons in antidumping investigations to present oral views directly to the Treasury. Until this time in a case, interested persons routinely have been in contact with the U.S. Customs caseworker. Such conferences are held only on the request of an interested person.

In the vast majority of cases, the conference is held 4–5 weeks after the publication of the tentative determination and about 2 months before the final determination in the pricing phase of the investigation. Interested persons are given ten days from the tentative publication date to request the conference. The letter requesting the conference must state generally the issues to be discussed. The conference date is then arranged. All persons who wish to make presentations at the conference are required to submit a brief on the issues to be discussed by them to all interested parties and Treasury officials one week prior to the conference.

At the conference, which is informal, the interested persons who have submitted briefs are generally given 45 minutes to make their presentation. After

all initial presentations have been made, all interested persons present are allowed to speak in rebuttal, generally for 15 minutes. A transcript is made of the meeting. Subsequent to the meeting, all parties are allowed to present rebuttal briefs.

Under the above described procedure, the final determination is published three months after the tentative decision. In a few cases, the final determination is published simultaneously with the tentative determination. In these latter cases, the conference, in the same format as described, will be held before the publication of the determinations.

The above procedures have been in effect at Treasury for some time, and are set forth in the proposed antidumping regulation.

(c) *Indirect tax rebate.*—This decision has not yet been made.

Question 11. Given the growing volume of trade with Communist countries and the increasing proportion of high technology in that trade, is there a growing risk of an inadvertent transfer of technology with important implications for the nation's security?

Don't you agree that we need to take a careful look at the system for monitoring East-West trade and evaluating the sale of technology?

Answer. It is my belief that the export from the United States to the Communist countries of both strategic goods and data is effectively controlled. The Export Administration Act of 1969, as amended, authorizes the President to control exports to the extent required in order, "to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States." In addition, the U.S. participates in an international strategic control (COCOM) system operated by the NATO countries (except Iceland) and Japan. The administration of these controls has aimed at eliminating the risk of an inadvertent transfer of technology with important implications for our nation's security.

With respect to your second question, the system for monitoring East-West trade and evaluating the sale of technology is continually being reviewed in order to insure that trade with the Communist countries is in the national interest. The Department of Commerce has only recently instituted procedural changes designed to improve the handling and processing of applications for export licenses. COCOM periodically reviews its list of strategic items to make additions representing technological advances and to remove those items that have become available to the Communist countries through their own sources or that have lost their strategic significance. Such a COCOM review is currently in progress.

Question 12. The Trade Act directed the President to establish the East-West Foreign Trade Board to monitor trade, credits, and technology transfers with Communist countries. Although the President established the Board on March 27, 1975, the Secretary of Defense was not made a member until January 3, 1976. What was the reason for this delay?

Answer. As you are aware, when the East-West Foreign Trade Board was established, the Congress left to the President discretion as to its composition. In Executive Order 11846 of March 27, 1975, the President designated the membership of the Board, which did not include the Secretary of Defense. Subsequently, in response to a June 5 letter from Chairman Long, expressing concern that the Department of Defense was not represented, the Board reconsidered the issue.

DOD membership was discussed at both of the Board meetings that followed Senator Long's initial correspondence (the meetings of July 11 and September 22). A unanimous decision was reached shortly after the September 22 meeting to recommend to the President that the Secretary of Defense be designated a member of the Board.

In order to preserve a more permanent legal record, it was advisable to formally amend Executive Order 11846, which created the Board. This procedure regrettably was time-consuming. First, a letter from the General Counsel of the Treasury to the General Counsel of OMB was submitted, proposing an Executive Order designating the Secretary of Defense as a member of the East-West Foreign Trade Board. OMB then circulated this proposed Executive Order to interested agencies for their comment. Upon receipt of these comments. OMB submitted the proposed Order to the Justice Department for its technical review. The proposed Order was then submitted to the White House for the President's signature. Finally, the Order was transmitted to the Federal Register for publication.

Question 13. The East-West Foreign Trade Board was established to monitor the flow of U.S. technology to Communist countries. As Chairman of the Board, could you tell us what the major technology transfers of the past year have been? Are U.S. technology export controls effective?

Answer. The following list reflects export licenses granted and denied for the export of technology to nonmarket economy countries during the calendar year 1975:[1]

Approvals

Bulgaria: Manufacture of card reader mechanisms; production of polypropylene; architectural plans for a hotel; polypropylene; protein from manure; detergent alkylate; line printers; polyester yarn; dental equipment; polypropylene; linear alkyl benzene; isobutylene; acrylic fiber; industrial control instruments; heater for ammonia plant; heat exchangers for benzene plant; removal of carbon dioxide from gas.

Czechoslovakia: Formulation of herbicides; removal of carbon dioxide from ammonia synthesis gas; cyclohexanone; glass tubing end formers for fluorescent lamps; memory system for minicomputer; manufacture of pumps and motors; isobutane; equipment for making cigarette filters; high octane gasoline (alkylation process).

German Democratic Republic: Recovery of carbon monoxide gas; removal of magnesium from aluminum; removal of carbon dioxide from gas; pharmaceuticals.

Hungary: Manufacture of magnetic recording equipment; manufacture of FM radio and TV band antennas; production of polypropylene; manufacture of laminated products for packaging; laundry equipment; anticoagulant drug; memory system for computer; parts for line printers; slidable gates for steli industry; glass making equipment; materials handling equipment; polyvinyl chloride film and sheet; character drum assemblies; auditor oriented computer system; assembly of integrated circuits; dice for integrated circuits.

People's Republic of China: Anticoagulant drug; ethyl alcohol; styrene-butadiene rubber; removal of acidic gases from natural gas; natural gas desulfurization and dehydration; natural gas liquefaction; quotation for aircraft engines (3); surfuric acid.

Poland: Manufacture of disk recorders; manufacture of security apparatus for storage containers; manufacture of paper equipment; production of methylamines; manufacture of paper and pulp equipment; manufacture of rubber V-belts; manufacture of internal combustion aircraft engines; manufacture of steam turbines; treatment of tire cord fabric; specifications for turbo-shaft aircraft engine; manufacture of circuit breakers; motors for water pumps; glass making equipment; veterinary medicine; polyester fiber; petroleum refinery project; penicillins; removal of carbon dioxide from gas; construction and operation of gasholders; petroleum refining and petrochemical processes; anticoagulant drug; building materials; hydrogen peroxide; vitamin C; sewing machines; vinyl chloride; pumps and motors; landing gear for light aircraft; instruments for measuring radiation; machine tools; residue disposal system; fluorocarbons; carbon black; aircraft engines; water gel explosives; color TV receivers; rubber antioxidants; copying machines; chlorine-caustic soda; vegetable protein; aircraft doors; computer software; antibiotics.

Romania: Sulfur recovery; industrial process instruments; pharmaceutical for treatment of ulcers; production of benzene; manufacture of hydraulic turbine blades; computer software for a chemical plant; refining stainless steel; tractor transmissions and torque converters; polypropylene; acetic acid; petroleum refining and petrochemical processes; locomotive parts; building materials; polyethylene; linear alkyl benzene; polypropylene; benzene; butadiene; gas storage facility; manufacture of bearings; gas processing plant.

U.S.S.R.: Transfer handling machines; software for air traffic control systems; training and support services for air traffic control systems; siliconized resin coatings for metals: electrical insulators; glues and adhesives; diesel starter drives; production of caffeine; ethylene oxide and glycol; subsonic wind tunnel; color TV glass funnel/neck assemblies; liquid crystal displays for wrist watches; production of normal paraffin hydrocarbons and adsorbents; heat exchangers for

[1] In previous years, as high as 70 percent of the technology licensed for export has been left unshipped.

gas compressors; aromatic hydrocarbons; computer software for control of aircraft spare parts; trimellitic anhydride and wire enamel; terephthalic acid; petroleum reforming and separation of xylenes: desulfurization of fuel oil; acrolien and acrylic acid; polypropylene; drying of whey; silicon thyristors; painting and phosphotizing solutions; hand held electronic calculators; removal of carbon dioxide from gas; semisubmersible drilling vessel; steam condensers; superconducing electrical generator; gust probe for aircraft; cutter manufacturing facility; steam condensers (2); structural metal parts by powder metallurgy; titanium trichloride; aluminum trichloride; nonstick cookware; sulfur; magnets; natural gas plants; electro-hydraulic servo valves; copper clad glass epoxy laminates; plant for making dyestuffs; anticoagulant drugs; desulfurization of fuel oil; hydrofinishing of lube oils (2); aluminum cans; quartz flash tubes; quotation for digital computer; alpha olefins; quotation for programmable terminal systems hardware; lenses for making TV tubes; heaters for natural gas plant; butadiene; computer software.

Country Group QWY: Heat exchangers and heaters; building materials; printed circuit boards (Groups W and Y).

Denials

Cuba: Ammonia plant; removal of carbon dioxide from ammonia synthesis gas; detergent alkylate; vinyl chloride; polymerization process for making gasoline; electrolytic tinning line (2).

U.S.S.R.: Video head technology.

As I have previously indicated, it is my belief that U.S. technology export controls are effective (see my response to question No. 11).

Question 14. Do you endorse the principles and proposals enunciated last fall by Secretary Kissinger in his speech to the Special Session of UN General Assembly? How do you reconcile that speech with your own previous statements on such matters as commodity policy?

Answer. Secretary Kissinger and I jointly developed the proposals which the U.S. presented at the UN Seventh Special Session last September 1st. In my speech before the annual meeting of the International Monetary Fund and World Bank Board of Governors the following day, I underlined the importance of three of those proposals: improvements in the existing IMF compensatory finance facility to help stabilize commodity export earnings, a major expansion of the International Finance Corporation, and the establishment of a Trust Fund under the IMF to provide highly concessional balance of payments financing for the poorest develping countries.

Then as now, our principal concerns in the commodity area were to assure access to supplies at reasonable prices, reduce excessive price fluctuations, and help alleviate the problems of those developing countries whose income is significantly dependent on raw material exports. In line with these concerns, we proposed a range of measures designed to improve the functioning of commodity markets and directly meet the problems of raw material producers and consumers. We also agreed to consider other arrangements for individual commodities on a case-by-case basis. We believe no one formula can be applied to all commodities and reject arrangements that would attempt to maintain prices above long term market levels, or that would distort markets.

Progress has already been made on a number of these proposals. In December 1975, the IMF Executive Board authorized a major liberalization of the compensatory finance facility; in January, the IMF Interim Committee agreed that the Trust Fund should be established without delay. Proposals to broaden the Trust Fund for compensatory financing purposes remain on the table. The U.S. has instituted its Generalized System of Preferences for beneficiary developing countries; and the Administration has participated in negotiations involving commodity agreements on tin, coffee, and cocoa. The resulting agreements were carefully reviewed on an interagency basis. We decided that the tin and coffee agreements met our criteria and the President has announced our intention, subject to Congressional approval, to join. We decided the cocoa agreement in its present form was not satisfactory, and we will not join it as it now stands.

Question 15. Is it generally true that we will pay higher prices for a good under a commodity agreement than in the free marketplace? If so, what is the justification for entering a commodity agreement?

Answer. Clearly some LDC proponents of the wholesale use of commodity agreements view them as a means to transfer resources to developing countries through

higher prices than the market would otherwise bear. In agreements where that view prevails, the negotiated price will be higher than the market price. We have made clear we will not join such agreements.

In other agreements, a higher price may not be the expressed intent, but it is the effect. Our refusal to participate in the cocoa agreement as currently negotiated is a case in point.

But not all agreements raise prices. Those which interfere minimally with the marketplace and avoid attempts at price fixing can be in the best interest of consumers and producers. These considerations stand behind the President's decision to recommend Congressional approval of the Tin Agreement. This agreement is generally thought to be the most successful of commodity agreements. All major consuming countries except the United States participate. Tin is produced wholly in LDCs, and the agreement has several desirable features including a balanced voting system between consumers and producers. There is no strong evidence that its buffer stock or infrequently used export controls has sustained prices above long term market levels.

Question 16. Secretary Kissinger has recommended that there be an international producer-consumer conference for every major commodity. Is such a conference necessary for every commodity? Are there commodities for which the free market does not work well?

Answer. Producer-consumer groups already exist for most key commodities (see attached list). We believe that where such opportunities do not now exist for producers and consumers to conduct a dialogue, they should be created.

The establishment of such a producer-consumer group for copper is now under active consideration. We are reviewing additional major commodities where producer-consumer groups do not now exist—such as in the cases of bauxite and iron ore—to determine whether such groups might be useful. We would envision the need for such forums in the case of the more important commodities.

We believe that the marketplace has served us very well on the whole. Inherent in our willingness to discuss the operation of markets for specific commodities is our desire to strengthen markets where called for. We feel that one of the salutary results which will come out of producer-consumer forums is the piercing of the illusion that simplistic, general solutions can be applied to complex particular problems of trade in specific commodities.

These forums could help the market to function better. For example, if a market is to function well, information about supply and demand forces must be available to producers and consumers. These forums will offer an opportunity to improve such exchanges of information.

I am not aware of any commodities where the market would not function well if given a chance, but there are commodities where the structure of the industry has precluded establishing conditions where the market functions best.

In the cases of bauxite or iron ore, for example, much of the trade takes place at intracompany transfer prices or under private contracts. In these instances, the market price is not is meaningful as, for example, the price on the Chicago grain markets.

PRODUCER-CONSUMER GROUPS FOR COMMODITIES IMPORTANT TO LDC'S

(UNCTAD Core Commodities)

Cocoa.—International Cocoa Organization (U.S. not a member).
Coffee.—International Coffee Organization.
Cotton.—International Cotton Advisory Council.
Hard Fibers.—FAO Intergovernmental Group on Hard Fibers.
Jute.—FAO Intergovernmental Group on Jute, Kenaf, and Allied Fibers.
Rubber.—International Rubber Study Group.
Sugar.—International Sugar Organization (U.S. not a member but will participate in 1976 renegotiations of the International Sugar Agreement).
Tea.—FAO Intergovernmental Group on Tea.
Tin.—International Tin Council (U.S. not now a member but the President has recommended Congressional approval of the Fifth Tin Agreement).

Question 17. Do you believe the dialogue between the developed and less developed countries should be centralized in the Conference on International Economic Cooperation? If not, what kinds of discussions should be conducted outside the Conference? Why?

Answer. The Conference on International Economic Cooperation (CIEC) provides a central forum in which the developed and less developed nations are conducting a useful dialogue in many general areas of mutual concern. It is also a forum in which we can attempt to achieve support for a broad range of U.S. viewpoints on matters related to North/South issues.

However, the CIEC cannot replace a number of long-standing or newly created forums designed to focus on specific issues, make decisions, and carry out appropriate actions in the areas of raw materials, development, financial affairs, and energy. Issues which fall explicitly within the jurisdiction of the IMF or IBRD, for example, are not in the CIEC mandate. In the area of raw materials, we believe commodity problems should be discussed between the producers and consumers of key commodities on a commodity-by-commodity basis. CIEC is inappropriate for this purpose.

Question 18. What are the best means, if any, for the U.S. to respond to the demands of the less developed countries for a new international economic order?

Answer. The United States must continue to explain to the developing countries why we cannot endorse the concept of a New International Economic Order. We would serve neither the interests of developing countries nor of the United States were we to pay lip service to concepts in which we do not believe. Rather the United States must continue to support the legitimate aspirations of the developing countries and assist them to accomplish those aspirations through means we believe will in the long run prove most practicable and beneficial.

The principles of the "New International Economic Order" were first enunciated in the Declaration and Program of Action on the Establishment of a New Economic Order at the Sixth Special Session of the United Nations General Assembly. These concepts were spelled out further in the Charter of Economic Rights and Duties of States which was passed over the negative votes or abstentions of most developed countries at the United Nations General Assembly in December 1974.

Insofar as those documents reflect the bases for a New International Economic Order (NIEO) envisioned by some developing countries, there is no ignoring the fact that the NIEO is a rejection of the basic principles on which the free enterprise systems of the Western industrialized countries are based. They clash with fundamental principles of U.S. international economic policy. For example, NIEO provisions advocate: the right to nationalize foreign property without any obligation to provide compensation within the framework of international law, the creation of more raw material producer cartels, indexation of prices of LDC exports in relation to their imports, and "restitution and compensation" for exploration and depletion of natural resources by a foreign country. The NIEO is basically a demand that the world's resources be redistributed through fiat rather than trade or voluntary assistance programs.

The U.S. understands the desire of the developing countries for increased flows of resources necessary to develop their economies. However, the effectiveness of international investment, public or private, depends fundamentally on the policies and efforts of each developing country. Those countries which seek to promote their economic growth should encourage private initiative, savings, and the use of the free market system, particularly since private investment will continue to be far more important than public aid flows as a source of capital. The LDCs should be vitally concerned about how to create productive and dynamic economies within their own borders as well as how to work constructively with the developed countries to improve the present international economic system.

Question 19. In December of 1975, the International Monetary Fund (IMF) agreed to make another $2 billion available to less developed countries through an earnings stabilization program. To what extent does this program reduce the less developed countries' desires for commodity agreements? What has been the reaction of the developing world to the recent IMF changes?

Answer. On December 29, the IMF Executive Directors adopted a decision substantially liberalizing the IMF's compensatory financing facility. This decision has been welcomed by the IMF's Interim Committee, which represents all Fund members, and will place the IMF in a better position to assist members experiencing balance of payments difficulties due to temporary shortfalls in export earnings as a result of factors beyond their control. The liberalization should be especially helpful during the current period of a recession-induced fall-off in world trade.

The $2 billion figure is a rough estimate of the maximum potential increase in access to the facility in a year resulting from the liberalization, and does not

represent an estimate of actual use, which will depend on the balance of payments positions and financing needs of members.

The U.S. strongly supports this liberalization, which is consistent with our proposals for expanded compensatory financing. We believe this approach is an effective response to LDC desires for greater stability in their export earnings, while not having the disadvantages associated with a major shift toward commodity agreements. A program of compensatory finance does not interfere with the operation of market forces and the efficient international allocation of factors of production. Commodity agreements, unless carefully structured, run this risk.

It is clear, however, that many LDCs will still press for more action on commodities, as the February 2–6 meeting of LDC ministers in Manila made clear. However, U.S. support of the liberalization of the compensatory finance facility, and the Jamaica agreement to do so, should strengthen our position in arguing against less desirable and appropriate schemes in the commodity field.

An IMF press release, providing details of the Executive Directors' decision is attached.

INTERNATIONAL MONETARY FUND,
Washington, D.C., December 29, 1975.

The International Monetary Fund has reviewed its policies in connection with compensatory financing of export fluctuations and has decided to change the provisions of the facility so as to provide greater access to members, particularly primary exporters, encountering balance of payments difficulties caused by temporary export shortfalls.

Over the past few years, views have been expressed on ways of increasing the usefulness of the compensatory financing facilitiy to Fund members. In its Press Communique of June 12, 1975 following its third meeting, the Interim Committee of the Board of Governors on the International Monetary System stated: "The Committee considered various proposals to assist members in dealing with problems arising from sharp fluctuations in the prices of primary products. In this connection, the Committee requested the Executive Directors (of the Fund) to consider appropriate modifications of the Fund's (facility) on the compensatory financing of export fluctuations." This request was welcomed by the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) in its Press Communique of June 13, 1975.

Under the new decision (attached), the Fund will be prepared to authorize drawings up to 75 per cent of a member's quota (instead of 50 per cent under the 1966 Decision), provided that, except in disasters or major emergencies, drawings outstanding will not be increased by a net amount of more than 50 per cent (previously 25 percent) of the member's quota in any 12-month period. As previously, members can expect that their requests for drawings will be met where the Fund is satisfied that the shortfall is of a short-term character and is largely attributable to circumstances beyond the member's control, and that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties. Requests for drawings which would increase the drawings outstanding under this decision beyond 50 per cent of the member's quota (previously 25 per cent) will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The existence and amount of an export shortfall for the purpose of any drawing under this decision shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data. However, in order to improve the timeliness of assistance, the Fund may allow drawings with respect to a shortfall period for which export data are estimated for a period of up to six months. Moreover, the rules relating to reclassification of ordinary drawings into compensatory drawings have been liberalized to allow such reclassification to be made within 18 months from the date of the ordinary drawing (instead of six months under the 1966 Decision).

The Fund will review the formula for computing the shortfall (paragraph 6 of the attached Decision) not later than March 31, 1977, and will review this decision as a whole when experience and developing circumstances make this desirable. The Fund will review the decision in any event whenever drawings in any 12-month period exceed 1.5 billion special drawing rights (SDRs) or outstanding drawings exceed SDR 3.0 billion.

Since the compensatory financing facility was introduced in 1963, purchases have been made by 35 member countries. The amount of assistance provided has totaled SDR 1,221 million, of which SDR 722 million remains outstanding.

Attachment.

INTERNATIONAL MONETARY FUND

COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS

EXECUTIVE BOARD DECISION—DECEMBER 24, 1975

1. The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial problems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue their programs of economic development with greater effectiveness.

2. The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can continue to expect that their requests for drawings will be met where the Fund is satisfied that

(*a*) The shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(*b*) The member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

3. Drawings outstanding under this decision may amount to 75 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 50 per cent of the member's quota in any 12-month period; and (ii) requests for drawings which would increase the drawings outstanding under this decision beyond 50 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

4. The existence and amount of an export shortfall for the purpose of any drawing under this decision shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to draw in respect of a shortfall for a 12-month period ending not later than six months after the latest month for which the Fund has sufficient statistical data.

5. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

6. The shortfall for the purposes of this decision shall be the amount by which the member's export earnings in the shortfall year are less than the average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year average, earnings in the two post-shortfall years will be deemed to be equal to earnings in the two pre-shortfall years multiplied by the ratio of the sum of earnings in the most recent three years to that in the three preceding years. If the Fund considers that the result of the computations under the previous sentence is not reasonable, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast. When the Fund allows a member to draw under the proviso in paragraph 4 above, the Fund may use such methods of estimating exports during the period for which sufficient statistical data are not available as it considers reasonable.

7. Any member requesting a drawing under this decision will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of Executive Board Decision No. 102–(52/11), adopted February 13, 1952, as renewed by Executive Board Decision No. 270–(53/95), adopted December 23, 1953. Approximately one year and two years after a drawing by a member under this decision, the Fund, after consultation with the member, may recommend to the member that, in view of an improve-

ment in its balance of payments and reserve position, it should make a repurchase in respect of a part or all of the outstanding drawing. The Fund will expect the member to repurchase in accordace with the recommendation.

8. A member requesting a drawing under the proviso in paragraph 4 above will also be expected to represent that, if the amount drawn on the basis of partially estimated data exceeds the amount that could have been drawn for the full 12-month period under paragraph 6 above, the member will make a prompt repurchase in respect of the outstanding drawing, in an amount equivalent to the excess.

9. Whenever the Fund's holdings of a member's currency resulting from a drawing under this decision are reduced by the member's repurchase or otherwise, the member's access to this facility, in accordance with its terms, will be restored pro tanto.

10. When drawings are made under this decision, the Fund will so indicate in an appropriate manner. Within 18 months from the date of any drawing made under the Fund's tranche policies or under the Extended Fund Facility, a member may request that all or part of the amount outstanding be reclassified and treated, for all purposes of this decision, as a drawing made under this decision. The Fund will agree to such a request if at the time of the drawing under the tranche policies or the Extended Fund Facility the member could have met the requirements for a drawing of an equal amount under this decision.

11. In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on the Fund's holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under this decision or (ii) to the extent that drawings in accordance with this decision are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under this decision.

12. The Fund will review the formula in paragraph 6 not later than March 31, 1977, and will review this decision as a whole when experience and developing circumstances make this desirable. The Fund will review this decision in any event whenever (i) drawings under this decision in any 12-month period exceed SDR 1.5 billion or (ii) outstanding drawings under this decision exceed SDR 3.0 billion.

INTERNATIONAL MONETARY FUND

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

EXECUTIVE BOARD DECISION—DECEMBER 24, 1975

Paragraph 2 of Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, is amended to read:

2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph 1 of this decision shall not exceed 50 percent of quota.

Department of Agriculture—Responses to Questions of the Chairman

Question 1. When your Department briefs the various advisory bodies established by the Trade Act, does it compute U.S. trade performance on a c.i.f. or f.a.s. basis?

(*a*) Could you supply the Committee with briefing documents used in 1975?

(*b*) Can you give the Committee assurances that future briefings will emphasize the U.S. trade position using c.i.f. not f.a.s. statistics?

Answer. There have been two briefings on trade performance made to the advisory committees established under the Trade Act of 1974. One was to the Industry Policy Advisory Committee (IPAC) on December 2 through use of a series of charts, copies of which were provided to the Committee. The second briefing was given to the Advisory Committee for Trade Negotiations on January 8, where slides based on the updated charts were used. The total U.S. trade balance was there presented on two bases: the f.a.s. transaction value for exports and the c.i.f. import value, and the f.a.s. transaction value for both exports and imports.

(*a*) An additional set of these charts, which were transmitted to you earlier, is attached.

(*b*) We plan to continue the practice in future briefings, if any, of presenting both balances for U.S. trade, with explanations as to the differences between the two. We believe that both balances are important. The c.i.f. value is useful in measuring the relationship between imports and domestic production. A truly accurate comparison with U.S. production would require, in addition to the cost of transport between foreign countries and our shores, the value of duties and inland transportation. The f.a.s. value is essential for balance of payments purposes. In our international accounts, exports and imports are valued in the same way, i.e., covering the cost of the products themselves and excluding freight to the destination country or from the supplier country. The cost of transportation of goods and port charges is shown in a separate account, which in 1974 was nearly in balance. The f.a.s. value is also essential for historical comparisons since data on the c.i.f. valuation for total imports and for trade by country and commodity have been collected only since January 1974.

Question 2. Are you aware that the DISC is currently under attack in the GATT because the Commerce Department emphasized the $11 billion U.S. trade surplus in 1975, when, if computed on a c.i.f. basis, leaving out foreign aid exports, the surplus was only $1.9 billion?

(*a*) Would you supply the Committee with all press releases by your Department as well as speeches by tax officials describing U.S. foreign trade trends in 1975?

Answer. The U.S. DISC has been under attack by some members of the GATT since its enactment because those countries allege that DISC is a tax subsidy to U.S. exporters which is contrary to GATT regulations. The long standing nature of this criticism indicates that it is not directly related to the size of the U.S. trade balance—whether it be a surplus as in 1975, or a deficit as in 1974. The United States Government does not consider that the DISC provides rebates or exemptions from taxes for exporters, but rather allows for a deferral of certain taxes under specified conditions.

(a) A set of the 1975 press releases on monthly U.S. trade totals is attached. These releases provided the basis for any comments by Commerce officials relating to 1975 foreign trade trends and the DISC.[1]

Question 5. Would you supply the Committee with a summary of all licenses issued, and denied, for transferring technology to state trading nations in 1975?

Answer. (See attached list)

(a) How is the decision to grant a license made?

The great bulk of U.S.-origin data that enter into normal commercial exports are controlled by the Department of Commerce under the authority of the Export Administration Act of 1969, as amended.

Section 3 of the Act declares that:

> "It is the policy of the United States both (a) to encourage trade with all countries with which we have diplomatic or trading relations, except those countries with which such trade has been determined by the President to be against the national interest and (b) to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the United States."

Other policy objectives of the Act, including the use of export controls for foreign policy and short supply reasons, do not impact significantly on East-West trade.

In implementing the export control policy objectives, the Department of Commerce publishes a set of regulations which among other things, specify that unpublished technical data, with few specific exceptions, may not be exported or reexported to the U.S.S.R., the PRC, and Eastern Europe (as well as to these destinations for which there is a general embargo policy such as Cuba, North Korea, Cambodia, and Vietnam) without the Department's approval.

While exports of unpublished technical data may be made to free world destinations without specific authorization, the regulations provide that under certain circumstances the recipient of such data must provide assurances that neither the technical data nor the direct product of the technical data will be exported to proscribed destinations without the approval of the government.

Technical data are also controlled by the 14 other Free World countries that cooperate with the United States in an international export control structure known as COCOM. This organization is composed of our NATO partners (except Iceland) and Japan. Organized in 1949, COCOM is an informal, non-treaty body that maintains a list of commodities that it is agreed are of strategic significance and deserving of control. Each COCOM member has agreed to submit to that organization for approval or denial any proposed export of technology which would frustrate the intent of COCOM controls. Even though the COCOM commodity list is being constantly reduced, we expect that we will have to continue to control the export of a good deal of technical data, even where the end product is peaceful, to guard against the possibility that the data will provide a significant step up in the production of more sensitive products.

The interagency consultative procedure is an important element in the Department's determination as to what shall be controlled and the extent to which exports shall be limited. Section 5(a) of the Export Administration Act obliges the Department to seek information and advice on these subjects from the several executive departments and agencies concerned with aspects of our domestic and foreign policies and operations having an important bearing on exports. Accordingly, the department has an Advisory Committee for Export Policy (ACEP) on which the interest agencies are represented at an Assistant Secretary level. There is also, at the senior staff level, an Operating Committee of the advisory group that meets weekly to discuss export control policy problems and significant individual transactions. Interagency policy differences that cannot be resolved by the Operating Committee are referred to the Assistant Secretary level committee; continued differences are referred to an Export Administration Review Board, consisting of the Secretary of Commerce, as chairman, and the Secretaries of State and Defense. Other cabinet members may be included in the deliberations as appropriate. All applications to export technical data to the socialist countries are processed by the Department in accordance with procedures established in consultation with our advisory agencies.

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[1] The press releases were made a part of the official files of the Committee.

When the Export Administration Act was amended and extended in October of 1974, the Congress added a requirement that license applications for the socialist countries be reviewed by the Department of Defense, and that whenever the Secretary of Defense determines that an export will significantly increase the military capability of such country, he is to recommend to the President that the export be disapproved. The amendment also provides that the Secretary of Defense, in consultation with the control agency, shall determine which types of transactions should be subject to Defense Department review.

This consultation has resulted in exempting a substantial portion of applications from specific Defense Department review.

To the extent possible, the Department continues to seek formulation of guidelines that set forth criteria for the approval or denial of applications, without the necessity of seeking specific interagency advice on each proposed transaction. Proposals for such guidelines are referred to the Operating Committee of ACEP, and if all interested agencies, including the Department of Defense, agree, future applications for this kind of data are approved or denied without further consultation with the agencies.

However, an application to export technical data that may be approved without interagency consultation is not routinely handled. The application first is analyzed by a licensing officer who, from a technical standpoint, determines if the data proposed for export does fall within the delegation of authority, and is appropriate for the intended end use. Based on this analysis, a licensing recommendation is made. These technical judgments and the recomemndation are then reviewed by other officers for consistency with established policy and for identification of any particular features or problems that would necessitate interagency reviews. Applications approved or denied in accordance with the delegation of authority receive a final screening by a senior official in OEA just prior to mailing the license or denial notice to the applicant. While, in certain instances, one or more of the agencies that advise the Department have been reluctant to concur in the issuance of guidelines that would permit the approval of applications under a delegation of authority, they nonetheless agree that formal review of proposed transaction in the interagency structure may not be necessary. Accordingly, they are notified of applications that are received and given an opportunity either to concur in the specific transaction or to request formal interagency review. A memorandum is sent to all members of the Operating Committee, and the application is not processed for approval until each agency has had 10 working days to concur or object to the proposed action. These applications also are screened by a senior official in OEA prior to mailing of the license.

Thus, under existing procedures, certain applications are processed by the Department's Office of Export Administration (OEA) without consultation with its advisory agencies, but in accordance with agreed-on guidelines; some are processed after informal consultation with Defense, and perhaps one or more of the other advisory agencies, and the remainder are processed only after formal conultation with the agencies.

Since the latter raise policy questions or pose other serious problems, they are documented for formal consideration by the Operating Committee of the Advisory Committee for Export Policy. The document describes the proposed transaction, identifies the intrinsic potential of the data, including military use and the end use pattern, sets forth foreign availability, identifies the prospective end-user and his contemplated end-use, and discusses the policy aspects and recommends a general course of action. There is thorough discussion of the transaction at a meeting attended by senior staff representatives of those agencies that have an interest in the proposed transaction. The Departments of Defense and State and the Energy Research and Development Administration are generally represented. There is also an observer from the Central Intelligence Agency. Other agencies, such as NASA and the Departments of Transportation and Interior, attend when matters of interest to them are on the agenda. The agencies' advice and the chairman's recommendation are forwarded to the Director of the Office of Export Administration for his decision or, in some instances, for referral to the Director of the Bureau of East-West Trade for decision. If any agency objects to the proposed course of action, it is given full opportunity to appeal to a higher level.

Commerce does not approve any transaction so long as any agency has indicated an intention to appeal a recommended course of action. In some instances,

an agency will object, but indicate that, because of the marginal nature of the issue, the case does not warrant an appeal. The chairman's recommendation, then, goes forward to the Director, OEA, as mentioned above. When an agency objects and appeals a recommendation, the issue is carried progressively higher until the disagreement is resolved. In this process Departmental or agency head and, if necessary, the White House may be called upon to address the problem.

Involved in the decision to approve or reject an application for a socialist destination are such considerations as:

(*a*) What is the normal use in the U.S. and elsewhere in the free world?

(*b*) Is the data designed for military purposes? Is the intrinsic nature of the data such as to make it of significant use to the military? Is it currently used importantly by the military establishments in the West? In the country for which it is destined?

(*c*) If the data has both military and civilian uses, is the intended end-use peaceful in nature?

(*d*) Is the prospective foreign end-user engaged in peaceful or military operations?

(*e*) Does the item incorporate advanced or unique technology of strategic significance that could be extracted?

(*f*) Is there a shortage of the data in the area of destination that affects the military potential?

(*g*) Are comparable data available to the country of destination outside the U.S.? If COCOM controlled, are they available outside the COCOM countries?

(*h*) Would significant economic/commercial benefits flow to the U.S. from consumation of the transaction?

In developing information that will permit us to make the proper decision, the Department consults extensively with industry. There currently are seven government-industry technical advisory committees established pursuant to the 1972 amendments to the Export Administration Act. In addition, individual firms are consulted on technical matters and foreign availability.

In summary, the Department takes seriously its responsibility to control exports to the communist countries under the guidelines set down by the Export Administration Act. Every effort is made to assure, in the terms of the Act, that no export is permitted that would "make a significant contribution to the military potential" of these countries which would "prove detrimental to the national security of the United States."

(*b*) Is the East-West Trade Board consulted in advance on major transactions?

The Department of Commerce reports to the Working Group of the Board at each meeting the licenses issued or denied since the previous meeting of the Working Group for the export of technical data to the non-market economy countries. In addition, major transactions involving both technical data and hardware are brought to the attention and discussed by the Working Group prior to a licensing decision being reached. To the extent appropriate, the Group reports to the Board.

It is also noteworthy that the Chairman of the East-West Foreign Trade Board participates in the deliberations of the Export Administration Review Board when it considers major transactions raising significant policy questions concerning exports to non-market economy countries.

LICENSES ISSUED FOR TRANSFERRING TECHNOLOGY TO STATE TRADING NATIONS IN 1975

Bulgaria.—manufacture of card reader mechanisms; production of polypropylene; architectural plans for hotel; protein from manure; detergent alkylate; line printers; polyester yarn; dental equipment; heat exchangers and heaters; building materials; linear alkyl benzene; isobutylene; acrylic fiber; industrial control instruments; heater for ammonia plant; removal of carbon dioxide from gas; printed circuit boards.

Czechoslovakia.—formulation of herbicides; removal of carbon dioxide from ammonia synthesis gas; cyclohexanone; glass tubing end formers for fluorescent lamps; heat exchangers and heaters; building materials; memory system for minicomputer; manufacture of pumps and motors; isobutane; equipment for making cigarette filters; high octane gasoline (alkylation process); printed circuit boards.

German Democratic Republic.—gaseous monoxide recovery; removal of magnesium from aluminum; removal of carbon dioxide from gas; heat exchangers and heaters; building materials; pharmaceuticals; printed circuit boards.

Hungary.—manufacture of magnetic recording equipment; polypropylene production; manufacture of FM radio and TV band antennas; manufacture of laminated products; manufacture of X-ray image intensifiers; laundry equipment; anticoagulant drug; heat exchangers and heaters; building materials; memory system for computer; parts for line printers; slidable gates for steel industry; glass making equipment; materials handling equipment; polyvinyl chloride film and sheet; character drum assemblies; auditor oriented computer system; assembly of integrated circuits; dice for integrated circuits; printed circuit boards.

People's Republic of China.—anticoagulant drug; ethyl alcohol; strene-butadiene rubber; removal of acidic gases from natural gas; natural gas desulfurization and dehydration; natural gas liquefaction; heat exchangers and heaters; building materials; quotations for aircraft engines; sulfuric acid; printed circuit boards.

Poland.—disk recorders; security apparatus for storage containers; paper equipment; plant to produce methylamines; equipment for the manufacture of paper and pulp; rubber V-belts; internal combustion aircraft engines; steam turbines; plant for the treatment of tire cord fabric; circuit breakers; motors for water pumps; metal melting and holding furnaces; glass making equipment; veterinary medicine; polyester fiber; petroleum refinery project; penicillins; removal of carbon dioxide from gas; construction and operation of gasholders; petroleum refining and petrochemical processes; anticoagulant drug; building materials; hydrogen peroxide; vitamin C; sewing machines; vinyl chloride; pumps and motors; landing gear for light aircraft; heat exchangers and heaters; instruments for measuring radiation; machine tools; residue disposal system; fluorocarbons; carbon black; aircraft doors; water gel explosives; color TV receivers; rubber antioxidants; copying machines; chlorine-caustic soda; vegetable protein; computer software; antibiotics; printed circuit boards.

Romania.—Elemental sulfur recovery; industrial process instruments; pharmaceutical for treatment of ulcers; benzene; hydraulic turbine components; computer software; refining stainless steel; tractor transmissions and torque converters; polypropylene; acetic acid; petroleum refining and petrochemical processes; locomotive parts; building materials; polyethylene; linear alkyl benzene; heat exchangers and heaters; gas storage facility; bearings; gas processing plant; butadiene.

U.S.S.R.—Transfer and handling machines; software for air traffic control system; air traffic control systems; preparation of siliconized resin coatings for the coating of metals; electrical insulators; glues and adhesives; diesel starter drives; caffeine production; ethylene oxide and glycol production; wind tunnel, color TV glass funnel and neck assemblies; liquid crystal displays; normal paraffins and adsorbents; heat exchangers; aromatic hydrocarbons; computer software; trimellitic anhydride and wire enamel; terephthalic acid; petroleum reforming and separation of xylenes; desulfurization of fuel oil; acrolein and acrylic acid; polypropylene; drying of whey; silicon thyristors; painting and phosphotizing solutions; hand held electronic calculators; removal of carbon dioxide from gas; semisubmersible drilling vessel; steam condensers; heaters; building materials; superconducting electrical generator; gust probe for aircraft; cutter manufacturing facility; structural metal parts by powder metallurgy; titanium trichloride; aluminum trichloride; nonstick cookware; sulfur; magnets; natural gas plants: electro-hydraulic servo valves; copper clad glass epoxy laminates: plant for making dyestuffs; anticoagulant drug; hydrofinishing of lube oils; aluminum cans; quartz flash tubes; quotation for digital computer; alpha olefins; quotation for programmable terminal systems hardware; lenses for making TV tubes; butadiene; printed circuit boards.

Licenses Denied for Transferring Technology to State Trading Nations in 1975

Cuba.—Ammonia plant; removal of carbon dioxide from ammonia synthesis gas; detergent alkylate; vinyl chloride; polymerization process for making gasoline; electrolytic tinning lines.

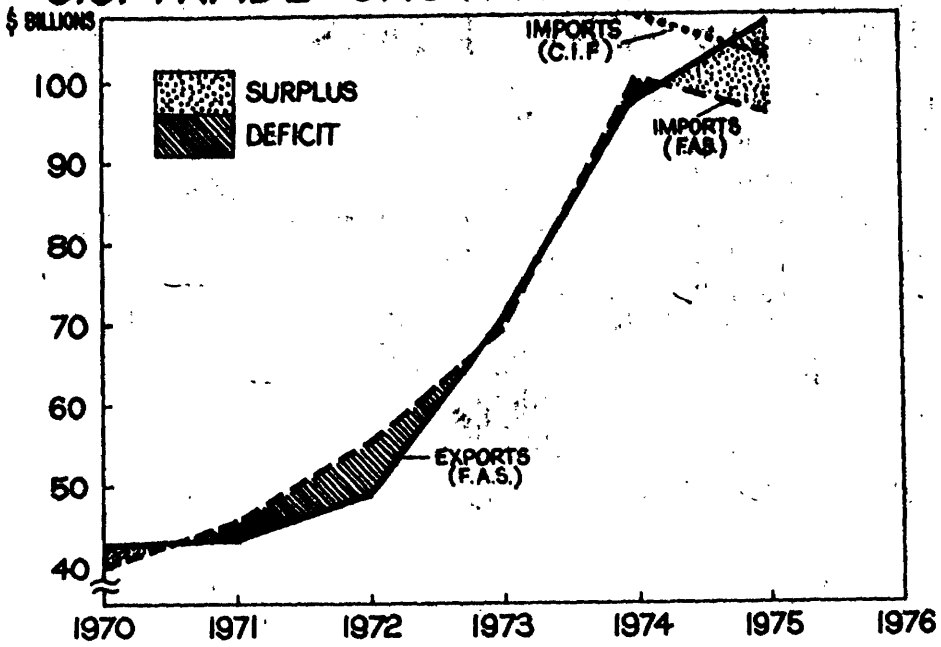
U.S.S.R.—Video head technology.

U.S. FOREIGN TRADE

Status & Outlook

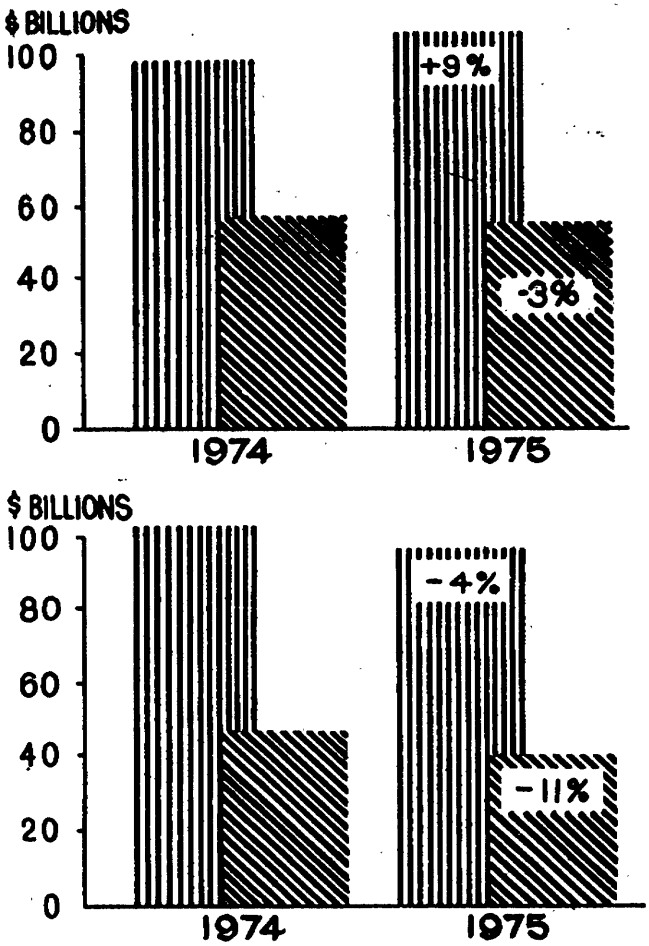
U.S. DEPARTMENT OF COMMERCE
FEBRUARY, 1976

U.S. TRADE GROWTH IN 1970's



- Trade values soared since 1972 as a result of economic boom, inflation, oil price jump
- 1975 exports slowed, imports declined, due to worldwide recession
- Balances erratic since 1970 - 3 years each of deficit and surplus
- 1975 - largest surplus registered in post-war period - f.a.s. transaction value - $11.1 billion; c.i.f. - $3.8 billion

VALUE AND VOLUME OF EXPORTS AND IMPORTS



Exports

Higher prices pushed values up in 1975, but volume fell slightly

VALUE

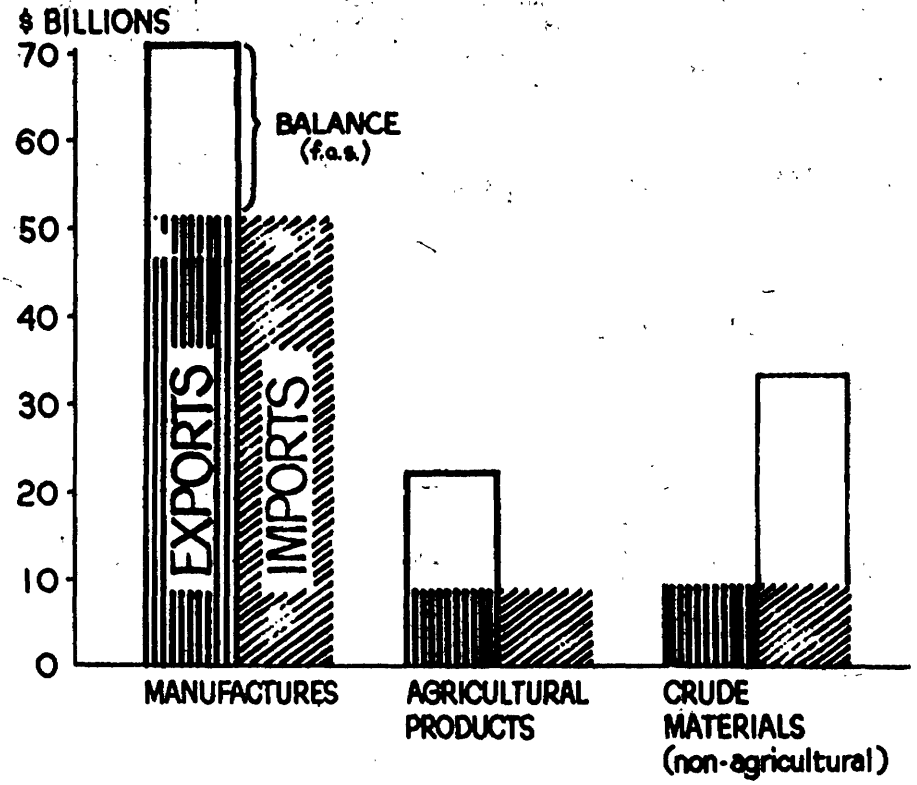
VOLUME*

Imports

Lower value resulted from fall in volume despite continued rise in prices

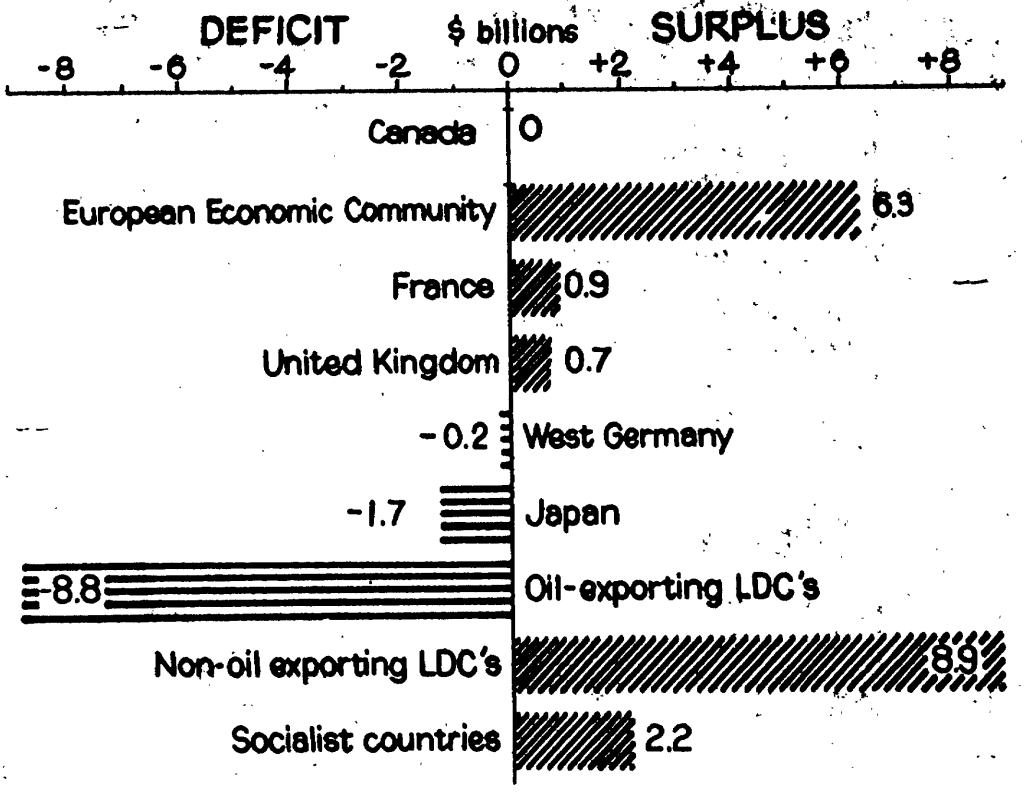
* Volume measured in constant 1967 dollars

TRADE BALANCES BY MAJOR CATEGORIES, 1975



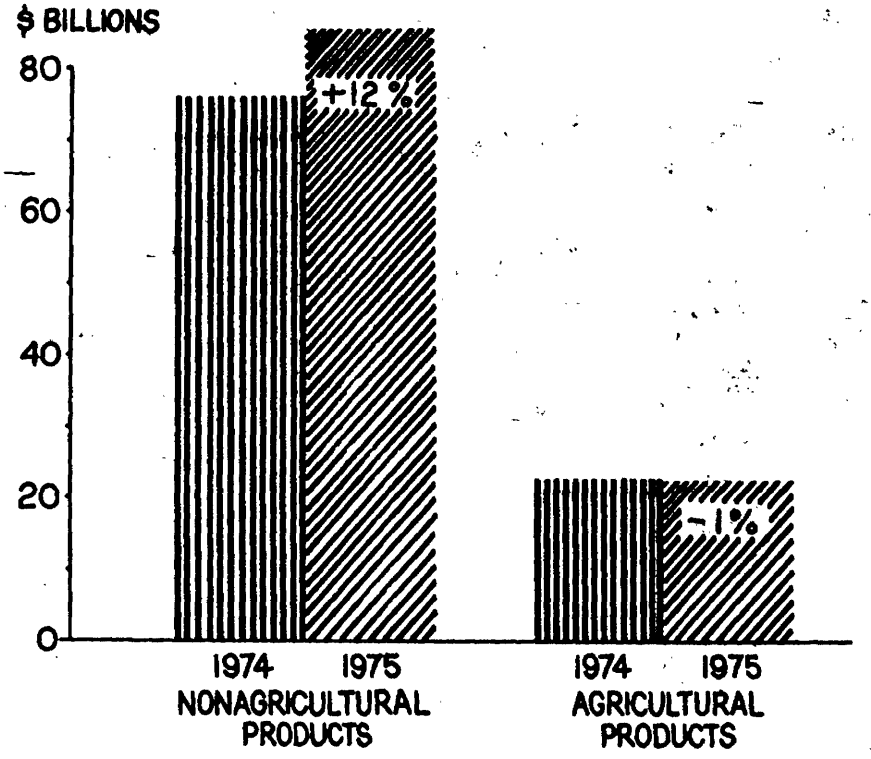
- Manufactures and farm products in large surplus
- Offset in part by usual deficit in crude materials

U.S. BILATERAL TRADE BALANCES, 1975



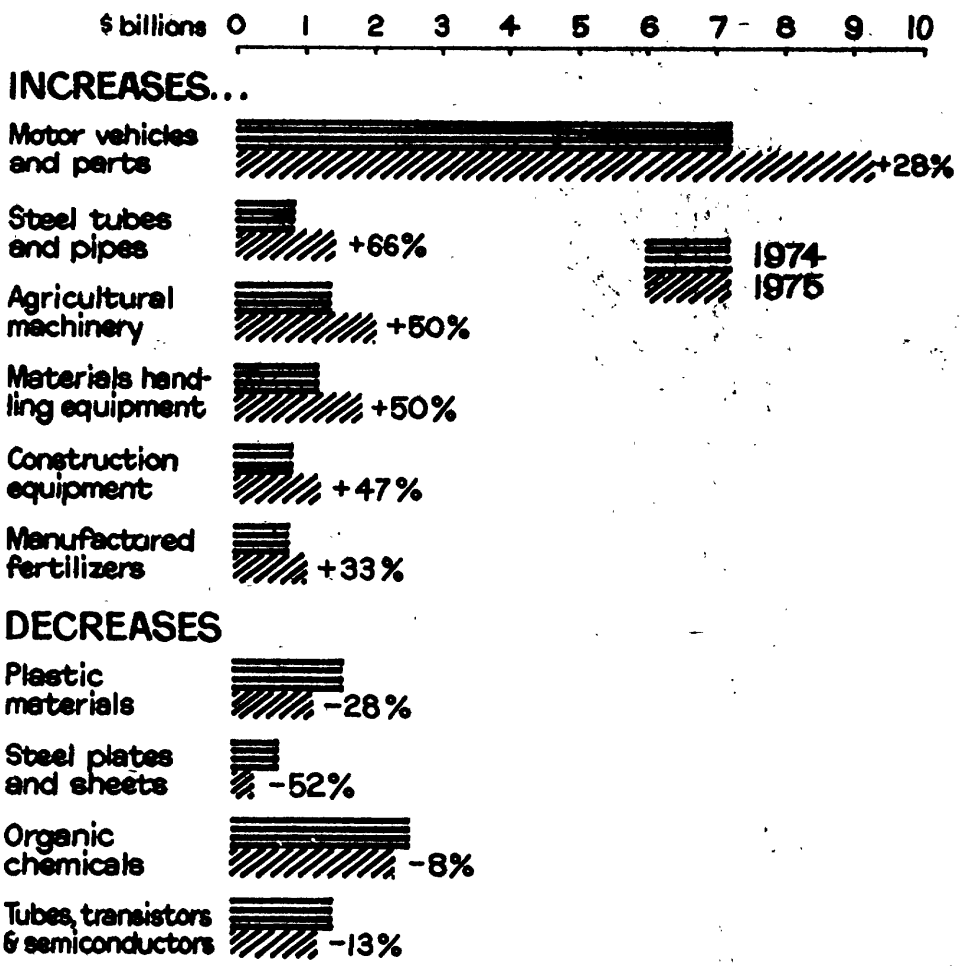
- Trade balance with most world areas plus in 1975
- Substantial deficits reported only with Japan and the oil-exporting LDC's

CONTRAST IN FARM - NON FARM EXPORT GROWTH

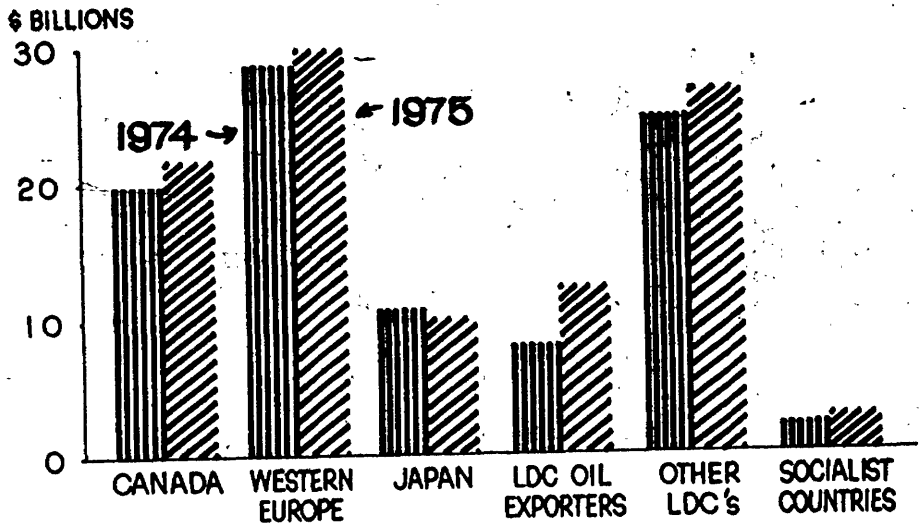


- Nonagricultural exports continued to expand in value
- Shipments of farm commodities showed marginal decline

MAJOR SHIFTS IN MANUFACTURED EXPORTS

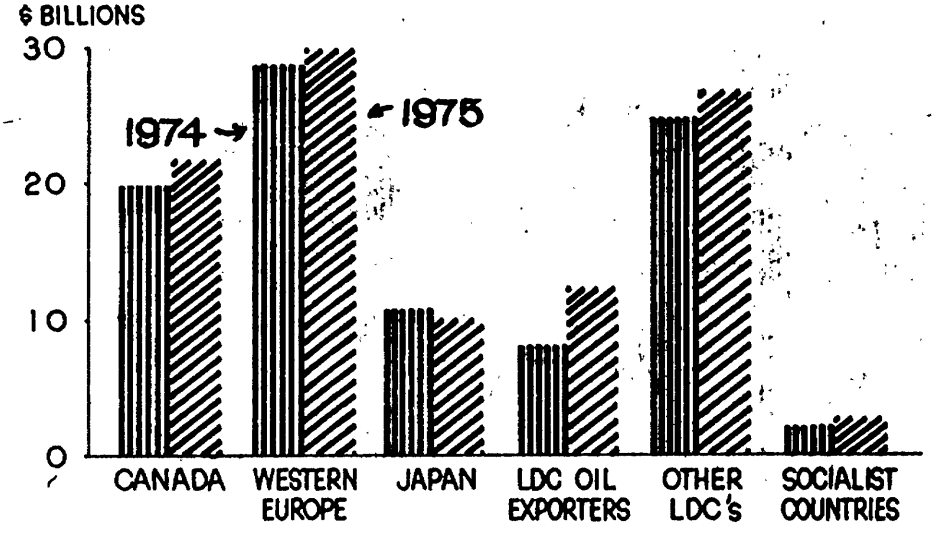


DEMAND FOR U.S. EXPORTS BY MARKET



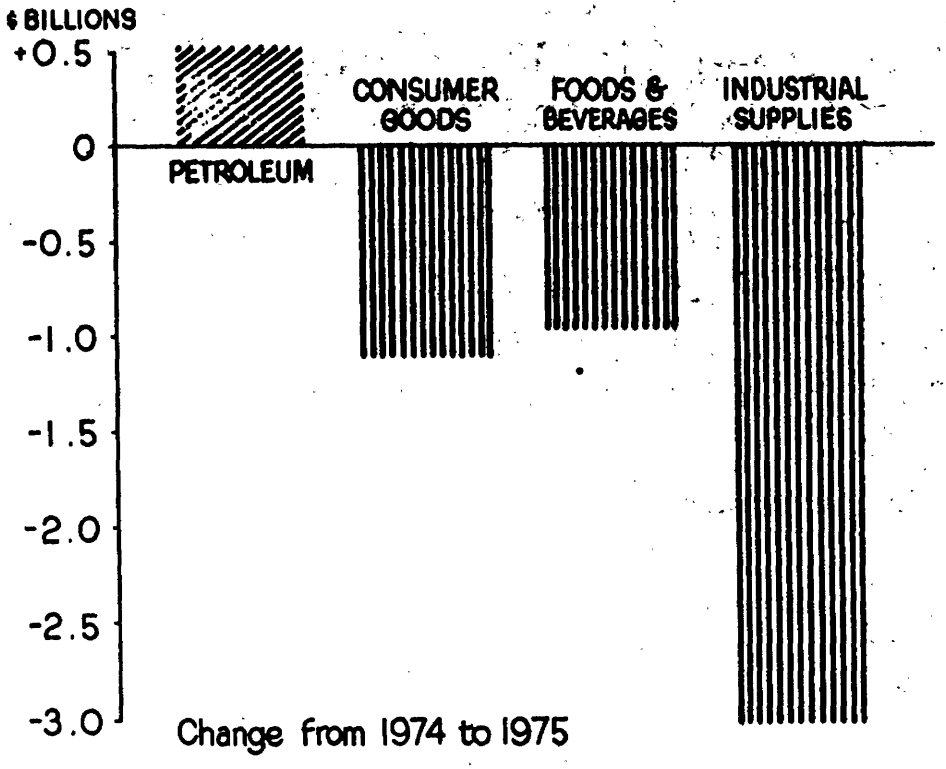
- Growth in sales to Canada and Western Europe small
- Japan bought less in 1975
- Oil-exporting LDC's purchases cont'd strong
- Exports to other LDC's showed limited advance
- Socialist countries' purchases expanded after 1974 decline

DEMAND FOR U.S. EXPORTS BY MARKET



- Growth in sales to Canada and Western Europe small
- Japan bought less in 1975
- Oil-exporting LDC's purchases cont'd strong
- Exports to other LDC's showed limited advance
- Socialist countries' purchases expanded after 1974 decline

CHANGES IN U.S. IMPORTS BY MAJOR CATEGORIES



- Petroleum imports up 2% in value, down 2% in volume
- Domestic economic slump, huge inventory liquidation reduced demand for other products

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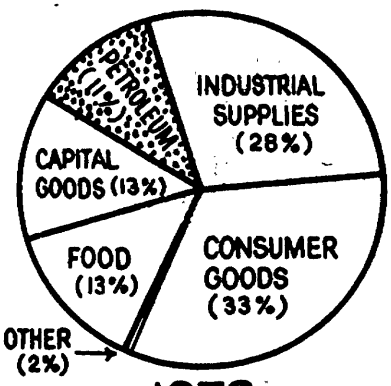
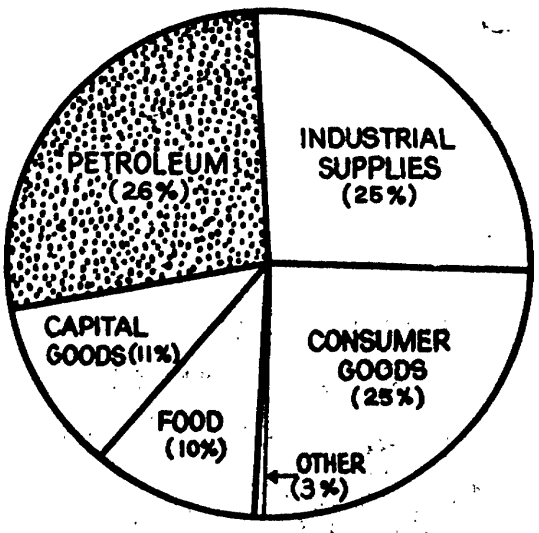
COMMODITY COMPOSITION OF U.S. IMPORTS

- Oil, only 11% in 1973, now 26%
  Values rose from $7½ billion to $25 billion
  Quantity declined
- Consumer goods share dropped from one-third to one-quarter
- Other major categories changed little

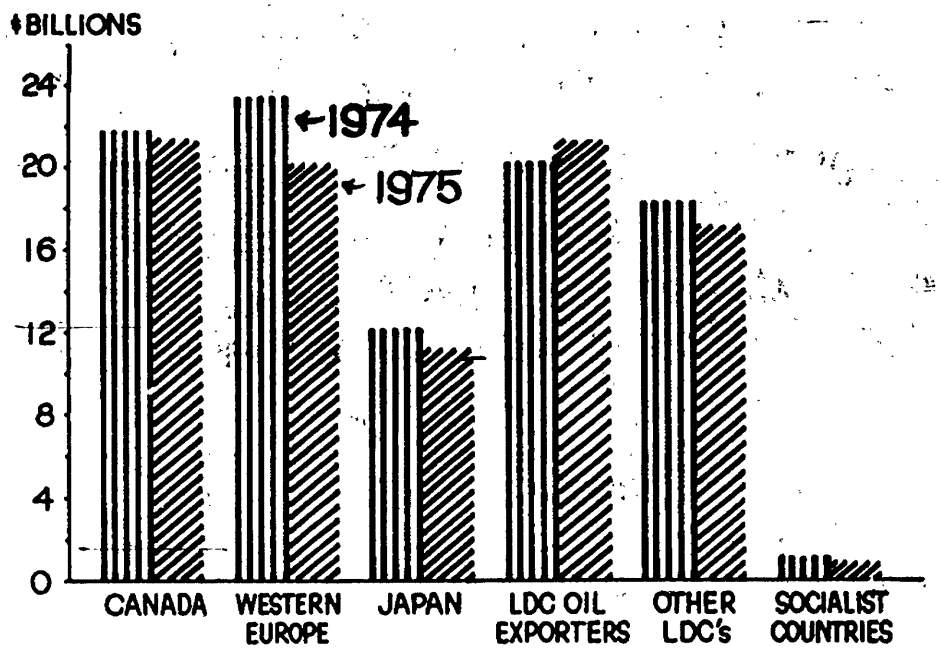


1973
Total imports $69 billion



1975
Total imports $96 billion

IMPORTS FROM PRINCIPAL SUPPLIERS



- Decline of $28 billion from Western Europe and $1 billion from non-oil exporting LDC's
- Only partly offset by $1 billion rise from oil-exporting LDC's

OUTLOOK FOR 1976

Trade balance will drop as U.S. rate of recovery exceeds rebound abroad

Export growth is likely to be moderate

- Foreign industrial economies will revive slowly
- Non-oil LDC's are short of funds because of high food & oil prices, reduced export earnings

But –

- Shipments to oil exporters should be strong
- Sales of farm/nonfarm products to East Europe will grow
- Deliveries of military goods will rise somewhat

Imports to rise

- Expanding production, restocking, will require industrial supplies
- Consumer goods imports will grow as domestic expenditures rise
- Oil purchases will show sizable rise in value, volume

Appendix C

U.S. International Trade Policy and the Trade Act of 1974
(Prepared by the staff for the use of the Committee on Finance)

PREFACE

This pamphlet has been prepared by the staff of the Committee on Finance to assist the committee in its oversight of U.S. foreign trade policy. Its purpose is to provide a summary of current events relating to U.S. international economic policy, the administration of the Trade Act of 1974, and the progress of the multilateral trade negotiations.

CONTENTS

UNITED STATES INTERNATIONAL TRADE POLICY AND THE TRADE ACT OF 1974

I. RECENT EVENTS AFFECTING THE WORLD ECONOMY

A. State of the World Economy

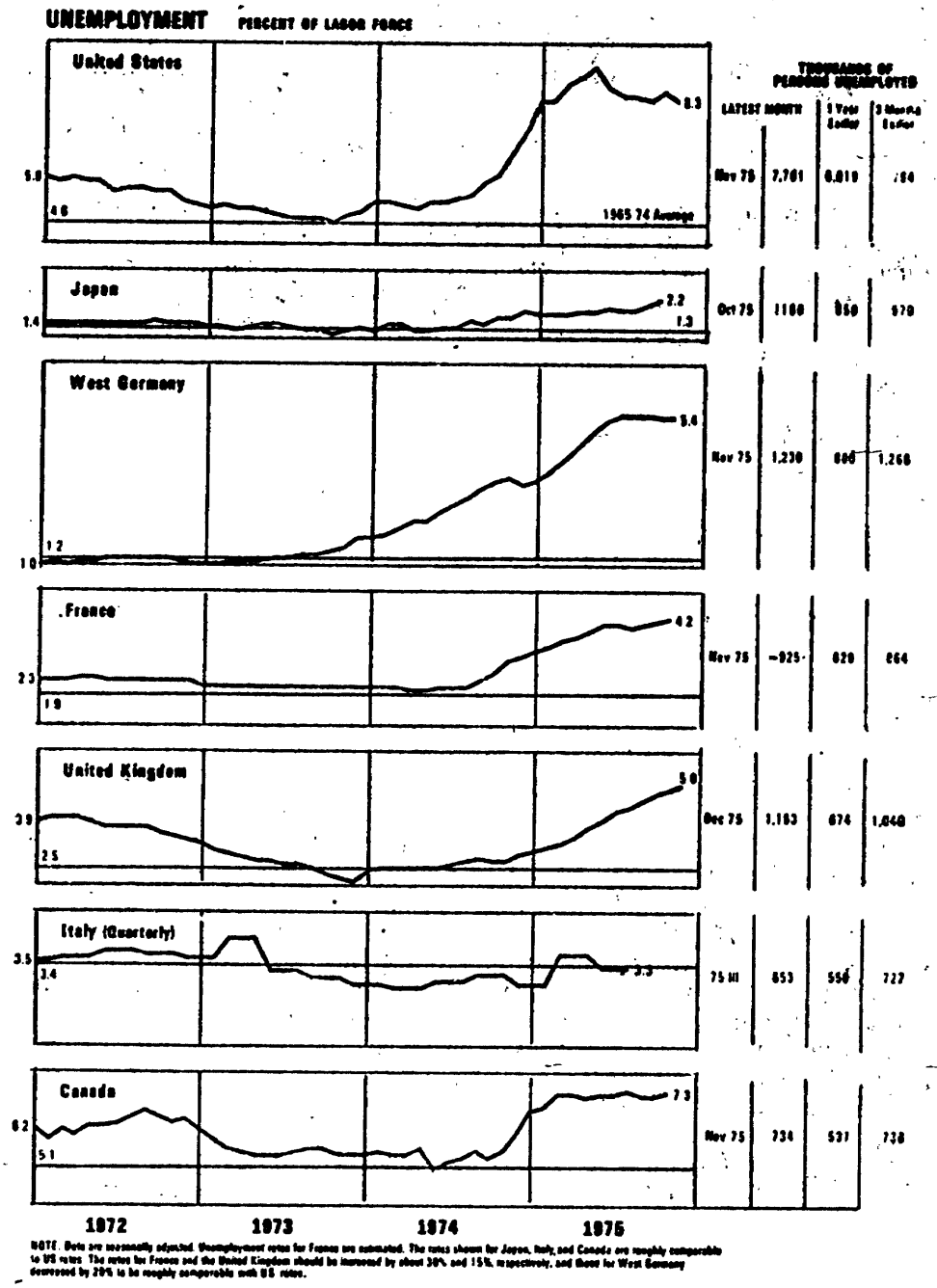
The economies of the United States and other industrialized countries are slowly recovering from the first synchronous world recession since 1957 and the most severe economic conditions since the 1930's. For two years the developed world has been plagued by an unprecedented coincidence of recession and inflation complicated by wide fluctuations in prices for commodities and the oil embargo and price increases of the Organization of Petroleum Exporting Countries (OPEC).

For the United States, the recession has been especially severe. Unemployment in the United States during 1975 reached 8.6 percent, a level not experienced since 1941. The gross national product declined in real terms both in 1974 and 1975. Industrial production declined through most of 1974 and the first half of 1975. Declining inventories and rising retail sales suggest that a modest recovery is underway in the United States. However, unemployment continues at 8.3 percent with 7.7 million persons on the unemployment rolls; and a return to full employment levels—4 to 5 percent unemployment—is not expected before 1980.

Other industrial countries also experienced higher unemployment rates in 1975 but, in both relative and absolute terms, those rates remain considerably below the rate of employment in the United States. For example, in Japan the unemployment rate rose to 2.2 percent in October 1975 (from an average of 1.3 percent between 1965–1974) directly affecting 1.2 million persons; in West Germany the rate increased to 5.4 percent (from an average of 1.2 percent in the 1965–1974 period) affecting 1.2 million persons. (See chart on page 2 for comparative unemployment rates among industrial countries.)

The governments of most industrial countries have adopted expansionary economic policies intended to encourage the recovery of their economies, although fears of exacerbating inflation remain. The leaders of these countries, particularly the European countries where the recession arrived later and where recovery is lagging, look to the United States to lead the world economic recovery. The Organization for Economic Cooperation and Development (OECD) forecasts for 1976 a four percent increase in the aggregate gross national products

of the industrialized nations. This compares with a two percent overall decline in output experienced by OECD countries in 1975.[1]



NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy, and Canada are roughly comparable to US rates. The rates for France and the United Kingdom should be increased by about 30% and 15%, respectively, and those for West Germany decreased by 20% to be roughly comparable with US rates.

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[1] Between 1959 and 1973, the growth of the real gross national products of the seven largest industrial countries (United States, Canada, Japan, France, West Germany, Italy, and Great Britain) averaged 6 percent per year. In 1974, the economies of Japan and the United States each declined about 2 percent, while the economies of the other five maintained marginal growth. In 1975, however, the effects of the recession on gross national products was more generally felt: United States, minus 2 percent; Canada, minus 1 percent; France, minus 5 percent; Germany, minus 5 percent; Italy, minus 7 percent; and Britain, minus 2 percent. Japan alone among industrialiaized countries experienced marginal economic growth during 1975.

Although many countries sustained trade deficits in 1975, West Germany maintained a huge trade surplus ($17.8 billion through November) and the United States and Japan had more moderate trade surpluses. During eleven months of 1975, U.S. exports (excluding foreign aid and "Public Law 480" agricultural exports) totalled more than $96.4 billion (f.a.s.) while imports for the same period totalled $94.3 billion (c.i.f.), yielding a positive United States balance for the eleven month period of about $2.0 billion. The following table presents the latest available data on the balances of trade for seven industrial countries. U.S. trade data have been adjusted to exclude foreign aid exports and to place imports on a c.i.f. basis.

COMPARATIVE BALANCES OF TRADE FOR MAJOR INDUSTRIAL COUNTRIES, 1975

(Billions of dollars)

	Exports	Imports	Balance
United States	96.4	94.1	+2.3
Japan	50.2	45.1	+5.1
West Germany	82.9	65.1	+17.8
France	48.9	47.4	+1.5
United Kingdom	38.1	44.4	−6.3
Italy	28.8	28.8	.....
Canada	26.5	28.3	−1.8

Source: Economic Indicators, Office of Economic Research, Central Intelligence Agency, Jan. 7, 1976.

The improvement in the U.S. balance of trade is attributable to a number of factors including the devaluation of the dollar. Ironically, the world recession during 1975 was an important factor in the U.S. trade surplus. The normal flow of consumer goods imports into the U.S. market was arrested by the decline in consumer demand and the severity of the recession in the U.S. economy. At the same time, because the recession arrived later in other countries, U.S. exports continued to increase in value. Agricultural exports grew briskly both to developed countries and to the Soviet Union, which once again had an unexpectedly poor harvest.

The recession brought about a decline in world trade both in absolute and relative terms. For the first time in the postwar period, there was an absolute decline in the volume of world trade during 1975. According to the International Monetary Fund, the exports of industrialized countries reached a value of $124.1 billion during the third quarter of 1975, compared to $125.1 billion in the third quarter of 1974. Imports of industrialized countries during the same quarter of 1975 were $128.9 billion, compared to $137.6 billion in 1974. Because these dollar figures are not adjusted for inflation, the decline in trade in terms of volume was even greater.

The decline in world export markets introduced serious new pressures in the world trading system as major trading nations sought to

maintain positive trade and payments balances. Among industrialized nations, Japan, West Germany, France, Great Britain, Italy, and Canada all contended with balance of payments deficits during 1975. Despite the declaration of Western leaders at the Rambouillet Summit Conference, the British imposed restrictions on selected imports, as did several other countries. To date the United States has not taken any action under the "escape clause" provision (section 201) of the Trade Act of 1974 and has exercised the "unfair trade practices" authority a very few times, for example, in the cases of dumped golf carts from Poland and subsidized footwear from Taiwan and Korea.[1]

For developing countries, higher oil prices and the world recession pose a far more serious problem. One recent estimate is that while the quadrupling of world oil prices brought about a 2 percent reduction in the gross national products of the major industrial countries, it brought about a 3 percent reduction in the GNP's of the non-OPEC developing world and a doubling of the GNP's of OPEC countries.[2]

While some non-OPEC developing countries have been able to finance their higher oil bills most have suffered from a decline in commodity prices and a reduced ability to borrow. Even the wealthiest of the developing countries without petroleum reserves have found it increasingly difficult to borrow funds as their international credit lines have begun to wither. International food shortages have further compounded the problems of developing countries, particularly the most impoverished. Higher food prices are forcing developing countries to spend a greater proportion of their export earnings to feed their populations. Without a reduction in oil prices and increased financial and food assistance, a number of non-oil producing developing countries, so-called "fourth world" countries, will be in severe straits. The sale of exports is by far the most important means by which fourth world countries can earn the foreign exchange necessary to purchase oil and food and to invest in their capital bases. The export earnings of developing countries, moreover, are closely linked to the economics of the developed countries. However, as world income and trade grow, world market demand for exports of developing countries increases less rapidly than it does for the exports of developed countries. For example, in 1969 the value of total world trade grew by 14 percent, but the exports of developing nations grew by only about 9 percent. Accordingly the developing countries' share of world trade has been steadily declining relative to the share of the developed countries. It is this economic syndrome which the Generalized System of Preferences of the Trade Act is intended to remedy.

Trade, aid, and monetary matters are interrelated in the world economy and cannot be validly separated. The oil embargo and price increases of the OPEC countries were essentially political acts, yet they have had profound implications for the world economy, including

[1] On January 16, 1976, the International Trade Commission notified the President that increased imports of stainless and alloy tool steel are a substantial cause of serious injury to certain industries and recommended that a quota be imposed. Under the Trade Act, the President has sixty days to decide what form of import relief, if any, he will provide. If he declines to provide relief or if he provides relief other than that recommended by the Commission, the Congress may by adoption of a concurrent resolution implement the relief originally recommended by the Commission.

[2] Hansen, Roger D., in "The U.S. & World Development: Agenda for Action," Overseas Development Council, 1975, p. 157.

a recession, stunted development, and the risk of widespread import restrictions.

If there is one conclusion which can be drawn from the current state of the world economy it is that no country or group of countries can achieve economic security by pursuing policies which are injurious to other countries and detrimental to world economic order. The process of international economic interdependence compels international cooperation.

B. The New International Economic Order

For many years, and particularly since the first meeting of the United Nations Conference on Trade and Development (UNCTAD) in 1964, the developing countries have sought a new international order in which the developed countries would transfer resources to the developing countries. Through UNCTAD and other international forums the developing countries have pressed with some success for greater multilateral aid and preferential trade agreements. But developing countries' dissatisfaction with their economic lot, once popularly referred to as their "crisis of rising expectations", has now become a new economic militance reflected in the events of the past two years.

The oil embargo and subsequent quadrupling of oil prices by the OPEC has given the developing world a new weapon in its quest for wealth—resource monopoly. Since the OPEC embargo, developing countries have several times attempted to repeat the pattern of OPEC from increasing the taxes on bauxite, for example, to forming a cartel to export bananas. However, the poorest of the developing countries were unable to ride the commodity boom of 1973–1975 and continue to suffer severe economic distress. Yet, these countries most seriously affected by the cartel pricing policies of OPEC countries apparently believe that their road to economic salvation lies in unilateral price and supply actions against developed countries. Their hopes buoyed, the developing countries have formed more than ten producer associations since the OPEC embargo; none has yet been able to imitate OPEC with success.

1. *Evolution.*—While organizing among themselves in the past two years, third world countries have also used international forums to convey how they feel world economic relationships should be changed to better suit their development goals. In May of 1974, as a result of a special session of the General Assembly which studied raw materials and development, the United Nations adopted a resolution titled "Declaration of the Establishment of a New International Economic Order". The developing countries state through the resolution that the existing world economic order is in conflict with their development goals, and that new principles must be respected in the formulation of a new order. Among the new principles enumerated are countries' rights to "preferential and non-reciprocal" trade treatment for developing countries, the improvement of the "competitiveness of national materials facing competition from synthetic substitutes," the linking of prices of raw material exports with prices of manufactured imports, the unconditional extension of foreign aid, and the facilitation of technology transfer to developing countries.

In December of 1974, the General Assembly of the United Nations adopted a resolution entitled "Charter of Economic Rights and Duties of States". The fundamental purpose of this resolution is "to promote the establishment of the new international economic order" referred to above. The charter states that every nation has the right to associate in primary commodity producer associations and that other nations must not apply economic and political measures to limit such associations; and that nations should take steps "aimed at securing additional benefits for the international trade of developing countries so as to achieve a substantial increase in their foreign exchange earnings." Also included is the suggestion that developed nations should help the development process by promoting "increased net flows of real resources to the developing countries from all sources."

During the same month of the approval of the UN Charter of Rights and Duties of States, the Secretary General of the UNCTAD issued a report on a proposed integrated program for commodity trade. The UNCTAD proposals include the creation of a common fund for the financing of large international buffer stocks which would become a part of a system of international commodity agreements. As a backup mechanism, the report recommends compensatory schemes be used to make up losses in export earnings where commodity agreements fail to maintain prices and supplies at projected levels.

In February of 1975, a group of developing countries met in Dakar to confer on policy matters affecting raw materials. They issued a resolution which finds that the framework and organization for world commodity trade are outdated and inadequate as instruments of economic change and development. The resolution calls for the full implementation of the Charter of Rights and Duties of States and for the developed countries to compensate developing countries for the exploitation and depletion of third world natural resources.

In March of 1975, a conference of the United Nations Industrial Development Organization adopted a resolution entitled "The Lima Declaration on Industrial Development and Cooperation." The Lima Declaration not only reiterates many of the findings and exhortations of earlier resolutions mentioned above, but it also introduces concrete economic goals for the developing world. The developing world now accounts for approximately 7 percent of world industrial production; the declaration calls for that share to increase to at least 25 percent of total world industrial production by the year 2000. As the declaration points out, "this implies that the developing countries should increase their industrial growth at a rate considerably higher than the 8 percent recommended" previously by a United Nations development group.

In all of the above resolutions and declarations, international commodity agreements, earnings stabilization programs, and preferential trade treatment play important, albeit not exclusive, roles. The basic objectives sought by the developing countries through these programs are the stabilization of their export earnings, a real transfer of wealth from the developed to the developing world, and a heightened degree of economic self-determination.

2. *Implications for U.S. Trade Policy.*—There are several schools of thought within the Executive Branch on the most appropriate U.S. response to the international clamor for a new economic order. The

United States has historically pursued a policy of bilateral and multilateral financial and agricultural aid to developing countries. The U.S. has not encouraged the formation of commodity agreements, although there have been exceptions, such as sugar and coffee.

Several agencies in the Executive Branch (most notably the Treasury Department) hold the view that the free market mechanisms will lead to the most efficient distribution of resources. Advocates of the free-market policy do not quarrel with the basic concepts of a world economy which transfers resources to the developing world but object to the cartelization of the world economy. They argue that economic issues should not be discussed and worked out together in essentially political arenas, but rather should be addressed on a case-by-case basis and should provide for the ultimate decisions on price and supply to be decided by parties trading in a free market.

Another viewpoint is that the present is not the time to establish mechanisms for the resource transfers of the next decade and that the United States should adopt a "wait and see" attitude. This view is based on the proposition that the OPEC cartel is now at the peak of its strength and will come under increasing pressures in the next few years. To use the apparent success of the OPEC cartel as the backdrop against which to negotiate, it is argued, is to insure that the United States will be locked into a decade-long foreign economic policy of weakness merely because it suffered a few years of economic distress. Thus, the proponents of this alternative policy prefer caution in the participation of the United States in international commodity and financial agreements until the long-term viability of the OPEC cartel can be more clearly assessed.

However, the "free market" and "wait and see" viewpoints may already have gone by the boards in the formulation of U.S. foreign economic policy, at least so far as the Executive Branch is concerned. In a speech delivered last September before the United Nations on behalf of the Secretary of State, a new foreign economic policy was outlined by the United States. Secretary Kissinger announced that the United States will press for new international economic initiatives to meet the challenge of resource transfer which the developing countries have articulated. Although such a policy will not commit the United States to enter into an international agreement in the case of every commodity nor bind the United States to unconditional financial assistance, the announcement reflects the attitude that we should not "stonewall" the demands of developing countries but rather make some concrete concessions in the hope that the drive for radical change in the world economy will be at least temporarily diverted.

(*a*) *Commodity Agreements.*—In his September United Nations speech, Secretary Kissinger proposed that "a consumer-producer forum be established for every key commodity to discuss how to promote the efficiency, growth, and stability of its market." A commodity agreement is an intergovernmental contract which regulates production, exports, or trade of basic commodities to prevent an excess of supply or demand in order to maintain or stabilize prices and stocks. Commodity agreements define the activities of major trading partners in rapidly changing economic conditions so as to smooth out the usual boom-bust fluctuations in commodity prices and supplies.

Historically, several primary commodities produced in a limited number of countries were controlled by closely-linked private international corporations. The corporations would form a cartel to ensure that even the most inefficient of member corporations could operate on a profitable and stable basis. The cartel would designate a cartel manager who would use cash and a buffer stock to maintain prices and supplies in the market on a day-to-day basis. If the market and buffer stock transactions were inadequate to maintain market conditions according to plan, the cartel would agree to production cutbacks by member corporations. However, with the exception of the tin cartel, the major corporate international arrangements were unable to endure the vagaries of the market for many years and became ineffective.

After World War II, the United States attempted to establish an International Trade Organization (ITO) which would, among other things, determine the form, duration, and general terms of commodity agreements. While the ITO never came into existence, the principles laid out in Chapter VI of the ITO draft charter survive as the basis for many of today's international commodity agreements. In general, the ITO Charter permitted commodity agreements for primary products where exchange earnings were important to producers and where the stability of such earnings was important to economic development planning. New agreements would be intergovernmental rather than intercorporate. The objective of the agreements was to moderate price fluctuations and to establish stable prices fair to both producers and consumers.

A 1947 UNESCO resolution recommended to the ITO commodity agreement provisions to United Nations member states. Because the ITO never took effect, the UNESCO resolution is the only legal basis for international commodity agreements. Although the General Agreement on Tariffs and Trade (GATT) contains a provision prohibiting quotas and other quantitative restrictive measures (GATT Article XI), Article XX(h) of the GATT exempts intergovernmental commodity agreements which are consistent with the UNESCO resolution.

Commodity agreements are tailored to the nature of the parties and the trade in each particular commodity. While each agreement may contain variations, the major devices are: 1) collective contracts; 2) quota contracts; and 3) buffer stocks.

The collective contract device has been employed by the United States during its participation in the International Wheat Agreement. It is an agreement to offer contracts for the sale of a basic commodity at a specific minimum and maximum price for certain years. The collective contract involves those countries who anticipate having a surplus agreeing to offer for sale a certain amount of the commodity at prices within an agreed-upon range. When collective contracts have involved the supply of grains to developing countries, they have recently included agreed-upon amounts of grain aid.

Quota controls include quantitative restrictions on imports or exports by member countries. The agreement may discourage export and production subsidies by awarding larger quotas to efficient producers. A price range may be set, and membership may

be induced by providing preference for sales to consuming members when prices are high and restriction on purchases from nonmembers when prices are low.

A buffer stock is a quantity of the commodity which may be varied in size by purchase or sale on the open market. The commodity council may project the long-term supply and demand estimates and thereby derive a desired price range for the commodity. The council will then sell out of the buffer stock when prices are in the high end of the range and buy in the open market when prices fall into the low end of the range. An agreement may have a provision for the financing of buffer stocks with marketing levies or with the profits which may result from buffer stock trade. It is not unusual for a commodity agreement to include both a buffer stock and quotas. Buffer stocks must be large enough to maintain the desired range of prices; they are expensive to maintain and the sharing of costs can be a contentious issue between producer and consumer nations. Producer countries are more interested in "floors" than "ceilings", while consumers have the opposite interest. Generally the ceiling aspect of a commodity agreement is more ephemeral than real.

Major international commodity agreements have recently been in effect for tin, cocoa, coffee, wheat, and sugar. The Food and Agriculture Organization of the United Nations is sponsoring ten study groups on agricultural goods. These commodities include rice, grains, citrus fruit, jute/kenaf and allied fibers, oilseeds/oils and fats, bananas, hard fibers, wines and vine products, tea, and meat. Associations of producer countries are in effect for bauxite, copper, petroleum, rubber, iron ore, mercury, and tungsten. Commodities covered by producer associations are candidates for possible international agreements, particularly if access to supplies becomes of greater concern to consuming countries.

(*b*) *Earnings Stabilization.*—In his September United Nations speech, Secretary Kissinger proposed the creation "of a new development security facility to stabilize overall export earnings." The facility would replace the International Monetary Fund's (IMF) existing compensatory financing facility and would give loans to developing countries which need to finance shortfalls in their export earnings.

In December of 1975, members of the IMF did agree to modify, rather than to replace, the compensatory finance facility. The facility is designed to assist countries with shortfalls in their balance of payments which result from factors beyond their control, notably from lower prices or production levels of their export commodities. Assistance is in the form of medium-term loans (3 to 5 years) at low interest rates (4 to 6 percent). Borrowings for this purpose were previously limited to 50 percent of a country's membership quota in the IMF, with no more than half of that (25 percent of quota) in any single year. Under the December change, a country will now be able to borrow up to 75 percent of its quota, with no more than 50 percent of its quota in any single year.

To obtain a compensatory loan, a country applies to the IMF. A calculation is made on the country's average balance of pay-

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ment deficit for the two preceding years, the year of the loan, and a projection of the two succeeding years. The December change in compensatory finance rules removed the restriction that a country could borrow less for this purpose if it had already borrowed to finance a commodity buffer stock; there is no more link between export stabilization borrowing and the buffer stock facility.

In February of 1975, the European Community signed a trade agreement, the Lome Convention, further opening its markets to a group of 46 African, Carribean, and Pacific (ACP) countries. Part of the Lome Convention was an agreement to make available to ACP countries a commodity export stabilization finance system. The system is applicable to 12 primary product groups. Where an ACP country's earnings from the export of one of the twelve products represent at least 7.5% of its total export earnings, that country is entitled to request a financial transfer if its earnings from the export of the product to the Community are at least 7.5% below an average level of the four preceding years. For the 34 least developed, landlocked, or island ACP countries the dependence and trigger thresholds are 2.5%. The European Community is allocating 375 million units of account ($440 million) for the stabilization system. The Convention includes the principle that the 42 better-off ACP countries should repay the export stabilization transfers they receive if they have made sufficient earnings progress in the ensuing five years.

(*c*) *Preferential Trade Treatment.*—Developing countries have long complained that the major industrialized countries discriminate against them by maintaining high tariffs on semi-manufactured and manufactured goods and low or no duties on primary products. Their theory is that this "tariff escalation" (i.e., the greater the degree of processing in a good, the higher its duties) discourages them from industrializing. At the 1964 UNCTAD meeting, the developing countries formally proposed that the developed countries grant the former tariff preferences on their exports to the developed countries. Over the following years, the developed countries ratified the tariff preference concept by agreeing to extend their individual preference programs to "beneficiary developing countries."

The tariff preference systems currently in effect in the European Community (EC), Japan, and the United States all recognize approximately 100 beneficiary developing countries. However, there are differences among the systems. The EC and Japan permit imports of some manufactured goods on a duty-free basis, subject to tariff quotas. Quantitative import ceilings (quotas) exist for each product group. Imports of eligible products above these ceiling levels are subject to normal most-favored-nation duty rates. In addition, imports from any one beneficiary developing country are subject to maximum amount limitations. In the case of "sensitive" manufactured and semi-manufactured products, the EC also regulates the amount of each product which can enter each of the separate member States. Both the EC and Japan restrict the number of agricultural imports receiving preferential treatment to a few selected items. Eligible agricultural products are admitted at margins of preference averaging

4 percent of the MFN rate in the case of the EC and 50 percent of the MFN rate for Japan. Agricultural products are not subject to quantitative restrictions, but in some cases must still face a variable levy which operates like a quota.

In contrast to the preference systems of Japan and the EC, the U.S. system is not based on tariff quotas. The U.S. system applies a "competitive need" rule, limiting imports of a particular product from a particular country to $25 million in value or 50% of total U.S. imports of the product. The U.S. generalized system of preferences is discussed in greater detail on p. 37.

C. International Economic Negotiations

Attempts by the nations of the world to manage the world economy and to coordinate their foreign economic policies are characterized by complexity and apparent confusion. This is because the issues which must be resolved among the nations are technically complex and because those issues are directly related to politically sensitive domestic interests. In addition, discussion of these issues necessarily raises fundamental questions about the nature of national sovereignty.

Despite these difficulties, the rapid expansion of world trade and increasing awareness of the interdependence of national economies have resulted in renewed efforts to achieve international agreement on the management of the world economy and coordination of international economic activities. These efforts take place in a variety of organizations, *ad hoo* multilateral negotiations, and bilateral diplomatic discussions. This part of the briefing document will briefly describe the major negotiations and consultations which are currently important to the international economic system.

1. *Rambouillet.*—From November 15 to November 17, 1975, the heads of state and of the governments of France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States met at the Chateau de Rambouillet outside of Paris for an economic summit meeting. The scope of the meeting included energy, trade, and "North-South" economic relations. The meeting at Rambouillt resulted in a joint declaration of the participants.

The most important statements in this declaration include a reaffirmation of the participants' commitment to the principles of the Organization for Economic Cooperation and Development (OECD) pledge to avoid protectionist measures and to a 1977 goal for the completion of the Multilateral Trade Negotiations in progress in Geneva under the Tokyo Declaration. The declaration also contains a compromise between the United States and France under which international exchange rates will continue to be set by means of the free market with the understanding that national monetary authorities may act to counter disorderly market conditions or erratic fluctuations in exchange rates. This compromise laid the foundation for the new International Monetary Fund (IMF) agreements reached in Jamaica in January 1976. In addition, the declaration commits the participants to make improvements in the international arragements for the stabilization of export earnings of developing countries and in measures to assist the developing countries in financing their deficits through the IMF and other appro-

priate international organizations. Finally, the declaration commits the participants to future cooperation in order to reduce their dependence on imported energy through conservation and development of alternative sources of energy.

2. *Conference on International Economic Cooperation.*—Until September 1975, the United States opposed any international negotiations between the developed countries and less developed countries dealing with the broad range of economic issues which divide those two groups. Instead of a general negotiation, the United States hoped to begin negotiations between the energy consuming nations and the energy producing nations. Largely as the result of opposition from the Organization of Petroleum Exporting Countries (OPEC), attempts to establish an international energy conference failed. In his speech in September, 1975, to the Seventh Special Session of the United Nations General Assembly, Secretary of State Kissinger announced the willingness of the United States to participate in a general negotiation between the developed and less developed countries and specified 41 proposals for action.

As the result of this change in the position of the United States, the Conference on International Economic Cooperation (CIEC) convened in Paris on December 16, 1975. Twenty-seven delegations are attending the conference representing eight developed countries, including the European Community, and 19 developing countries, including several members of OPEC. The conference is chaired by Canada and Venezuela. The initial meeting resulted in the creation of four commissions covering specific subject matters. The United States is co-chairman of the energy commission along with Saudi Arabia. The European Community and Iran co-chair the commission on finance, Japan and Peru co-chair the commission on raw materials, and the European Community and Algeria co-chair the commission on development. The commissions will begin their working meetings on February 11, 1976.

The developed countries are coordinating their policies in the CIEC through the Executive Committee in Special Session of the OECD. It is apparently the intention of the United States to seek creation of a new institution with a small permanent secretariat based in Paris to administer the activities of the four commissions. Other than opposition to tying commodity prices to the rate of inflation in the prices for manufactured goods, "indexation", and apparent agreement on the use of Secretary Kissinger's U.N. speech as a basic framework, little is known of the policy position of the United States and the other developed countries in the CIEC. The 19 less developed countries met beginning on January 5, 1975, to attempt to coordinate their positions. To date this strategy session appears to be moving slowly as a result of differences between the oil producing and non-oil producing less developed countries. The less developed countries have, however, announced that they intend to seek "firm guarantees" from the developed countries that the CIEC will not be a mere diplomatic exercise but will lead to positive decisions.

3. *World Food Negotiations.*—International trade in agricultural products has been a persistent problem which is being dealt with in many different organizations and negotiations. This is because of the

increasing demand for agricultural products as the world's population grows, severe fluctuations in the supply of agricultural products due to variations in crop yield as a result of both weather conditions and fluctuations in the supply of fertilizer, and domestic agricultural policies intended to maintain agricultural sector income and minimum levels of agricultural production. Many of the problems raised by domestic agricultural policies are being addressed in the Multilateral Trade Negotiations underway in Geneva which is discussed in the next part of this document. Other significant international negotiations relating to international trade and food include the International Wheat Council (IWC) which is currently meeting in London. The focus of the IWC discussions is currently on the establishment of an international grain reserve which will be used to stabilize the amount of grain available to the international market.

As the result of the World Food Conference which met in Rome in 1974, a World Food Council, a Consultative Group on Food Production and Investment, and an International Fund for Agricultural Development have been established. The World Food Council is intended to provide overall coordination of implementation of the resolutions and objectives of the World Food Conference particularly through various United Nations agencies such as the Food and Agricultural Organization. The Consultative Group for Food Production and Investment is intended to encourage a larger flow of resources to developing countries for food production and to coordinate assistance from the developed countries to the less developed countries to assure a more effective use of food resources. The International Fund for Agricultural Development is intended to provide additional financial assistance on a concessional basis for agricultural development purposes in developing countries. The United States has made it clear that any contribution by it to the Fund will depend upon contributions by all nations in the amount of at least $1 billion and negotiation of acceptable articles of agreement. Finally, the Consultative Group for International Agricultural Research (CGIAR) is facilitating the transfer of agricultural technology to the less developed countries. Currently, the CGIAR is focusing on means by which post-harvest food grains losses may be reduced.

It should be noted that, in addition to the international organizations discussed above, virtually all the developed nations are carrying bilateral food assistance programs for selected less developed countries. The developed countries are consulting with each other about their activities in the bilateral food assistance area through the Development Assistance and Agriculture Committees of the OECD.

4. *The International Monetary System.*—The international monetary system is managed primarily through the International Monetary Fund (IMF). Other institutions which play a role are the Bank for International Settlements, the Group of Ten, and Working Party 3 of the Economic Policy Committee of the OECD. The recent meeting of the Interim Committee of the Board of Governors of the IMF in Jamaica resulted in agreement upon rules which will partially replace the Britton Woods Agreement. That Agreement essentially collapsed in 1971 when the United States unilaterally removed itself from the gold standard thereby permitting the value of the dollar to be determined by the international currency market. The Interim

Committee agreed that floating exchange rates will be recognized as the norm while the IMF will act to influence any country which lets its floating exchange rate get so far out of line that it achieves an unfair trade advantage over its competitors. The IMF must still work out the details of the compromise between the United States and France reached at Rambouillet and Jamaica on the "managed float".

The Jamaica meeting also ratified plans to sell one-sixth of the IMF's gold holdings, approximately 25 million ounces, at world market prices with the profits resulting from the difference between the official price of $42.22 an ounce and the world price of approximately $130 an ounce being used to establish a trust fund for the benefit of less developed countries. Conditions on loans from the trust fund to less developed countries will be less stringent than those applying to loans from the regular IMF funds. An additional 25 million ounces of gold will be returned from the IMF to member countries on the basis of their quotas. Finally, the IMF members agreed to increase the amount of loans each member nation can receive from each of the three categories of normal loan funds in the IMF, "credit tranches", by 45 percent.

The importance of the international monetary system to international trade cannot be underestimated. This is because a flexible international monetary system is essential to the process of adjustment between the economies of the trading nations which results in currency valuations that accurately reflect the rates of inflation, productivity, and government economic policies of those nations.

5. *The Organization for Economic Cooperation and Development and the Customs Cooperation Council.*—The OECD, which is headquartered in Paris, is primarily a consultative body made up of the major industrial democracies. The developed countries use the OECD and its various committees and working groups to conduct both studies and negotiations on particular problems which they jointly must resolve and to coordinate their policies for purposes of other international negotiations such as the Multilateral Trade Negotiations and the Conference on International Economic Cooperation. Of the many activities currently underway in the OECD, one of the most important is the discussion in the Committee on Trade on an international code on government procurement policies which the United States hopes will require foreign governments, particularly the members of the European Community, to open their government procurement to foreign suppliers. It is the intention of the members of the OECD to use the government procurement code they decide upon as the basis for negotiations in the Multilateral Trade Negotiations. The OECD Committee on International Investment and Multinational Enterprises is working on a draft code of conduct for multinational enterprises. This draft is an attempt to codify the rights and duties of both multinational corporations and their host countries in the conduct of international business. The Executive Branch intends the draft code to be one of the mechanisms by which the principles expressed in the Ribicoff Anticorrupt Practices Resolution, S. Res. 265, 94th Congress, can be implemented.

The Customs Cooperation Council (CCC) provides a forum for the exchange of information and harmonization of customs requirements for member countries. The most important work of the Council

is currently being carried in the Harmonized System Committee and involves the development of an internationally agreed upon commodities code containing a tariff classification system and a harmonized system for valuing imports for purposes of levying duties which will be adhered to by all major trading countries. The work on the new commodity code is well underway and approximately 20% of the products traded internationally have been tentatively classified. In addition to the work of the Harmonized System Committee, the CCC Permanent Technical Committee is currently involved in negotiations on harmonizing and simplifying customs procedures and documentation requirements. The results of the work of the CCC in both the commodity code and the customs procedures areas will undoubtedly become involved in the Multilateral Trade Negotiations if it is completed before the end of the negotiations.

6. *The General Agreement on Tariffs and Trade.*—The major international agreement dealing with international trade is the General Agreement on Tariffs and Trade (GATT). The GATT is an executive agreement which has never been approved as a treaty or through implementing legislation by the U.S. Congress. Over 80 nations are now signatories to the Agreement. In addition to being an agreement which sets forth rights and duties of nations involved in international trade, the GATT is also an institution with a permanent Secretariat in Geneva. The GATT Secretariat, in addition to providing an institutional framework for Multilateral Trade Negotiations, carries on studies of particular problems of concern to the contracting parties. The GATT has sponsored six major rounds of multilateral trade negotiations since it was established in 1947, the most recent until now being the "Kennedy Round" from 1962 to 1967. All of these past negotiations concentrated on tariff reductions with the exception of the Kennedy Round which, in addition to substantial tariff reductions, resulted in the negotiation of an International Antidumping Code.

In 1973 the ministers with responsibilities for international trade of the contracting parties to the GATT met in Tokyo to initiate a new round of multilateral trade negotiations. The Tokyo Declaration issued by those ministers states that the focus of the new round, the "Tokyo Round," should be on non-tariff measures and on the problems of the less developed countries.

In very general terms, non-tariff measures are those policies of national governments which are intended to protect domestic markets from imports through non-tariff means, for example, quotas, and onerous customs procedures. In addition, non-tariff measures include domestic policies which, intentionally or unintentionally, result in the cost of national programs being imposed on foreign nations or foreign persons rather than on the citizens or government of the country establishing the program. Examples of the latter kind of non-tariff measure are export subsidies, regional development incentive programs, government procurement restrictions, product standards, environmental standards, and packaging and labeling requirements. The attempt to harmonize all these policies, or at least establish rules for the implementation of policies in the future so that their impact on international trade will be taken into consideration, is at the core of

the current Multinational Trade Negotiations which will be discussed in detail in the next part of this document.

II. ADMINISTRATION OF THE TRADE ACT OF 1974

A. Multilateral Trade Negotiations (Title I)

Title I of the Trade Act of 1974 delegates to the President the basic negotiating authority for the "Tokyo Round" of multilateral trade negotiations now underway in Geneva. The Act authorizes the President, for a period of five years, to enter into trade agreements with other countries for the purpose of harmonizing, reducing, or eliminating tariff and nontariff barriers to trade in international goods and services. Among other things, the President is authorized to enter into trade agreements to reduce duties within certain limitations. In the case of agreements on nontariff barriers, the Act establishes procedures requiring approval of such agreements by the Congress. In addition, the Act makes it an overall negotiating objective of the United States to obtain more open and equitable market access for U.S. exports of goods and services. The Act enumerates other negotiating objectives for the United States including reform of the General Agreement on Tariffs and Trade (GATT).

The first year of serious multilateral trade negotiations is over. It has been a slow, tedious negotiation marked by procedural impasses, particularly on agricultural issues. During 1975, the Trade Negotiations Committee (TNC), the overall coordinating body for the GATT negotiations, created six working groups to coordinate various aspects of the negotiations. The six groups have spent the past year collecting and analyzing data, sharpening issues, and generally performing the technical work which must precede substantive negotiations. The groups and their responsibilities are briefly summarized below:

1. *Nontariff Measures.*—The Nontariff Measures (NTM) Group has worked to identify and select significant nontariff barriers to international trade appropriate for negotiation. The barriers which are selected will be considered by four NTM subgroups: (a) A quantitative restrictions and import licensing subgroup which will consider quantitative restrictions and import licensing procedures; (b) a technical barriers to trade subgroup which will consider standards, packaging and labeling, and marks of origin; (c) a customs subgroup which will consider customs valuation, import documents, customs nomenclature, and customs procedures; and (d) a subsidies subgroup which will consider the related issues of subsidies and countervailing duties.

2. *Tropical Products Group.*—The Tropical Products Group was established to carry out negotiations on products grown in tropical climates which are primarily of interest to less developed countries, for example, cocoa, coffee, tea, and bananas. The Group has agreed to proceed initially with bilateral negotiations on products of interest to developing countries. Product request lists have been received from developing countries and it is anticipated that these product request lists will be the subject of intensive bilateral negotiations early in

1976, with the prospect of an agreement on tropical products by the end of the year.

3. *Tariffs.*—During the past year the Tariffs Group has directed its efforts toward the negotiation of a general tariff reduction formula, an agreement on product exemptions to such a formula, an agreement on the range of items to which the reductions would be applied (i.e., whether or not agricultural tariffs would be included), and toward defining the relationship of tariff negotiations to the interests of the less developed countries (how preferential treatment under the tariff cutting formula can be afforded the products of less developed countries). Several delegations have proposed, for purposes of discussion, tariff cutting formulas. The European Community has proposed a harmonization formula (i.e., the higher the tariff, the deeper the cut), aimed at reducing high tariffs by a larger percentage than low tariffs, possibly to a threshold level (e.g., 5 percent ad valorem), below which no further cuts would occur. The European Community asserts that such a formula would bring about substantial tariff reductions and also protect the interests of the developing countries by preserving their margin of preference under the generalized system of preferences.

The U.S. delegation has proposed for discussion three alternative formulas aimed in varying degrees at linear tariff reductions, the approach used in the Kennedy Round. The first U.S. proposal, for example, would reduce tariffs across the board by a common percentage (60 percent). A second U.S. formula provides for an across the board 60 percent linear reduction down to a 5 percent floor. A third U.S. formula combines a 60 percent linear reduction with a harmonization factor. The United States is expected to offer a concrete tariff cutting formula at the next meeting of the Tariffs Group and to push for agreement on a tariff cutting formula by the end of 1976.

4. *Agriculture Group.*—During 1975 agriculture was the focus of the most serious impasse in the GATT negotiation. The disagreement is between the United States and other agricultural exporting countries, on the one hand, and the European Community, on the other, over the manner in which agriculture should be treated in the negotiations. It is the U.S. position that agriculture issues should be negotiated "in conjunction with" industrial issues. (Section 103 of the Trade Act of 1974 requires that, to the maximum extent feasible, the negotiation of agricultural trade barriers should be undertaken "in conjunction with" the negotiation of industrial trade barriers.) The European Community, on the other hand, is of the view that the Agriculture Group should be the exclusive forum in the negotiation for discussion of any issue affecting agriculture. The purpose of the Agriculture Group, the United States contends, is to examine the "special characteristics" of certain agricultural issues and to support the efforts undertaken by the Tariff Group, the NTM Group, and other groups which should conduct the negotiation of issues which impact on agriculture. The European Community generally has declined to discuss agricultural issues in any forum outside the Agricultural Group.

The United States and the European Community have been unable to reconcile their differences over the negotiation of agricultural issues despite intensive talks during the past year. Several attempts to resolve the agricultural issue have been unsuccessful. Recently the European

Community Commission and the governments of all but one member state, France, interpreted an October understanding as between the United States and the European Community as permitting the talks to continue, as a matter of procedure, pending satisfactory resolution of the substantive issue.

Early in 1975 there was strong support from many delegations for the creation of commodity subgroups of the Agriculture Group with respect to dairy products, meat and cattle, sugar and grains. In the past, the United States has generally favored commodity subgroups for negotiating purposes. More recently, the United States has opposed establishment of commodity subgroups but agreed to the creation of subgroups for dairy, grains, and meat. Thus, procedural issues have preoccupied agricultural negotiations, and no discussions of substance have yet taken place.

5. *Sectors Group.*—The Sectors Group has met several times during the past year and has commissioned a number of studies by the GATT Secretariat of various product sectors to determine whether they are appropriate for a sector negotiation. The United States, Canada, and others have sought sector negotiations in which barriers to trade in specific product sectors will be reduced or even eliminated on a reciprocal basis. Section 104 of the Trade Act of 1974 states that a principal U.S. negotiating objective shall be to obtain, to the maximum extent feasible, competitive opportunities in appropriate product sectors for U.S. exports equivalent to competitive opportunities afforded imports of like or similar merchandise into U.S. markets. The report of the Finance Committee on the Trade Act of 1974 lists five product sectors which the committee feels are appropriate for product sector negotiations: Steel, aluminum, electronics, chemicals and electrical machinery. The European Community and Japan have generally been opposed to sector negotiations.

6. *Safeguards Group.*—The Safeguards Group is concerned with measures taken by countries to protect their economies from imports which cause market disruption or injury to industries by import competition. During the past year, the Safeguards Group has directed its efforts to the cataloging and analysis of current safeguard practices prior to deciding how Article XIX, the GATT safeguards provision, should be amended. It is not anticipated that the Safeguards Group will conclude an agreement until a later stage in the negotiations.

At a meeting of the Trade Negotiations Committee, in December, 1975, the United States urged that the year 1977 be set as a target for the final phase of the multilateral trade negotiations. Accordingly, the United States called for accomplishment during 1976 of nine specific steps required to prepare for the final agreements during 1977. The United States urged that the following intermediate goals be reached during 1976: An agreement on tropical products, a tariff cutting formula, a framework for a subsidies/countervailing duty code, completion of a standards code, a procedure for dealing with quotas, a basis for a revised GATT safeguards system, selection of sectors for complementary negotiations, parallel progress in deciding special treatment for less developed countries, and negotiating approaches to such issues as access to supply, dispute settlement procedures, treatment of tax practices, bribes and other unethical trade practices, and

government procurement. The United States also urged that the joint declaration of western leaders at the Rambouillet Summit, calling for early progress in the trade negotiations, be adopted.

Section 135 of the Trade Act of 1974 requires the Executive Branch to establish private advisory committees to advise the U.S. negotiators on bargaining strategy and objectives in the trade negotiations. The requirement that these committees be created was added to the law in response to criticism that the U.S. private sector had not been adequately consulted on negotiating strategy during the Kennedy Round.

As of this writing, the Executive Branch has created 45 committees to advise the President on various aspects of the trade negotiations. Of these, three are policy-level committees which have been established to assure an exchange of views and information between the government and the private sectors: An Industry Policy Advisory Committee (IPAC), an Agricultural Policy Advisory Committee (APAC), and a Labor Policy Advisory Committee (LPAC). These committees have been organized and have been meeting periodically throughout the year. In addition, the Trade Act requires the Executive to establish sectoral committees to advise on matters within specific product sectors. To date, 27 Industry Sector Advisory Committees (ISAC's), 8 Agricultural Technical Advisory Committees (ATAC's), and 6 Labor Sector Advisory Committees (LSAC's) have been established and have been meeting during the past year.

The Trade Act also requires the Executive to establish a public Advisory Committee for Trade Negotiations (ACTN) to be composed of not more than 45 agricultural, consumer, retail, labor, industry, and general public members. This Committee, which is chaired by the Special Trade Representative, has been appointed by the President and has begun its work in advising the Executive Branch on the overall public interest aspects of the trade negotiations.

B. Escape Clause and Adjustment Assistance (Title II)

1. *Provisions of the Trade Act of 1974.*—Article XIX of the General Agreement on Tariffs and Trade permits countries to modify, suspend, or withdraw any obligation made under the Agreement if, as the result of obligations under the Agreement and unforeseen developments, imports increase to the extent that they cause, or threaten to cause, serious injury to domestic producers. This provision is commonly known as the "escape clause."

2. *Section 201.*—Before the Trade Act of 1974, the U.S. law implementing the escape clause was Title III of the Trade Expansion Act of 1962 (TEA). Section 201 of the Trade Act of 1974 replaces the TEA with a different escape clause provision. Under the TEA, increased imports must have been in major part the result of trade agreement concessions before import relief measures were taken. Under the Trade Act of 1974, no link to concessions is required. Furthermore, under the Act, increased imports must only be a substantial cause of serious injury or the threat thereof ("substantial cause" is defined to mean a cause which is "important" and not less than any other cause) and no longer the major factor (generally assumed to mean a cause greater than all other causes combined) causing such injury, as required by the TEA.

Under the Trade Act of 1974, if the International Trade Commission (ITC) finds that imports are a substantial cause of serious injury (or threat thereof) to an industry, the President is required, with certain exceptions, to provide some form of import relief (duty increases, tariff-rate quotas, quantitative restrictions, orderly marketing agreements, or, under appropriate circumstances and, upon a recommendation of the Commission, adjustment assistance). Under the Trade Act, the President can also choose not to provide import relief when he determines that it will not be in the national economic interest. However, if the Congress prefers the form of import relief proposed by the ITC to the relief provided by the President, or if the President determines not to provide import relief, then a majority of those present and voting of both Houses can pass a resolution requiring the President to implement the relief recommended by the ITC.

STATUS OF ACTIONS UNDER SECTION 201

Product	Date petition filed	Petition withdrawn	ITC injury determination			Presidential action
			Pending	Positive	Negative	
Birch faced plywood	Apr. 18, 1975				X	NA
Bolts, nuts, and screws	May 22, 1975				X	NA
Wrapper tobacco	May 5, 1975				X	NA
Asparagus	July 10, 1975			(tied vote)		
Specialty steel	July 16, 1975			X		X (due Mar. 15, 1976).
Frozen strawberries	July 24, 1975	X				
Slide fasteners	Aug. 18, 1975		X (due Feb. 18, 1976)			
Footwear	Aug. 20, 1975		X (due Feb. 20, 1976)			
Stainless steel flatwear	Aug. 28, 1975		X (due Feb. 28, 1976)			
Work gloves	Sept. 8, 1975		X (due Mar. 8, 1975)			
Mushrooms	Sept. 17, 1975		X (due Mar. 17, 1976)			
Blue pigments	Oct. 2, 1975		X (due Apr. 2, 1976)			
Shrimp	Nov. 17, 1975		X (due May 17, 1976)			

Source: U.S. International Trade Commission.

3. *Adjustment Assistance.*—In addition to import restrictions under the escape clause, U.S. law provides financial and technical assistance to workers, firms, and communities which suffer injury as the result of increased imports. The criteria of injury for adjustment assistance are similar to those for the escape clause. The purpose of adjustment assistance is to facilitate changes within the U.S. economy to meet new competitive conditions resulting from changes in the pattern of international trade.

(a) *Workers.*—The Trade Act of 1974 makes major modifications in adjustment assistance for workers displaced by increased imports. These changes make adjustment assistance easier for workers to obtain. In addition to easing the eligibility tests, the level of benefits is increased. Additional benefits to assist adversely affected workers find new employment, including job search, training, and relocation allowances, are provided.

Under the worker adjustment assistance provisions, workers in a firm qualify for trade adjustment benefits if the Secretary of Labor, within sixty days after the filing of a petition, finds that an absolute or relative increase in imports contributed importantly to the workers' unemployment and to a decrease in sales or production of the firm from which they have become unemployed. Workers certified as eligible for trade adjustment assistance receive benefits equal to 70 percent of each worker's average weekly earnings prior to the time he or she becomes unemployed for a period of up to 52 weeks (the duration of benefit eligibility may be extended for older workers and workers in training). This benefit level, however, cannot exceed 100 percent of the national average weekly wage in manufacturing which is currently about $180.

Under the Act, States are responsible for the costs of benefits for which workers would be eligible under existing State unemployment insurance programs. Benefits provided above that amount will be paid for by the Federal Government. The program will cost the Federal Government an estimated $335 million in its first year and will expire September 30, 1982.

SUMMARY OF TRADE ADJUSTMENT ASSISTANCE CASES, DECEMBER 31, 1975

Status	Number	Estimated number of workers
1. Petitions certified	123	51,261
2. Petitions denied	112	56,887
3. Petitions in process	283	224,542
4. Withdrawals	5	3,910
5. Terminations	5	708
Total	528	337,308

Source: U.S. Department of Labor.

WORKER PETITIONS BY STANDARD INDUSTRIAL CLASSIFICATION, APRIL 3 TO DECEMBER 31, 1975

Industry	Certified		Denied	
	Petitions	Estimated number of workers	Petitions	Estimated number of workers
02—Agricultural production, livestock			1	30
10—Metal mining	1	68		
21—Tobacco manufactures			1	630
22—Textile mill products	4	715	2	318
23—Apparel and other finished products made from fabrics and similar materials	32	8,496	38	6,582
24—Lumber and wood products, except furniture	1	300		
25—Furniture and fixtures			1	390
28—Chemicals and allied products			2	994
29—Petroleum refining and related industries			1	7
30—Rubber and miscellaneous plastics products	1	400	4	455
31—Leather and leather products	35	7,216	10	1,813
32—Stone, clay, glass, and concrete products	1	6	2	410
33—Primary metal industries	6	3,381	3	810
34—Fabricated metal products, except machinery and transp. equipment			4	1,086
35—Machinery, except electrical	5	2,050	9	1,731
36—Electrical and electronic machinery, equipment and supplies	21	11,824	18	9,055
37—Transportation equipment	12	16,230	11	30,018
39—Miscellaneous manufacturing industries	4	575	4	1,867
45—Transportation by air			1	691
Total	123	51,261	112	56,887

Source: U.S. Department of Labor.

STATE DISTRIBUTION OF WORKER PETITIONS, APRIL 3 TO DECEMBER 31, 1975

State	Certified		Denied	
	Petitions	Estimated number of workers	Petitions	Estimated number of workers
Alabama			2	960
Arkansas	3	1,300	2	325
California	2	850	1	366
Colorado			3	500
Connecticut	1	300		
Delaware			1	4,000

STATE DISTRIBUTION OF WORKER PETITIONS, APRIL 3 TO DECEMBER 31, 1975—Continued

State	Certified		Denied	
	Petitions	Estimated number of workers	Petitions	Estimated number of workers
Georgia	1	65	3	210
Illinois	4	1,254	4	6,040
Indiana	5	958	.....	.....
Kentucky	1	16	.....	.....
Louisiana	1	100	.....	.....
Maine	1	300	3	453
Maryland	7	2,596	9	1,511
Massachusetts	9	2,502	5	662
Michigan	5	10,100	7	15,945
Missouri	16	8,139	13	3,922
Nebraska	2	350	.....	.....
New Hampshire	2	360	2	900
New Jersey	2	900	3	78
New York	12	2,936	10	4,238
Ohio	1	30	5	6,358
Oregon	.....	.....	1	360
Pennsylvania	35	11,062	33	7,407
Tennessee	4	1,215	.....	.....
Utah	1	68	.....	.....
Virginia	2	5,140	2	1,239
West Virginia	.....	.....	2	1,213
Wisconsin	3	590	1	200
Wyoming	1	130	.....	.....
Total	123	51,261	112	56,887

Source: U.S. Department of Labor.

(b) *Firms and communities.*—The Trade Act of 1974 continues adjustment assistance to firms and provides it for the first time to communities effective April 8, 1975. The Act makes it somewhat easier for firms to qualify for financial and technical assistance and establishes assistance to communities through the Economic Development Administration.

To be certified eligible to apply for adjustment assistance, a firm must demonstrate that increased imports of articles like or directly competitive with those produced by the firm contributed importantly to declines in sales or production, or both, and to separation, or threat of separation of the firm's workers. Communities must show that they have been adversely impacted by similar causes.

During the last three quarters of 1975, the number of firms (by industry) which filed acceptable petitions for certification of eligibility was as follows:

Industry	Petition accepted for filing	Certification pending	Petition withdrawn (number of firms)	Certified eligible	Petition denied
Footwear	11	1	1	9	.....
Apparel	6	4	.....	2	.....
Mushrooms	4	.....	.....	4	.....
Consumer electronics	3	.....	1	2	.....
Granite	2	.....	.....	2	.....
Leather	1	.....	1	.....	.....
Marble	1	.....	.....	1	.....
Ball bearings	1	.....	.....	1	.....
Textiles	2	.....	1	1	.....
Textile machinery parts	1	.....	.....	.....	1
Total	[1] 32	5	4	[1] 22	1

[1] Includes 9 firms previously certified under the Trade Expansion Act which did not have their adjustment proposals approved before Apr. 3, 1975.

Source: U.S. Department of Commerce.

In the latter part of the year, the Department of Commerce authorized trade adjustment assistance for four firms totaling $3.5 million, including $3,050,000 in direct loans and $450,000 in guaranteed loans. Employment in the four companies whose proposals were approved currently amounts to approximately 630 persons and is projected to increase by 225 additional jobs when the recovery plans of the firms are fully implemented.

Although several trade-impacted communities expressed an interest in the trade adjustment assistance program, no petitions for certification were filed during the year, possibly because many potential petitioning communities may be considering their prospects for assistance under other community development programs of the Economic Development Administration for which they may already be eligible.

C. Unfair Trade Practices (Title III)

1. *Provisions of the Trade Act of 1974.*—The Trade Act of 1974 substantially revises Executive authority to respond to foreign unfair trade practices, including authorities under the Trade Expansion Act of 1962, the Antidumping Act, 1921, and the Tariff Act of 1930. The intention is to assure a swift response to foreign import restrictions, export subsidies, price discrimination (dumping), and other unfair foreign trade practices.

2. *Section 301.*—Section 301 of the Trade Act of 1974 gives the President new authority to act against unfair trade practices. The President is authorized to retaliate against foreign countries which impose unjustifiable or unreasonable restrictions against U.S. com-

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merce, including the withholding of supplies. The section also provides the President with explicit authority to retaliate against countries which maintain such restrictions against U.S. services as well as U.S. trade in goods. Discrimination against U.S. services includes, but is not limited to, discrimination against U.S. shipping, aviation, and insurance industries. In addition, retaliatory actions may be taken with respect to foreign services as well as foreign merchandise.

In order to make section 301 an effective tool against foreign practices and policies adversely affecting the U.S. economy, the Trade Act of 1974 provides a complaint procedure whereby interested parties can petition the Special Representative for Trade Negotiations to conduct public hearings on alleged unfair practices and policies. The Special Representative is required to report to Congress on a semiannual basis concerning the status of the reviews undertaken pursuant to this section.

The Act requires that actions taken by the President under section 301 generally be on a selective basis, that is, only against those countries found to discriminate against U.S. commerce. The President has the discretion, however, to act against a single country or on a most-favored-nation (that is, against all countries) basis when retaliating against unjustifiable or unreasonable import restrictions. Congress can overrule any Presidental determination to act against "innocent" countries and require, by concurrent resolution, that the President act only against the offending country (or countries) maintaining unreasonable or unjustifiable restrictions against U.S. commerce.

The authority to retaliate in situations in which a foreign nation withholds supplies of needed commodities without justification complements other features of the Act directing the President to negotiate new, enforceable rules with respect to export restraints. In an international economic period characterized by widespread shortages and inflation, this is a vital aspect of the trade negotiations.

STATUS OF PETITIONS UNDER SEC. 301

Date petition filed	Product or service	Country involved	Unfair trade practice alleged	Disposition
Jan. 1, 1975....	Shipping.....	Guatemala..	Restriction on imports to Guatemalan flag shipping.	STR review completed and conversations with Guatemala begun.
Jan. 17, 1975..	Commercial eggs.	Canada.....	Quota on U.S. eggs...	STR review continuing and consultations with Canada begun.
Aug. 7, 1975...	Egg albumen.	European Community.	Variable levies.....	STR review continuing.
Sept. 22, 1975.	Canned fruits, juices, and vegetables.	.....do.....	Minimum import prices and a certification system.	Do.
Nov. 13, 1975..	Malt.....	.....do.....	Export subsidy.....	Do.
Jan. 1, 1976....	Wheat flour.....	.....do.....	.....do.....	STR hearing on Jan. 28, 1976.

Source: Office of Special Representative for Trade Negotiations.

3. *Countervailing Duties.*—Section 303 of the Tariff Act of 1930 requires the Secretary of the Treasury to impose duties upon imported merchandise if its manufacture, production, or export has benefited directly or indirectly from a bounty or grant (subsidy) bestowed by a foreign government or person. Section 331 of the Trade Act of 1974,

makes major procedural changes in Section 303 to improve the operation of the statute:

(a) Under the Act, the time period for countervailing duty investigations begins to run from the date a petition is presented to the Secretary of the Treasury. Notice of the receipt of such petition must be published in the Federal Register.

(b) The Act provides that:

(1) The Secretary of the Treasury has six months from the date of the petition in which to make a preliminary determination as to the existence of a bounty or grant.

(2) If the initial determination indicates the existence of a bounty or grant is likely, the Secretary of the Treasury has an additional six months to negotiate with the particular foreign country(ies) to obtain the elimination of the bounty or grant.

(3) If the bounty or grant, or any portion thereof, remains in effect, the Secretary of the Treasury is required to issue a final countervailing duty order following the end of the second six-month period (total time period one year from date of petition). However, he may suspend the application of the order if he determines that:

(i) adequate steps have been taken substantially to reduce or eliminate the adverse effect of the bounty or grant;

(ii) there is a reasonable prospect that successful trade agreements will be entered into, under section 102, with foreign countries providing for the reduction or elimination of nontariff barriers; and

(iii) the imposition of countervailing duties would be likely to seriously jeopardize the satisfactory completion of such negotiations.

The suspension must be ended if any of the conditions described above do not continue, and may otherwise be ended at any time. The authority of the Secretary to suspend countervailing duties expires January 3, 1979. The initial determination, the results of any negotiation, and any final determination (including suspension of countervailing duties) must be made public. The waiver does not apply in the case of subsidized nonrubber footwear unless the imposition of countervailing duties will jeopardize multilateral negotiations on a nonrubber footwear agreement.

(4) Whenever the Secretary decides to suspend the imposition of countervailing duties, he must immediately report his determination to Congress. At any time thereafter, either House of Congress can, under the veto procedure, vote by simple majority to override the Secretary's decision and to require the Secretary to impose the countervailing duties immediately.

(5) Countervailing duty orders by the Secretary of the Treasury go into effect immediately upon publication in the Federal Register (no later than one year after the date a petition is submitted to the Secretary). In the case of a Congressional override, notice of countervailing duties is published and such duties go into effect the day after the date of the adoption of the resolution of disapproval.

(6) Determinations by the Secretary of the Treasury that no bounty or grant exists are subject to judicial review. Under prior law, only positive determinations were subject to judicial review.

COUNTERVAILING DUTY ACTIONS

Product	Country	Initiated	Tentative decision	Final order	Calendar year 1974 import value (millions)
		CASES PENDING JAN. 1, 1975			
Consumer electronic products.	Japan	May 18, 1972	Neg., Feb. 5, 1975	Neg., Jan. 7, 1976	$1,700.0
Steel, carbon, and high strength plates.	Mexico	Oct. 4, 1972	Neg., July 3, 1975	Affirm., Jan. 7, 1976[1]	.8
Footwear, nonrubber	Argentina	July 16, 1974	Neg., Feb. 18, 1975	Neg., Jan. 7, 1976	23.7
Footwear, rubber	Korea	June 20, 1972	Affirm., July 3, 1975	Affirm., Jan. 8, 1976[1]	82.1
		CASES INITIATED CALENDAR YEAR 1975			
Float glass	Belgium	Jan. 15, 1975	Affirm., July 3, 1975	Neg., Jan. 7, 1976	.5
Float glass	Italy	Jan. 15, 1975	Affirm., July 3, 1975	Affirm., Jan. 7, 1976	.5
Float glass	France	Jan. 15, 1975	Neg., June 30, 1975	Neg., Dec. 4, 1975	.1
Float glass	West Germany	Jan. 15, 1975	Affirm., June 30, 1975	Neg., Jan. 7, 1976	.1
Float glass	United Kingdom	Jan. 15, 1795	Neg., June 30, 1975	Neg., Dec. 22, 1975	1.2
Processed asparagus	Mexico	Jan. 15, 1975	Affirm., July 3, 1975	Neg., Jan. 7, 1976	1.7
Dairy products	EEC	Jan. 15, 1975	Affirm., Feb. 14, 1975	Affirm., May 19, 1975[1]	130.0
Ferrochrome	South Africa	Jan. 15, 1975	Affirm., June 30, 1975	Neg., Jan. 7, 1976	18.0
Footwear	Taiwan	Jan. 15, 1975	Neg., July 3, 1975	Affirm., Jan. 7, 1976	170.0
Cheese	Austria	Jan. 15, 1975	Affirm., May 20, 1975	Affirm., Jan. 7, 1976[1]	15.8

Cheese	Switzerland	Jan. 15, 1975	Affirm., July 3, 1975	Affirm., Jan. 8, 1976[1]	8.0
Leather handbags	Brazil	Jan. 15, 1975	Affirm., June 30, 1975	Affirm., Jan. 12, 1976	5.2
Footwear, nonrubber	Korea	Jan. 15, 1975	Affirm., July 3, 1975	Affirm., Jan. 8, 1976	23.5
Canned hams	EEC	Jan. 15, 1975	Affirm., June 30, 1975	Affirm., Dec. 2, 1975[1]	231.0
Shoes	West Germany	Jan. 15, 1975		Term., June 3, 1975	
Leather products	Argentina	Jan. 15, 1975		Term., Apr. 22, 1975	
Steel products	West Germany	Jan. 15, 1975		Term., June 3, 1975	
Steel products	France	Jan. 15, 1975		Term., June 3, 1975	
Steel products	Netherlands	Jan. 15, 1975		Term., June 3, 1975	
Steel products	Luxembourg	Jan. 15, 1975		Term., June 3, 1975	
Steel products	Belgium	Jan. 15, 1975		Term., June 3, 1975	
Steel products	United Kingdom	Jan. 15, 1975		Term., June 3, 1975	
Steel products	Austria	Jan. 15, 1975		Term., June 3, 1975	
Cotton textiles and manmade fibers.	India	Jan. 15, 1975	Neg., July 3, 1975	Neg., Dec. 17, 1975	100.0
Dried apples	Italy	Jan. 15, 1975		Term., Mar. 7, 1975	
Cast iron soil pipe and fittings.	India	Jan. 15, 1975	Neg., July 3, 1975	Neg., Nov. 24, 1975	.2
Tie fabrics	Korea	Jan. 15, 1975		Term., June 3, 1975	
Tie fabrics	West Germany	Jan. 15, 1975		Term, June 3, 1975	
Tie fabrics	Japan	Jan. 15, 1975		Term., June 3, 1975	
Oxygen sensing probes	Canada	Jan. 15, 1975	Term.,[2] June 30, 1975	Term., Dec. 12, 1975	
Steel products	Italy	Mar. 7, 1975		Term., June 3, 1975	
Glazed ceramic wall tile	Philippines	Apr. 9, 1975	Affirm., Aug. 26, 1975		1.6
Castor oil products	Brazil	Apr. 30, 1975	Affirm., Sept. 11, 1975		1.0
Cheese	Norway	June 30, 1975	Affirm., Nov. 26, 1975		10.0
Cheese	Finland	Aug. 15, 1975	Affirm., Dec. 16, 1975		11.2
Cheese	Sweden	Aug. 15, 1975	Affirm., Jan. 5, 1976		1.5
Screws	Italy	Sept. 16, 1975			1.9
Glass beads	Canada	Oct. 8, 1975			.3

[1] Waivers granted under Trade Act of 1974.
[2] Tentatively terminated.

Source: U.S. Department of the Treasury.

4. *Antidumping.*—The Antidumping Act, 1921, provides for the imposition of duties on imports into the United States which are sold at less than fair value. Section 321 of the Trade Act of 1974 makes several significant changes in procedures under the antidumping statute to improve the U.S. response to foreign price discrimination practices:

(a) The Act provides that U.S. manufacturers, producers, or wholesalers of the merchandise, as well as foreign manufacturers, exporters, and domestic importers, have an equal and automatic right to appear at hearings before the Secretary of the Treasury or the International Trade Commission in connection with less-than-fair-value or injury determinations made under the Antidumping Act.

(b) The Act authorizes the Secretary of the Treasury, when he concludes that there is substantial doubt that a U.S. industry is being injured by "dumped" imports, to refer the initial dumping complaint to the International Trade Commission for its consideration. If the Commission determines that there is no reasonable indication of injury, it will notify the Secretary within 30 days and the dumping investigation will terminate.

(c) The Act requires that the initial determination whether there is reason to believe that there are less-than-fair-value sales be made within 6 months from the date on which the antidumping proceeding notice is published. (This period for initial determination may be extended to 9 months in complicated cases.) Under the Act, the antidumping proceeding notice must be published within 30 days of the receipt of information alleging dumping by the Secretary of the Treasury.

(d) The Act requires the Secretary of the Treasury to impose dumping duties when a multinational corporation operating in several foreign countries supports low-priced exports to the United States through high-priced sales by other subsidiaries located in other foreign countries. Specifically, when the Secretary determines that:

(i) merchandise exported to the United States is produced in facilities owned or controlled by a person, firm, or corporation which also owns or controls similar facilities in other countries;

(ii) there are little or no sales in the home market of the exporting country; and

(iii) sales of like or similar merchandise made in other countries are at prices substantially higher than the prices charged for goods produced in the exporting country and such price differentials are not justified by cost differences,

the Secretary must determine the foreign market value by looking at the higher prices (adjusted for differences in cost of production) at which similar merchandise is sold from foreign facilities located outside the exporting country. The dumping duty will then be assessed in an amount equal to the difference between the purchase price in the United States (or the exporter's sale price) and the higher foreign market value of goods sold by the third country subsidiaries rather than the lower foreign market value of the goods actually exported to the United States.

(e) The Act explicitly authorizes judicial review for U.S. producers and manufacturers in the U.S. customs courts of negative antidumping decisions made by the Secretary of the Treasury. Importers and foreign producers are entitled to judicial review under existing law.

ANTIDUMPING ACTIONS

Product	Country	Initiated	Tentative	Final	Injury	Calendar year 1974 import value (millions)
CASES PENDING JAN. 1, 1975						
Rapid transit vehicle seats.	Brazil	Apr. 3, 1974	Neg., Oct. 3, 1974	Neg., Jan. 3, 1975		[1] $0.5
Lock-in amplifiers	United Kingdom.	May, 17 1974	W/A, Jan. 6, 1975	Affirm., Apr. 7, 1975.	No, July 2, 1975	.02
Chicken eggs in the shell	Canada	July 12, 1974	Neg., Jan. 13, 1975.	Neg., Apr. 14, 1975		5.6
Electric golf cars	Poland	June 14, 1974	W/A, Mar. 14, 1975.	Affirm., June 16, 1975.	Yes, Sept. 16, 1975.	3.0
Welt work shoes	Romania	Mar. 15, 1974	W/A, Dec. 16, 1974.	Affirm., Mar. 17, 1975.	No, June 13, 1975	12.0
Portable electric typewriters.	Japan	Mar. 20, 1974	W/A, Dec. 20, 1974.	Affirm., Mar. 26, 1975.	No, June 19, 1975	16.0
Vinyl clad fence fabric	Canada	Oct. 29, 1974	Neg., Apr. 29, 1975.	Affirm., July 29, 1975.	No, Oct. 24, 1975	6.0
Certain nonpowered mechanics' tools.	Japan	Sept. 5, 1974	W/A, June 5, 1975	Affirm., Sept. 5, 1975.	No, Dec. 5, 1975	3.5
Nonpowered precision measuring tools.	Japan	Sept. 5, 1974	T/D, June 5, 1975	F/D, Sept. 5, 1975		7.5
Radial ball bearings	Japan	Dec. 23, 1974	Neg., June 23, 1975.	Neg., Sept. 23, 1975.		74.0
CASES INITIATED CALENDAR YEAR 1975						
Birch 3-ply doorskins	Japan	Jan. 13, 1975	W/A, July 14, 1975.	Affirm., Oct. 15, 1975.	Yes, Jan. 12, 1976	7.6
Rechargeable sealed nickel-cadium batteries.	Japan	Jan. 24, 1975	W/A, July 24, 1975.	Neg., Oct. 24, 1975		1.3
Water circulating pumps	Sweden	Mar. 26, 1975	T/D, Sept. 26, 1975.	F/D, Jan. 5, 1976		1.3
Butadiene acrylonitrile rubber.	Japan	Mar. 27, 1975	W/A, Sept. 29, 1975.			.7

See footnotes at end of table.

ANTIDUMPING ACTIONS—Continued

Product	Country	Initiated	Tentative	Final	Injury	Calendar year 1974 import value (millions)
Water circulating pumps...	United Kingdom.	May 21, 1975...	W/A, Nov. 26, 1975			$.08
Polymethyl methacrylate...	Japan.....	June 16, 1975..	W/A, Dec. 18, 1975			[2] 2.7
Acrylic sheet.....	Japan.....	July 21, 1975				2.0
Ski bindings.....	Austria.....	July 23, 1975				1.0
Ski bindings.....	Switzerland...	July 23, 1975				.0
Ski bindings.....	West Germany.	July 23, 1975				2.0
Bricks.....	Canada.....	July 23, 1975				1.8
Automobiles.....	West Germany.	Aug. 6, 1975				1,900.0
Automobiles.....	United Kingdom.	Aug. 6, 1975				156.0
Automobiles.....	France.....	Aug. 6, 1975				45.5
Automobiles.....	Belgium.....	Aug. 6, 1975				217.0
Automobiles.....	Sweden.....	Aug. 6, 1975				227.0
Automobiles.....	Italy.....	Aug. 6, 1975				240.0
Automobiles.....	Japan.....	Aug. 6, 1975				1,700.0
Automobiles.....	Canada.....	Aug. 6, 1975				3,000.0
Knitting machine.....	Italy.....	Aug. 15, 1975				2.25
A.C. adapters.....	Japan.....	Oct. 7, 1975				5.6
Tantalum capacitors.....	Japan.....	Oct. 17, 1975				3.0
Portland cement.....	Mexico.....	Nov. 21, 1975				3.5
Industrial vehicle tires.....	Canada.....	Dec. 19, 1975				.5
Melamine.....	Japan.....	Dec. 19, 1975				1.0

[1] Import value for the period August 1973 to April 1974.
[2] Import value for the period January 1974 to June 1975.

Source: U.S. Department of the Treasury.

5. *Section 337.*—Before the Trade Act of 1974, section 337 of the Tariff Act of 1930 authorized the President to prohibit importation of products if the International Trade Commission determined those products were being sold by means of unfair trade practices. It was most often applied in the past to articles entering the United States in violation of U.S. patents. Under prior law, if the Commission found the effect of such methods was to destroy or substantially injure an industry efficiently and economically operated in the United States, to prevent the establishment of an industry or to restrain or monopolize trade or commerce in the United States, the articles involved *could* be excluded from entry into the United States by the President.

As amended by section 341 of the Trade Act of 1974, the Commission is authorized to order the exclusion of articles in all cases under section 337, patent and nonpatent. The Commission is also authorized to issue cease and desist orders rather than exclusion orders whenever it deems such action a more suitable remedy. If the cease and desist order is not adhered to, the exclusion order will go into effect. More specifically, the Act provides the following:

(a) International Trade Commission investigations of unfair trade practices under section 337 must be completed within a one-year period. The Commission may have an additional 6 months in complicated cases, provided that it publishes the reasons for the extension. Any period during which the Commission's investigation is suspended because of proceedings in a Federal court or agency involving the same subject matter will be excluded from the time periods.

(b) During its investigations under section 337, the Commission is directed to consult with the Departments of Justice, Health, Education, and Welfare, the Federal Trade Commission, and other government agencies when appropriate. In making its determinations as to whether or not to act, the Commission is required to take into consideration, in addition to the criteria formerly set out in section 337 (a), the effect which such action may have on the general health and welfare, on competitive conditions in the economy, on the production of like or competitive merchandise in the United States, and on consumers.

(c) Following the issuance of exclusion or cease and desist orders by the Commission, the President has 60 days in which to intervene and override the Commission's decision where he determines it necessary because of overriding policy reasons.

(d) All legal and equitable defenses may be presented in all cases under section 337. Exclusion orders arising out of section 337 cases involving patents do not apply to imports by the U.S. Government. Such actions against the Government must be brought in the U.S. Court of Claims.

(e) Temporary exclusion orders may be issued in certain circumstances under section 337. In such cases (and also during the 60-day period for Presidential intervention), entries may be made under bond. The Act requires the Secretary of the Treasury, prior to levying a bond, to acquire the advice of the Commission concerning the amount of the bond in both patent and nonpatent cases.

(f) The Commission is required to complete within one year its investigations on all section 337 cases pending on the date of enactment of the Trade Act of 1974.

(g) Decisions by the U.S. Court of Customs and Patent Appeals reviewing Commission decisions under section 337 do not serve as res judicata or collateral estoppel in matters where U.S. District Courts have original jurisdiction.

STATUS OF ACTIONS UNDER SECTION 337

Product	Date petition filed	ITC determination [1]
Record players	Mar. 18, 1975	Due July 24, 1976.
Monolithic catalytic converters	May 2, 1975	Due July 23, 1976.
Glass fiber optic devices	May 2, 1975	Due Aug. 27, 1976.
Bismuth molybdate catalysts	May 30, 1975	Due Oct. 15, 1976.
Infants booties, sweaters, and bonnets	May 30, 1975	(2).
Dry wall screws	Aug. 20, 1975	Due Nov. 13, 1976.
Reclosable plastic bags	Oct. 20, 1975	Due 1977.

[1] These dates assume the Commission will not suspend investigations, toll time limits, or declare the investigations "more complicated."
[2] Complainant has been requested to show cause why an ITC investigation should be instituted.

Source: U.S. International Trade Commission.

D. East-West Trade

1. *Provisions of the Trade Act.*—Title IV of the Act authorizes the President to extend, under certain circumstances, most-favored-nation (nondiscriminatory) trade concessions to countries whose products do not currently receive such treatment. Prior to the enactment of the Trade Act of 1974, the countries not receiving nondiscriminatory treatment into the U.S. market were the communist countries, with the exception of Poland and Yugoslavia. No country is eligible to receive nondiscriminatory tariff treatment or U.S. Government credits, credit guarantees, or investment guarantees if the President determines that such country:

(a) Denies its citizens the right or opportunity to emigrate;

(b) Imposes more than a nominal tax on emigration or on the visas or other documents required for emigration, for any purpose or cause whatsoever; or

(c) Imposes more than a nominal tax, levy, fine, fee, or other charge on any citizen as a consequence of the desire of such citizen to emigrate to the country of his choice.

The Act contains a provision allowing the President to waive the freedom-of-emigration requirements for any country, if he reports to Congress that (1) he has determined that such a waiver would promote the objectives of freer emigration, and (2) he has received assurances that the emigration practices of such country will lead

substantially to free emigration. The waiver authority extends for an 18-month period after the date of enactment of the Act, and may be renewed for one year periods thereafter subject to congressional review. The President may terminate nondiscriminatory treatment at any time.

Under the Act, only countries entering into bilateral agreements with the United States may receive nondiscriminatory treatment. Nondiscriminatory treatment may remain in effect only so long as a trade agreement remains in force between the United States and the country concerned. All bilateral agreements entered into between the United States and a nonmarket economy nation are subject to approval by both Houses of Congress before the President may proclaim trade concessions. Trade benefits under any bilateral agreement are limited to an initial period not exceeding three years. Thereafter, an agreement may be renewed for additional periods, each of not more than three years, providing that a satisfactory balance of concessions in trade and services is maintained and that U.S. reductions in trade barriers are reciprocated by the other party. Services include transportation, insurance, and other commercial services associated with international trade.

The Act directs the President to establish an East-West Foreign Trade Board within the Executive Branch to monitor trade, credits and technology transfers between the United States and nonmarket economy countries. The Board will review to determine whether they are in the U.S. national interest, significant transactions involving (1) the transfer of U.S. Government credits, guarantees or insurance; (2) sizable trade contracts; and (3) transfers of sensitive technology. The Board must report on a quarterly basis to the Congress on East-West trade developments.

Title VI also imposes a ceiling on credits, insurance, and guarantees to the Soviet Union by any United States government agency (except the Commodity Credit Corporation). The ceiling may be exceeded only with congressional approval in a manner consistent with the Eximbank Act of 1974.

2. *Summary of Recent Events.*—

(a) *U.S.-U.S.S.R. Trade Agreement.*—On January 14, 1975, less than two weeks after the President signed the Trade Act of 1974, Secretary Kissinger announced that the Soviet Union was repudiating the U.S.-U.S.S.R. trade agreement. The trade agreement was initialed in 1972, but had never gone into effect. The Soviets claimed that the emigration clause in the Trade Act of 1974 violated the 1972 trade agreement provision which stated that tariff cuts must be unconditional. More specifically, the Soviets chafed under the provision that would have assured most-favored-nation status for an 18-month period, subject thereafter to annual Congressional review. They also felt that the limit of $300 million in EXIM bank credits over a four-year period was unsatisfactorily low.

After the Soviets repudiated the trade agreement, the Administration objected to the freedom of emigration and credit restrictions and called for changes in the Trade Act of 1974. Despite the credit and MFN restrictions in the Trade Act, U.S. trade with

the Soviet Union remained at a high level in 1975.* When the Soviets once again experienced a poor grain harvest and entered into contracts for large purchases of U.S. grain, fears arose of a repeat of the "great grain robberies" of 1972–73, and the President imposed a temporary embargo on sales to the Soviet Union. In October of 1975, the President signed an agreement with the Soviets governing the long-term purchase of U.S. grain. The agreement on grain sales commits the Soviet Union to purchase a minimum of six million metric tons of wheat and corn annually. It permits the U.S.S.R. to purchase an additional two million tons annually, provided that the total estimated U.S. grain supply exceeds 225 million tons. The U.S. Government agreed to facilitate Soviet purchases under the agreement and not to exercise its authority to control shipments of these amounts except that it may reduce the quantity to be sold if the estimated total U.S. grain supply is less than 225 million tons. The agreement also provides for consultations by the two governments in advance of purchases in excess of 8 million tons of wheat and corn in any one crop year. Shipment of grain under the agreement is to be in accord with the U.S.–U.S.S.R. Agreement on Maritime Matters.

(b) *U.S.-Romania Trade Agreement.*—On April 24, 1975, President Ford transmitted to the Congress for approval a bilateral commercial agreement with the Socialist Republic of Romania. It was the first agreement with a nonmarket economy country to be transmitted to the Congress pursuant to Title IV since the enactment of the Trade Act of 1974. The President also submitted a waiver of section 402, the freedom of emigration requirement. The Senate approved the agreement on July 25 by a vote of 88 to 2, and the House of Representatives approved the measure on July 28 by a vote of 355 to 41.

Following the requirements of Section 405 of the Trade Act, the Romanian Commercial Agreement is limited to an initial term of three years. The Agreement may thereafter be extended for additional three-year periods providing that a satisfactory balance of concessions in trade and services has been maintained during the life of the Agreement and providing that the President determines that the actual or forseeable future reductions of U.S. tariff and nontariff barriers are satisfactorily reciprocated by Romania. During its hearings on S. Con. Res. 35, the Committee on Finance received assurances that a satisfactory balance of concessions will be maintained. As required in Section 405, the Agreement is also subject to suspension or termination by either party and does not limit the right of either party to take action for the protection of its security interests.

Also, consistent with section 405, article III of the Agreement permits consultations at the request of either party whenever imports are threatening or contributing to market disruption within a domestic industry of the requesting party. In addition, either party may impose such restrictions as it deems appropriate on the imports of the other party to prevent or remedy such actual or threatened market disruption. The Administation assured the Committee that the safeguards written in the Trade Act of 1974 will be fully utilized to prevent serious injury to American industries and workers.

* For the first 11 months of 1975 U.S. exports to the Soviet Union were $1,600 million, and imports from the Soviet Union were $280 million; in 1974, U.S. exports to the Soviet Union were $607 million and imports were $350 million.

Article V of the Agreement provides for the protection of the patents and trademarks, copyrights, and industrial rights and processes. In addition, the Agreement provides for the settlement of disputes, the facilitation of trading arrangements and for consultations on the operations of the Agreement as required by Section 405 of the Trade Act.

E. The Generalized System of Preferences (Title V)

In 1964, the UN Conference on Trade and Development (UNCTAD) adopted a resolution calling for the developed countries to provide tariff preferences for products imported from less developed countries (LDC's.) UNCTAD hoped preferences would provide an incentive to economic development in the LDC's and lessen their dependence on foreign aid.

The United States eventually accepted the concept of preferences for products from the LDC's as a way to encourage economic development, reduce foreign aid, and prevent the expansion, particularly by the European Community, of existing regional preference programs between developed countries and their former colonies. Such regional preference programs would, in the U.S. view, create serious barriers to U.S. trade and result in the division of the world market into a small number of regional trade groups consisting of developed countries and their LDC satellites. With the enactment of the Trade Act of 1974, the United States became the twenty-third developed country to establish a general system of preferences for the products of LDC's.

Title V of the Trade Act requires the President to designate which countries will be "beneficiary developing countries" eligible for duty free treatment of specified eligible articles. The criteria for beneficiary developing country status includes an expression by the country of its desire to be a beneficiary developing country, the level of economic development of such country and whether or not other major developed countries extend preferential tariff treatment to the country under their generalized systems of preferences. Certain countries are specifically excluded from beneficiary developing country status, such as the member states of the European Community, Japan, and the U.S.S.R. In addition, most Communist countries are excluded as are most members of OPEC. Other exclusions relate to whether or not the country has nationalized property owned by a U.S. corporation or citizen without prompt, adequate, and effective compensation, whether or not such country has taken adequate steps to cooperate with the United States to prevent narcotics traffic, and so on.

On November 24, 1975, the President issued Executive Order 11888 implementing the Generalized System of Preferences (GSP) established under Title V of the Trade Act of 1974. This program will provide for duty free entry of 2,724 otherwise dutiable articles from 137 LDC's and territories beginning January 1, 1976.

In 1974, imports into the United States of the 2,724 articles which will be eligible under the GSP from the 137 LDC's and territories which will be eligible under GSP amounted to $2.6 billion. This figure is 2.6 percent of total U.S. imports for 1974 and 19 percent of U.S. dutiable nonpetroleum imports for that year. Total U.S. imports of the 2,724 articles from all countries amounted to $25 billion in 1974.

Eligible Countries and Territories

INDEPENDENT COUNTRIES

Afghanistan
Angola
Argentina
Bahamas
Bahrain
Bangladesh
Barbados
Bhutan
Bolivia
Botswana
Brazil
Burma
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Chile
Colombia
Congo (Brazzaville)
Costa Rica
Cyprus
Dahomey
Dominican Republic
Egypt
El Salvador
Maldive Islands
Mali
Malta
Mauritania
Mauritius
Mexico
Morocco
Mozambique
Nauru
Nepal
Nicaragua
Niger
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Romania
Rwanda
Sao Tome and Principe
Senegal
Equatorial Guinea
Ethiopia
Fiji
Gambia
Ghana
Grenada
Guatemala
Guinea
Guinea Bissau
Guyana
Haiti
Honduras
India
Israel
Ivory Coast
Jamaica
Jordan
Kenya
Korea, Republic of
Laos
Lebanon
Lesotho
Liberia
Malagasy Republic
Malawi
Malaysia
Sierra Leone
Singapore
Somalia
Sri Lanka
Sudan
Surinam
Swaziland
Syria
Taiwan
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Upper Volta
Uruguay
Western Samoa
Yemen Arab Republic
Yugoslavia
Zaire
Zambia

NON-INDEPENDENT COUNTRIES AND TERRITORIES

Afars and Issas, French Territory of the
Antigua
Belize
Bermuda
British Indian Ocean Territory
British Solomon Islands
Brunei
Cayman Islands
Christmas Island (Australia)
Cocos (Keeling) Islands
Comora Islands
Cook Islands
Dominica
Falkland Islands (Malvinas) and Dependencies
French Polynesia
Gibraltar
Gilbert and Ellice Islands
Heard Island and McDonald Islands
Hong Kong
Macao
Monteserrat
Netherlands Antilles
New Caledonia
New Hebrides Condominium
Niue
Norfolk Island
Pitcairn Island
Portuguese Timor
Saint Christopher-Nevis-Anguilla
Saint Helena
Saint Lucia
Saint Vincent
Seychelles
Spanish Sahara
Tokelau Islands
Trust Territory of the Pacific Islands
Turks and Caicos Islands
Virgin Islands, British
Wallis and Futuna Islands