

**UNITED STATES/JAPANESE TRADE RELATIONS
AND THE STATUS OF THE MULTILATERAL
TRADE NEGOTIATIONS**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
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UNITED STATES-JAPANESE TRADE RELATIONS AND THE STATUS OF THE MULTILATERAL TRADE NEGOTIATIONS

WEDNESDAY, FEBRUARY 1, 1978

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Hathaway, Curtis, Hansen, and Roth, Jr.

[The committee press release, announcing this hearing, follows:]

PRESS RELEASE

For immediate release

January 19, 1978.

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON UNITED STATES-JAPANESE TRADE RELATIONS AND ON THE STATUS OF THE MULTILATERAL TRADE NEGOTIATIONS

Hon. Abraham Ribicoff, Democrat, of Connecticut, chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that the subcommittee will hold hearings on the results of the recent consultations between the United States and Japan on trade issues. In addition, the subcommittee will hear a report on the status of the multilateral trade negotiations (the "Tokyo Round") being conducted under the auspices of the General Agreement on Tariffs and Trade in Geneva, Switzerland.

The hearings will be held at 10 a.m., Wednesday, February 1, 1978, in room 2221 of the Dirksen Senate Office Building.

Chairman Ribicoff stated that the witnesses for this hearing will be Ambassador Robert S. Strauss, Special Representative for Trade Negotiations, and Ambassador Alan Wm. Wolff, Deputy Special Representative for Trade Negotiations.

Senator RIBICOFF. The subcommittee will come to order.

Mr. Strauss and Congressman Ireland, did you have a—

Representative IRELAND. I have a brief statement, Mr. Chairman?

Senator RIBICOFF. Could you tell us how long it would take?

Representative IRELAND. It would take, maybe 3 minutes.

Senator RIBICOFF. All right.

Would you defer to Congressman Ireland?

Ambassador STRAUSS. Surely.

Senator RIBICOFF. All right.
Please proceed, Congressman.

**STATEMENT OF HON. ANDY IRELAND, A REPRESENTATIVE IN
CONGRESS FROM THE EIGHTH DISTRICT OF FLORIDA**

Representative IRELAND. Mr. Chairman, it is a pleasure to be here, and I appreciate your hospitality this morning.

I represent the Eighth Congressional District of Florida, and citrus is our main industry. In fact, my district produces more citrus each year than the whole State of California. And so, Mr. Chairman, to say that citrus is important to me and to my district is something of an understatement.

My main reason for being here today is to express my personal appreciation, and that of the Florida citrus industry to Ambassador Strauss and his staff for their efforts on our behalf in Japan. We recognize that, in the context of the whole series of trade questions at issue between the United States and Japan, that citrus is only a very small part of the profits, both in terms of dollars and priority.

However, to Florida, and especially to the people whom I represent, citrus, as you can imagine, is of paramount importance and, for this reason, we are most grateful that during the negotiations, the Ambassador devoted as much attention to citrus and worked as hard for us as he did, and I thank you, Mr. Ambassador.

I would be less than candid, however, if I were to tell you today that all of the citrus industry's problems and concerns over Japanese trade barriers are over. Far from it.

Still to be resolved are questions of unfair import quotas, excessive tariffs, nonacceptance of certain agricultural chemicals and other nontariff barriers to free trade.

However, as serious as these problems are, we recognize the difficulties involved in solving them. For the most part, these are trade practices that have developed over many years and are complicated by the curious relationship that exists in Japan between the Government and the business community. Therefore, we realize that progress will be slow, and, very often, painful.

We are greatly encouraged by the strong start which the Ambassador has made and I, and other members of the Florida congressional delegation, stand ready to work with him in any way possible, to build on this progress.

Mr. Chairman, at this point, rather than recite a long list of concerns and goals which the Florida citrus industry has with respect to the Japanese market, in light of the most recent negotiations, I would simply like to list four major points without elaboration.

In addition, I would like to point out to the committee that, attached to my statement, is an additional document prepared by the Florida Department of Citrus—

Senator RIBICOFF. Your complete statement as well as the document; will be made a part of the record, sir.

Representative IRELAND. Very fine. Thank you, sir.

Basically, the citrus industry has four major requests of the Japanese government with respect to citrus trade between Japan and Florida: approval of the use of the fungicide TBZ; further liberalization of the

import quotas on citrus concentrate; reduction of excessively high duties on fresh grapefruit imports; and further liberalization of fresh orange imports.

We have no doubt that Ambassador Strauss and his people will continue to pressure the Japanese Government on these and other issues in Geneva with the same skill and determination which they displayed in Tokyo. We look forward to continued progress in our trade relations with Japan and hope that, in some small way, that we, in Florida, can be supportive of these efforts.

Senator RIBICOFF. Thank you very much, Congressman Ireland.
[The attachment to Representative Ireland's statement follows:]

FLORIDA CITRUS TRADE WITH JAPAN—PROBLEMS AND SOLUTIONS

INTRODUCTION

The primary purpose of this paper is to outline the reasons the Florida citrus industry feels its requests for free access to the Japanese market for citrus products would not be injurious to the Japanese citrus growers. The paper includes a brief description of the Japanese citrus industry; the specific requests of the Florida citrus industry with reference to access to the Japanese market; the economic importance of the Japanese market to Florida and finally, some of the previous problems encountered in trading with this country.

JAPANESE CITRUS INDUSTRY

Japan is the world's third largest citrus producing country, producing approximately 96 million 90-lb. equivalent boxes of citrus annually. (Ref. Table No. 1) Japan's citrus production consists principally of the Satsuma variety which makes up approximately 87 percent of their total production. Japan does not produce any grapefruit, nor any oranges similar to the Florida varieties.

Japan's citrus is marketed primarily in fresh form during the October through March period. Only 15 percent of their 96 million boxes of citrus is used in the production of juice. (Ref. Table No. 2 on Production and Utilization). The juice produced from Mikan oranges, however, does not enjoy a high degree of consumer acceptability due to the excessive tartness, bitterness and reticulata flavor. Consequently, Japan's citrus industry is in a relatively precarious position. It produces a variety of citrus which must either be consumed fresh during a rather short period of time, or is processed, blended with another type of concentrate to improve its quality, and thus, gain consumer acceptance.

In about 1970, a delegation of Japanese scientists conducted a world wide tour to locate an orange juice which, when blended with their juice, would make an acceptable product. It was determined that blending Mikan juice with Valencia concentrate improved the quality immensely. As a result of experiments conducted both by the experiment station in Lake Alfred, Florida and tests which were run in Japan, it was determined that a blend of 40 percent Mikan and 60 percent Valencia juice produced the most acceptable taste. A blending facility was erected near Tokyo several years ago. This plant has operated only on a restricted basis because of the limited quotas on imported concentrate (approximately 350 metric tons per year, or 308,000 ss. equivalent gallons). The ratio of U.S. to Japanese product was also reversed from the 60-40 suggested by the tests to 40-60 to encourage acceptance of the program by the Japanese grower.

Based on U.S.D.A. information, sales of the blended juice (40 percent U.S. Valencia and 60 percent Mikan) have been very good since the introduction of this product in January 1976. Sales during January-August 1976 amounted to 1,480,000 ss. equivalent gallons—51 percent greater than their original sales target of 988,000 ss. equivalent gallons.

The Japanese are in a situation which the Florida citrus growers were in themselves in the mid-40's—production exceeds demand. By providing the consumer with an acceptable blended juice, the Japanese citrus industry could direct more of their Mikans into concentrate, thereby creating a juice market on a year-round basis. This would eliminate the pressure of marketing all of their products in fresh form during a relatively short marketing season. The anticipated result would be improved economic conditions just as occurred when the Florida citrus industry developed its juice market.

TABLE 1.—JAPANESE CITRUS PRODUCTION BY VARIETY, 1974-78

	90-lb boxes			
	1974-75	1975-76	1976-77	1 1977-78
Satsuma ²	82,884,000	89,793,000	75,656,000	83,300,000
Percent of crop.....	87.0	86.0	85.0	87.0
Other Mandarin ³	4,506,000	4,991,000	4,856,000	5,390,000
Percent of crop.....	4.5	4.6	5.0	5.6
Navel oranges.....	341,000	365,000	372,000	380,000
Percent of crop.....	.5	.4	.5	.4
Summer oranges ⁴	7,588,000	9,107,000	8,587,000	5,701,000
Percent of crop.....	8.0	9.0	9.5	7.0
Total.....	95,319,000	104,256,000	89,472,000	95,771,000
Percent of crop.....	100.0	100.0	100.0	100.0

1 Projected forecast.

2 Unshu Mikan—Principal marketing season is October thru March, with harvest completed by January 1.

3 Includes Hassaku and Iyokan varieties.

4 Called Natsu Mikan in Japanese which is a sour orange variety.

TABLE 2.—TOTAL UTILIZATION OF JAPANESE CITRUS, 1974-78

	90-lb boxes			
	1974-75	1975-76	1976-77	1977-78
Fresh.....	82,505,000	85,293,000	69,701,000	75,978,000
Percent of crop.....	86	82	78	80
Juice ¹	8,330,000	13,230,000	13,744,000	14,700,000
Percent of crop.....	9	13	15	15
Other ²	4,484,000	5,733,000	6,027,000	5,093,000
Percent of crop.....	5	5	7	5
Total.....	95,319,000	104,256,000	89,472,000	95,771,000
Percent of crop.....	100	100	100	100

1 Satsuma is only orange that is processed for juice.

2 Includes canned, sections, jam, etc.

REQUESTS OF THE FLORIDA CITRUS INDUSTRY

The Florida citrus industry requests the Japanese government to make the following changes in their current restrictions to citrus trade between Japan and Florida.

1. Approval of the use of the fungicide, TBZ.
2. Liberalization of the import quotas on citrus concentrates to Japan.
3. Reduction of excessively high duties on fresh grapefruit imports.
4. Liberalization of fresh orange imports to Japan.
5. Identification.

1. Fungicides

Previous rejection of the use of fungicides sodium orthophenylphenate (SOPP) and thiabendazole (TBZ) by the Japanese government resulted in 20 to 30 percent decay loss in fresh grapefruit shipped to Japan. These losses contributed directly to higher prices charged Japanese consumers for Florida grapefruit. After extensive testing and expense by an independent research organization, SOPP has now been approved; however, TBZ has not been cleared by the Japanese government even though it is the most effective fungicide for reducing fresh grapefruit decay.

The citrus experiment station at Lake Alfred, Florida, conducts a continuous program on decay control. An analysis of the effects of TBZ on the decay of fresh grapefruit over a four week period (the shipping time to Japan is three weeks) revealed that decay was reduced from an average of 8.3 percent to 3.7 percent, an overall 58% reduction in loss due to decay.

Any fungicides permitted in the U.S. and Canada must pass extensive toxicological testing. Even then, their use is limited to the minimum amount necessary for effective decay control. The testing of these fungicides is unending. Retesting of thiabendazole (TBZ) is currently going on in California and in Canada despite its long history of use in vastly greater amounts as a medicine

(antihelminthic) for man and animals. There have been no findings reported from this extensive testing which suggests any problem to human health.

Thus, the use of TBZ is safe; would provide additional profit for the importer as a result of less spoilage, and would provide the Japanese consumer with a better piece of fruit at a lower price.

2. Concentrate quota liberalization

The Japanese government maintains a quota for all citrus juice concentrates of 1000 metric tons or 220,000 45 degree Brix gallons per year. The sales record of the pilot plant in Japan which produces the blended juice is proof of the consumers' interest in a quality juice and the potential for expanding the market and improving the economic return to the Mikan grower. The economic well being of the Japanese grower and the satisfaction of the Japanese consumer can be improved by eliminating or increasing the quota on concentrated citrus juices.

It is also our understanding that this 1,000 metric ton quota on concentrate includes grapefruit concentrate, as well as orange concentrate. Since the Japanese citrus industry does not produce grapefruit and therefore, does not produce grapefruit concentrate, there is no valid reason for grapefruit concentrate being included in this 1,000 metric ton quota. It should be liberalized.

3. Reduction of the excessively high tariff on grapefruit

Japan has a variable level import duty on imported fresh grapefruit which ranges from a high of 40 percent during the December through May period, and 20 percent during the June through November period.

Florida citrus growers can understand Japan's desire to protect their Japanese Mikan crop from excessive competition. However, as referenced in Table 1, 87 percent of the Japanese crop is of the Mikan variety which is marketed during the period of October through March. It is also true that Japan produces no grapefruit. Therefore, no valid argument exists for maintaining the high tariffs during the March through May period, the heavy shipping season for Florida fresh grapefruit.

Historically, over the last several years, the majority of Florida grapefruit has arrived in the market in the April-May period when the Japanese have a minimum amount of citrus on the market. Thus, the 40 percent tariff should either be eliminated, or at least reduced to 20 percent sometime in March. Such a change would not hurt the Mikan growers, but would provide the Japanese consumers fresh grapefruit at a more economical price.

4. Fresh orange imports

As mentioned earlier, primarily all of Japan's citrus is marketed during the October through March period. The introduction of Florida oranges into the Japanese market during the April through September period would prevent direct competition with the Japanese grower and would provide the Japanese consumer with a variety of oranges, which is not available from domestic sources.

5. Identification

For years, the Florida citrus industry, and many other citrus industries of the world, have used a harmless ink for identifying the origin and/or brand of their products. However, the Japanese have advised that this ink is not acceptable despite its use with no negative effects on U.S. domestic shipments, as well as shipments going to many other countries.

In order to permit the Japanese consumer to select the quality of product preferred, it must be identified. Stamping the fruit with an acceptable ink is the most practical means of identification.

ECONOMIC IMPORTANCE OF THE JAPANESE MARKET

Since 1971, Japan has become a major market for Florida grapefruit accounting for over 75 percent of all fresh grapefruit exports, excluding Canada. From 1972/73 through 1976/77, the Japanese market has provided over \$25 million in increased revenue to Florida grapefruit producers. Most of the exports shipped to Japan have been of the white seedless variety produced in Florida. In fact, exports of fresh grapefruit from Florida to Japan represented 15 percent of all fresh Florida grapefruit shipments in 1974/75 and 15.5 percent in 1975/76. In 1976/77, fresh grapefruit exports to Japan represented a whopping 23 percent of Florida's total fresh grapefruit exports. This large percentage increase was caused by a smaller than usual fresh grapefruit packout due to the freeze in January.

Needless to say, the Japanese market is an important economic factor to the Florida grapefruit industry. In evaluating the total economic impact, it is presumed that if the Japanese market had not existed, an additional amount of grapefruit equal to the amount exported, would have had to be absorbed by the domestic market at lower overall prices.

The importance of the export markets to Florida citrus producers is even more evident when one considers estimated future production levels. World production of oranges is expected to increase 24 per cent between 1975/76 and 1980/81. Grapefruit production is expected to increase 22 per cent with most of the increases occurring in the United States and Cuba. These increases are occurring during a period when the domestic demand for fresh grapefruit is relatively static. Despite some growth in the chilled and concentrate grapefruit juice areas, it is likely that by 1980/81, Florida producers will have to export the equivalent of over 9 million boxes of grapefruit in order to maintain the 1975/76 grapefruit price level. This represents a 36 per cent increase over actual 1975/76 grapefruit export levels of slightly over 6.5 million boxes in fresh and processed form.

PROBLEMS PREVIOUSLY ENCOUNTERED BY FLORIDA SHIPPERS

Florida citrus is well liked by the Japanese consumer. The primary barrier to substantial expansion of that market for Florida grapefruit and other Florida citrus fruit and products is political pressure from that country's citrus growers who erroneously believe Florida to be a threat to their own industry. A review of the Florida experience to date illustrates this point well.

Florida citrus exports to Japan were initiated in 1957, when importation of all Florida citrus was under strict license and currency regulations. Exports continued under these conditions with no problems regarding fungicides, stamping, fruit fly, etc. In 1970, fresh grapefruit was liberalized and unlimited importation was permitted under a general import license. The current high tariff structure of 40 per cent prevailed during all this period. Following liberalization, the market in Japan expanded rapidly for Florida grapefruit in spite of the 40 per cent duty that applied during most of Florida's shipping season. This rapid expansion alarmed Japan's citrus growers and they responded through strong protests to the Japanese government. Japanese citrus growers are extremely well organized and have an effective political base from which to make their opinions felt.

The first major problem arose in 1974 with an alleged finding in Japan by a government inspector of a live Caribbean fruit fly larvae. The finding was reported in the Japanese press and such a furor ensued that a total embargo was placed on all Florida grapefruit. The fruit fly problem was ultimately resolved after Florida citrus interests built fumigation chambers and set up elaborate fumigation and inspection procedures acceptable to the Japanese government health officials.

The next restrictive action by the Japanese government was the "discovery" in 1975 of the fungicides TBZ and SOPP on Florida grapefruit, in spite of the fact that these fungicides had been accepted in prior years. These two fungicides are accepted in all other countries in the world where Florida grapefruit was and is shipped.

The Florida industry was next advised that the ink used in stamping "Florida" or "Indian River" on grapefruit contained toxic material unacceptable in Japan. Here, again, the same ink had been used without question in all prior years, and was, and is, acceptable in all other countries.

The next development in this political harassment was the "discovery" by Japanese Government officials that the wax used to coat Florida grapefruit contained a toxic material that was unacceptable. Here, again, the same wax was and continues to be acceptable to all other world markets. Fortunately, substitute waxes were found that were acceptable to Japan, although they do not perform as well, resulting in a higher degree of fruit decay upon arrival in Japan.

As this paper is being prepared, word has been received that the Japanese are concerned about the diphenyl residue found on some grapefruit in Japan. It is not known at this time whether Japan's sampling and testing procedures for measuring diphenyl residue are the same as the U.S. and other areas of the world. It is known, however, that the use of this fungicide is constantly monitored by the Florida industry, the U.S. Environmental Protection Agency, and agencies in various other countries of the world. To date, no problems have been cited by any of these other agencies or countries.

Senator RIBICOFF. The Subcommittee on International Trade will, this morning, hear from America's chief trade negotiator, Ambassador Strauss. This is a timely meeting, as trade and currency fluctuations are straining the fabric of the world trading system. Here at home, we have just recorded the largest trade deficit in our history. Many of our industries feel hard pressed by import competition.

It is no secret that the Congress has been asked to slow down the flow of imports into our economy. At the same time, our export industries confront increased foreign barriers to their trade. It is appropriate that Ambassador Strauss come before this panel to report on his recent efforts in Tokyo and Geneva.

The Congress ultimately controls trade policy. In passing the Trade Act of 1974, we set out ambitious goals for international trade negotiations. We also envisioned a strong role for our chief trade negotiator.

We are most anxious, Mr. Strauss, to hear about the recent consultations with Japan. Last year, Japan ran up an \$8 billion trade surplus with the United States. They also ran up a current account surplus of over \$11 billion.

Mr. Strauss has tried to address these problems and has tried to achieve a better trading relationship with Japan. From past experience, we know that this is a tough job, and we look forward to hearing from you.

I understand that other members of the panel have statements.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I believe that Japan is our most important ally in Asia, and that it is in the national interests of the United States to maintain close, friendly, political, security, and economic relationships with Japan.

The terms of these relationships must, however, change. Japan is now a strong and prosperous country, and it is well within Japan's capacity to make greater contributions to the economic and security structures of the non-Communist world.

Because Japan does not bear as heavy a defense burden as does the United States and most of our allies, I believe that Japan has a very special obligation in the economic area.

Very frankly, I have been disappointed in Japan's foreign economic policies and performance, especially this past year. The Japanese have been beneficiaries of the liberal trade policies of the United States, but it has been highly protectionist at home.

Domestically, in Japan, this has placed an enormous cost on the Japanese consumer, particularly for foodstuffs. Internationally, while the United States and many other developed and developing countries have been struggling with the crushing burden of the OPEC surplus, Japan and West Germany are running tremendous current account surpluses which have greatly added to our burden.

What the American people want from Japan is a fair shake—the same access to Japanese markets as the Japanese have to ours.

Mr. Chairman, I cannot emphasize too strongly the importance of that statement to our Japanese friends. I want to congratulate Ambassador Strauss for raising this issue forcefully with the Japanese. I am, however, frankly skeptical about the value of the agreement.

Commitments that have been made could be merely cosmetic in nature or they could be the beginning of an improved and healthier economic relationship between the United States and Japan.

I know from personal conversations that a number of Japanese leaders are anxious to liberalize access to their markets and take other bold and responsible steps to help the world economy, as well as their own; but I also know that implementation will meet a lot of tough opposition.

For our part, therefore, we must continue to bargain hard and apply pressure on Japan to make the changes that are needed.

I think, Mr. Strauss, that your job is just beginning. Congress is going to be watching the implementation of that agreement very closely. And, Mr. Chairman, I believe that this subcommittee should regularly review, perhaps at 6-month intervals, if not oftener, the progress that has been made to put our trade and other economic relationships with Japan on an evenhanded, two-way basis.

Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Hathaway?

Senator HATHAWAY. I have no prepared statement, but I did want to take this opportunity to commend Mr. Strauss for his excellent job.

Senator RIBICOFF. Senator Hansen?

Senator HANSEN. I have no statement, except to join in the words of welcome that have already been expressed, noting the appearance of our Special Trade Representative, Ambassador Strauss, here this morning. I think he is doing a very excellent job. While I will have some questions, I want to commend you, sir.

Ambassador STRAUSS. Thank you, sir.

Senator RIBICOFF. Mr. Ambassador, you may proceed.

STATEMENT OF HON. ROBERT S. STRAUSS, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Ambassador STRAUSS. Mr. Chairman, members of the committee, first I want to express my great pleasure at being here with you and particularly at the warmth of the reception. I am delighted for this opportunity to report to you today on our recent consultations with the Government of Japan.

As you are aware, our talks culminated on January 13 in Tokyo with the release of a joint statement by the Japanese Minister of State for External Economic Affairs, Mr. Ushiba, and myself. I think it appropriate, Mr. Chairman, that a copy of that joint statement appear in the record of these hearings.

Senator RIBICOFF. Without objection, that will appear at the close of your testimony.

Ambassador STRAUSS. Thank you.

As I have said publicly on a number of occasions, Mr. Chairman, I believe this document—if substantially implemented—could redefine the economic relationship between the United States and Japan.

And parenthetically, Mr. Chairman, let me say to you, and to the other members of the committee here—and I would hope that you would express what I have said to members of the Finance Committee generally, and also the members of the Foreign Relations Committee, not by way of flattery, but in cold-blooded political terms, I want each of you to know that, in my judgment, the strong, bi-

partisan support that this committee showed, that this Senate showed, when Minister Ushiba visited months ago and Chairman Long and Chairman Sparkman cohosted a luncheon for him, and I think that the strong bipartisan support that we saw at that luncheon had a great deal to do with what measure of success we did have in Japan.

And for that, on behalf of the entire Nation, I want to thank each and every member of the committee.

At the outset, Mr. Chairman, I would like to say that the consultations between our two countries on matters of mutual concern are an altogether desirable and necessary process. As you know, we live in a world of growing economic interdependence. The economies of Japan and the United States are the two largest single nation market economies in the entire world. Our trade approaches one-quarter of the value of Western World trade.

The United States is the largest single market for Japanese exports. Japan is a major purchaser today of U.S. agricultural exports, primarily grains.

Indeed, there is more land under cultivation for Japan in the United States than there is land under cultivation for Japan in Japan. We depend upon one another for our mutual prosperity. Together there is much we can do to preserve and strengthen the world-trading system and to foster the recovery of the world economy.

In the words of Prime Minister Fukuda, when he crossed the political Rubicon by presenting our joint agreement to the Diet after I left Tokyo, and I quote: "Japan and the United States share a common destiny." For that reason, he went on, we must do the following things.

Accordingly, I think it is essential that we continue to consult and to coordinate our economic policies closely and to see if we can continue that beginning of Japanese political will.

What are our objectives? During 1977, senior officials of our Government met frequently with officials of the Japanese Government. Our objective in these consultations were primarily twofold. First, we sought to convey our deep concern that Japan's massive current account surplus, in the light of current, global economic conditions, were generating pressures which could undermine the global trade and payments system—a system under which both our countries have prospered; and second, to encourage in very plain, straightforward language, the Japanese Government to take specific corrective actions which would result in eliminating the surpluses and would relieve those resulting pressures. Specifically, I sought to encourage the Japanese Government to adopt policies aimed at achieving a higher rate of economic growth while simultaneously taking steps to increase imports into Japan, imports of manufactured and agricultural products.

In addition, we urged the Japanese Government to join us in a commitment to achieve equivalent market access at the conclusion of the multilateral trade negotiations in Geneva. I said to them, on behalf of our Government, on your behalf, that it has to work both ways or our Congress will see that it does not work at all, and I will join them in that effort.

For the year just ended, Japan has posted a record current account surplus, as you know—over \$10 billion, fully one-quarter the size of the OPEC surplus. The previous high was \$6.6 billion in 1972.

I fully share your belief that a current account surplus of this magnitude is totally unacceptable in the light of current economic conditions and, indeed, imposes a severe strain on the global trade and payments system. I think it was clearly stated, by a number of you, and it was pressed home strongly by me, that we urge the Japanese Government to take steps to reduce its current account surplus in the coming year and eliminate it in the year or two thereafter.

And, I might add, we made a number of very specific suggestions as to how this might be accomplished.

I am glad to report to the subcommittee that the Government of Japan now shares our concern over the size of its current account surplus and has agreed to adopt our strongly presented suggestions during the consultations.

The Japanese Government has undertaken steps aimed at achieving a marked diminution of its current account surplus in the coming Japanese fiscal year. In addition, for fiscal year 1979 and thereafter, under present international economic conditions, the Japanese Government has stated that it intends to exert all reasonable efforts with a view to further reducing its current account surplus aiming at equilibrium, and to accept a deficit if one should occur.

The Japanese Government has reiterated its real growth target of 7 percent for the coming fiscal year and has stated its intention to take all reasonable and appropriate measures to achieve that target. In particular, the Japanese Government has announced a 15-month budget which includes substantial increases for public expenditures to increase demand within the Japanese economy. It is our view that the single most important tool at the disposal of the Japanese Government for reducing its surplus is the achievement of a higher rate of growth.

Although there is skepticism on the part of some, including me, as to whether a 7-percent growth target can be achieved, Mr. Chairman, Prime Minister Fukuda and Mr. Ushiba believe it is obtainable and they have so stated to their Japanese Diet. I think it can be said that whether they reach the 7-percent target or not—and I hope that they do—the stimulus which is implied by such a target will certainly result in a higher rate of growth than would have otherwise occurred.

In addition, the Japanese Government has stated that it is now its policy to immediately begin to promote the increase of imports from manufacturers. As you are aware, only 20 percent of Japan's imports are manufactured products; the balance represents imports of raw materials.

The Japanese Government again has stated that it anticipates the total volume of imports of manufactures will increase steadily both in real terms as well as relative to the overall Japanese demand for manufactured products. In this regard, the Japanese Government has stated its intention to expand its import promotion activities and to review progress in the newly established joint trade facilitation committee.

Both governments believe it is essential that the multilateral trade negotiations be advanced to a successful conclusion in the coming year. In this regard, the Japanese Government has stated its intention to support the acceleration and early conclusion of the MTN with a view to eliminating or reducing tariffs and nontariff barriers.

In particular, the Japanese Government only last week joined us in tabling tariff offers in Geneva using the Swiss formula as a working

hypothesis aiming at a final result of a weighted average reduction of around 40 percent in duties.

In addition—and this is extremely important in terms of a long-range relationship between our two countries—the Japanese Government has publicly accepted our proposal that they must achieve basic equity in their trading relations by affording major trading countries substantially equivalent trading opportunities on a reciprocal basis. To achieve parity in their trading relations and equivalent openness of their markets with the United States, they have agreed publicly to undertake deeper-than-formula tariff reductions on items of interest to other countries with the aim of achieving comparable average levels of bound tariffs.

For examples of immediate specific measures, as you are aware, the government of Japan has announced that it will undertake tariff reductions in advance of the MTN averaging 23 percent on 318 items, some important, some insignificant. The 318 items on which cuts will be made represent \$2.6 billion in 1976 Japanese imports, only \$724 million of which comes from the United States.

It is a start, and only a start. In addition, the Government of Japan has announced complete elimination of quotas on 12 items and also, pursuant to our negotiations, the Japanese Government has announced a tenfold increase in high-quality beef imports.

When they left here, Mr. Chairman, you will recall that Mr. Ushiba was proposing going from 1,000 to 2,000 tons on then import quota. They finally went to 10,000 tons during our negotiations in Japan, and statement by members of this committee, while over there—Senators Curtis and Hansen just before I arrived—were of great help in helping us achieve that.

Japan also agreed to a threefold increase in orange imports to 45,000 tons a year and a fourfold increase in orange and grapefruit juice. Members of the committee, while these amounts are not dramatic—in dollar amounts they are not dramatic—the change in direction and philosophy could be.

The Japanese Government has agreed that it will take a number of other steps aimed at liberalizing access of foreign goods to the Japanese market. These include liberalization of Government procurement practices; extension of the standard method of settlement; improvement in inspections and testing procedures; expansion of import financing; reform of foreign exchange control; and support of the newly established trade facilitation committee of the Commerce Department.

I consider, Mr. Chairman and members of the committee, the trade facilitation committee in the Commerce Department which will be headed up by Frank Weil, who is here with me today, is one of the integral parts of our program to achieve greater access to the Japanese markets in the next few years. It is a program to help small businessmen. The large business concerns of this country know how to get into markets. The company from \$5 or \$10 million to \$100 million a year gross cannot afford to spend that kind of money, it needs this kind of help, and this Government has failed miserably, I think, in providing it up to now.

Also, the Japanese Government has announced its intention to form a number of joint industry groups to explore the possible purchases of citrus products, wood products, energy plant machinery and equipment—including nuclear—and to increase imports of beef. We have

Japanese buying commissions beginning their work, I think, the week after next. Already, joint industry-Government seminars have been held between representatives of our Government and industry and theirs. Members of another purchasing commission will be leaving for Japan within the next 2 weeks.

Let me conclude by saying it is not possible at this time to evaluate with certainty the effects these steps will have upon the Japanese current account, or indeed, to evaluate the performance of the Japanese economy. In examining the specific measures which are being undertaken, it is important that they be viewed as a whole and as an initial phase of what will no doubt be a long-term process.

What we have here is only the first chapter in a long and tedious book to be written. I am not naive and I do not like to overpromise. There is a risk of overstating the value of what we have accomplished. But at the same time, there is a risk of underestimating its potential.

The ultimate value of these consultations depends largely on what we do to follow through on our efforts. We must maintain the political will and take such steps as we can to see that the Japanese do the same, and I have recommended to the President that we must review and monitor our progress and report on it regularly to the Congress and to the President.

And, Senator Roth, I do not think once every 6 months is sufficient. I think I should report to you on a more frequent basis, if you have the time in this Senate to do it.

If we neglect this aspect, in my judgment we will end up with a few minor trading concessions at best. If we follow up properly, we may, together, Congress and the executive branch, have truly brought about a major, positive step forward in our international trade posture for the benefit of every American and, indeed, the world.

I like to think, members of this committee, that I have begun to justify your confidence in approving my nomination as STR and, of far more importance, I like to think that we are now, together, beginning to justify the 1972 Trade Act which was the product of this committee and its counterpart in the House.

Thank you very much.

Senator RIBICOFF. Thank you very much, Mr. Strauss. There is a risk of overstating the value of what we have accomplished. Now, I know you have been very cautious, but there is a sense of euphoria.

I think, when you consider a \$11 billion current account differential, that is a lot of money, and I think the illusion that we are going to turn this around in 6 months or a year is also an illusion. How long do you think it will take to start making a real impact on that \$11 billion differential?

Ambassador STRAUSS. I think that we will make some—we will have some reduction. They say \$5 billion to \$6 billion this year. I am very skeptical they will attain that.

I think that over the next 2 or 3 years we will see some—we can see, if we do our work properly in this country—we can see some real progress made. I think there are two very significant things here, Senator Ribicoff. One is, the thing that impressed me is that the week following our agreement in Tokyo, Prime Minister Fukuda, as I said, crossed the political Rubicon. He went before the Diet and took the

political risk of saying here is the agreement we made, here are the steps we had to take, and here is where we have to end up down the road.

That is a major, political step for Prime Minister Fukuda. It shows a political will on his part, and understanding.

The second thing is, I do not think we can overstate the importance of their posture right now. I do not think that that can be overstated, because it is an entire change of direction and change of philosophy of trade.

What is overstated, what worries me, and the reason I was so cautious in this statement, and have been in my other public utterances, theirs is only a statement of intention, and it has to be reviewed constantly. The initial chapter is A plus. The performance is zero, as of today, or almost zero.

We brought back a few worthwhile trade things in the agreement. In dollar amounts, they are not great. It does help the beef industry. It does help the citrus industry. It will help some of our industrial problems. But we are just beginning. These are the first cautious steps, and it is a long road; by the time we reach real equilibrium and parity in our whole bilateral trading system, I would say maybe an 8-year process.

Senator RIBICOFF. Well, you see, it is not what the Prime Minister suggests. He is like every other government leader, including the President of the United States. He can have the state of the Union address and his economic message and his budget message and his tax message, but what the people of a nation will do as a followup and what the Diet or the Congress will do, is another factor entirely, because we have got certain inexorable facts.

Let's say they increase their budget 7 percent. What assurance do we have the Japanese people, who are very cautious people, will go wild and spend that money on consumers goods?

Ambassador STRAUSS. I do not think we have any assurance, Senator, and that, of course, as I pointed out in my statement, is what concerns me. But let me say this. I think we are better off for their having adopted that. We are better off for the Prime Minister having gone before the Japanese people and before the Diet of his country and saying we have to reach for this, than if he had not done it.

Now, I do not know whether you will get a third of the way there, or all the way there, or half the way there. And there is a limit to what we can do.

I used to know a fellow who used to say it is awfully easy to tell some one to go hell, but it is damned hard to get him there. That is about the shape we are in, and I do not kid myself about it.

Senator RIBICOFF. Well, basically, it is a very simple proposition, in spite of all of the verbiage. Either the Japanese import more or export less. When all is said and done, that is the bottom line, is it not?

Ambassador STRAUSS. Yes; that is correct. That is exactly right.

Senator RIBICOFF. So there are some things that bother me about the agreement. To try to analyze it—the yen has appreciated in just recent months about 18.6 percent against the U.S. dollar. Well, if you were going to take basic economic theory, that should mean that they would be exporting less and importing more. But it has not worked that way.

Even though the yen has gone up in relation to the dollar, the Japanese still are exporting a lot and importing not as much as they could.

Ambassador STRAUSS. The best I can tell, Senator Ribicoff, it has, though, worked adversely in their trading efforts. The spread was so great that it has not been sufficient, but that rising yen had a dramatic impact on their thinking. There is no question about that, and they know that something is going to have to be done with that, or they do lose the competitive advantage that they have had.

I would again repeat that there is nothing we have said that is mutually exclusive. We share the same concerns. We share the same skepticism. But the only point of departure is that I do not know what more you can do with a government than getting it to say publicly: "We will take these steps."

Now, we have to review those actions, both in Tokyo and here, or there will be a backlash in Congress. The agreement will work both ways, or it will not work at all.

Minister Ushiba and several others said to me, well, we cannot go as far as you want us to go in these statements; we have too much difficulty with our Diet.

My answer was, well, that is a political judgment that you have to make, because you are going to have that difficulty with your Diet or with our Congress, and you make that decision where you want your most severe problems and let me know.

This Congress here has the last word—and I do not need to tell you that, and that is why I hope that we will continue to report and why I hope that we will review and monitor properly and I will report to you, as my constitutional responsibility.

Senator RIBICOFF. You see, I am very pleased for Senator Hansen and for Senator Curtis, if they are going to buy more beef and they are going to buy more wheat, and for the Congressman from Florida, Mr. Ireland, if they are going to buy more oranges. But when we consider American jobs, now I am talking about labor-intensive industry, where does the agreement leave Senator Hathaway and Senator Roth and Senator Ribicoff?

The problem we have, as I see it, it is not just a question of the balance of payments, but the balance of trade where jobs are created. We are talking about manufacturing industries where most Americans work in large amounts, not 4 percent of the work force, but the other 96 percent of the work force. Now, I think this is where the impact or the crunch comes. What is there in this agreement that will be of help to labor-intensive industries?

Ambassador STRAUSS. Well, Mr. Chairman, if we can follow through on this agreement and see, No. 1, that they come to parity with us on tariffs, and also in the removal of nontariff barriers. If we do that, if we can monitor sufficiently to get some of the market access to which we are entitled and to which they have stated we would have, if we could do that, we will make great strides.

Let me also say that if we also give the right emphasis and support and the right drive behind this trade facilitation committee of the Commerce Department—and we are working on that right now—where we really get our businessmen to market properly in Japan, I think there are tremendous goals to be achieved. We have got a

purchasing group coming in week after next from Japan to go into the Northwest. Again, it is more involved with nonindustrial items. It is in lumber and wood products where we hope to improve substantially in both quantity and quality, Japanese purchases of wood products in this country.

We have another purchasing group coming here, a 50-person Japanese team to look at energy plant and equipment, including nuclear plant components. While there is some controversy in this area, it is my judgment if the Japanese Government is going to be buying nuclear plant components from somebody, they might as well be buying them from here and we might as well have those jobs.

That is another thing we are doing.

I would also say, now this is a competitive thing for our American concerns, but there is going to be a substantial shift, in my judgment, in offshore jobs to onshore jobs. The Nissan Co., for example, is taking a hard look at a \$300 or \$400 million automotive plant in this country. Where it would be located, I do not know. A lot of jobs would be created. Now it may not please some of our automotive manufacturers, but there are still jobs, 4,000 or 5,000 they tell me, in that plant.

Senator RIBICOFF. I think that while criticism has been leveled against the Japanese, you have to admire the Japanese. They are productive, inventive, hard-working people, and they have worked an economic miracle. They are an important ally, and I think American industry and American business has to be faulted, too, and I would like to discuss this with you a little more.

As I review what the Japanese are doing, it appears to me their businessmen are of the highest sophistication. They understand the American market, they learn the American market, they follow the American market, they follow American trends. They know what the consumer wants, and they adjust themselves to the American market, and we see the end result, because they dominate. Whenever they come in, they dominate the American market because they are outcompeting American businessmen.

Now, it would seem to me that many American businessmen have been indifferent to the possibilities of the Japanese market, and they learn nothing about the Japanese distribution system or the Japanese tastes, or the Japanese needs; and those needs, in many ways, are different from the American needs.

So I do believe that American industry has neglected the Japanese market; and if we are going to export more, we are going to have to develop the Japanese market. Now, as you point out, import testing, export-import credits, other nontariff barriers, they have made it difficult. What are you doing, or what is Mr. Weil doing, to develop the Japanese market and have the American business community do something to sell more of its finished products?

Ambassador STRAUSS. Well, the Commerce Department, Secretary Kreps is very strongly behind this, has had a series of meetings already with members of the American business community and has planned to step these meetings up substantially. The Commerce Department, under the direction of Mr. Weil, plans to develop a first-rate marketing team, if you will, that will be reaching out to our American business community and No. 1, finding out what the potential market is over

there, No. 2, finding out what segments of our industrial community can tap that market, and then showing them how to do it.

Now, the Japanese Government has agreed to substantially increase the credit program over there to finance imports. I think this will be helpful.

I think we are going to have a meaningful program in our trade facilitation committee in the Commerce Department. They are committed to it; we are committed to it.

Mr. Chairman, we are not going to solve this problem overnight, and this is a mean, miserable job you fellows gave me. It is not easy. I do not want to overpromise and underperform. I would rather underpromise and overperform. I will be out of this job, hopefully, a long time before we begin to really reap the benefits of this.

But we have not started in the past. We said it was easier to sit than to start. We are starting, and we ought to get A+ marks for starting and we ought to get no good marks for completing yet, because we have not completed anything except the first step.

Senator RIBICOFF. I am going to stop the questioning and then come back, because I have other members here that have some thoughts, but the fact remains, with a \$26 billion trade deficit, this Nation cannot keep its economic strength, and the American economic strength is a buttress economically, militarily, and politically, and to Japan and Western Europe, which has some very, very deep-seated problems.

But I think that it would be an illusion to think that we can turn the Japanese situation around in such a short period of time. Now it is getting more realistic when you are talking about 8 years, but we have to make a substantial start.

I have some more questions with MTN and also the Japanese situation that I will return to later.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I would like to ask one followup to the question propounded by Senator Ribicoff. I subscribe to his belief that American business has not done the job that it should have in trying to promote the sale of American-made products, but I feel just as strongly that the American Government—this is no criticism of you, because I think you know well that I think you are an excellent choice, even though I do not necessarily always agree with you—but I am concerned that this Government, just like American business, has not been actively promoting the sale of American-made products.

They have not been making the necessary analysis and in-depth study to determine where the opportunities are. They are not interested in promoting the sale of American-made products in the same sense that the Japanese and European governments are, and I—although this is not the subject of the hearing—I am deeply concerned about the fragmentation in the Government itself in the trade area.

For example, I understand that during the very times there were negotiations going on with Japan, there were many people, both within the executive branch and apparently a few over here that were saying to the Japanese, do not worry about the situation, it is not as serious as some are making it out to be.

I wonder if you would care to comment on what kind of support you have been getting. I know that a number of people have been

very vocal in trying to help you strengthen your position, but I am concerned when I hear reports that there are meetings, informal discussions and so forth where Americans tell not only members of the Japanese negotiators, but their parliamentary people who come over here, that this is not the matter of urgency that Mr. Strauss is claiming it is.

Ambassador STRAUSS. Senator, let me direct myself very specifically to that question. Let me begin with President Carter. I am quite certain I could say you also disagree with President Carter on a number of issues.

But on this issue, No. 1, President Carter has been very stern and very firm and has given me an almost full power of attorney to run my business and first, I think he should be complimented for that.

Senator ROTH. I want to make it clear that I was not directing my comments—

Ambassador STRAUSS. I know that. I was being facetious.

Let me say secondly that the members of this Government, the agencies of this Government, have been, generally speaking, exceedingly supportive, and they have been supportive for several reasons. No. 1 is, most of them want to be supportive. Those that do not, Senator, have several concerns if they are not.

I run my business pretty damned tough, as you know, and anybody who gets in the way, I am going to try to run over, if I think I am right.

Finally, the support of this committee on a bipartisan basis is very meaningful to me and I never underestimate its value—and there are an awful lot of people who might be willing to take on the trade negotiator who do not want to take on the Finance Committee, or the Subcommittee on Trade.

But in general, I can say to you that the agencies of this Government and particularly at the highest levels, have been as supportive of me as I could ask for, and I am very pleased with it. Now, when you get down to second and third levels, you find there are a lot of people who do not like Bob Strauss' style or might not like our being stern with some of our trading parties. You are always going to find that.

But I think the executive branch is behind this program. I think the executive branch shares your views. I think we are getting the support. That is the bottom line.

Senator ROTH. I hope that is true all the way down the line. I think it is true.

On the question of administrative policy, however, there is one area that gives me some concern. One of the problems, as I understand, that American business faces is that foreign governments, not only Japan, but others, directly or indirectly support the export of their products. We will probably get into that later.

In the President's economic message, as part of his tax program, he has proposed the elimination of DISC and deferral. I am not saying, at the moment, whether I think those things are good or bad. But it does bother me that we propose that we eliminate those particular items at the very time we are in negotiations at GATT and with the Japanese.

And it bothers me that we do not try to get—if we are going to remove them, if we are going to eliminate or modify some of these

things, why do we not use these as bargaining chips, to get something in return?

Ambassador STRAUSS. Senator Roth, I do not like to give anything away that you can trade for, when I am representing our Government. My initial reaction to the DISC proposal was that we ought to bargain it away, as you say, rather than give it away.

I do not know what the eventual outcome of the President's proposal on the elimination of DISC's will be in Congress. In my judgment it is not of great, adverse impact on our trade posture. Quite a number of my business friends have called to talk to me about it, and two-thirds of them would like to retain it, but when you get right down to it they get around to saying well, the world will little note nor long remember, it really is not that vital.

And if it is a reform that the President and the Treasury Department feel is appropriate, I do not think it would be of tremendous adverse impact.

Senator ROTH. I can give you the names of some other businessmen who have a different—

Ambassador STRAUSS. I know that, Senator Roth. I wish you would give me their names; do not give my name to them.

Senator ROTH. Well, Mr. Strauss, you have pointed out that in many ways this particular package is a statement of intent. I noticed an article in the current issue of "The Far Eastern Economic Review," entitled "Papering Over Japan's Trade Gap."

In an adjoining article there is a statement by one of your planning experts that says, and I quote, "It is by no means clear that the Japanese will, in fact, substantially reduce their trade surplus." And he is also quoted as saying that the Japanese have not, in fact, "substantially increased quotas of major interest in the United States, nor have they made substantial tariff reductions."

What bothers me, and I think you basically pretty much agree, the agreement itself does not necessarily accomplish much. When we review it next time, whether it is 3 months or 6 months or some other period, and if no further progress has been made, I think we can face a very serious problem. I do not think that time is with us, and I think it is important that you recognize that as well as our Japanese friends.

I just had a plant close down in my home State, and I cannot go back, in all honesty, Mr. Ambassador, and explain to them that we have an expression of intent that is going to change all that. The guy or gal who is without a job is not going to be satisfied. He wants some action. He wants to see a fair shake.

I do not think it is going to be enough to come back 3 or 6 months from now and say that, well, their economy did not move up.

What can we do now to make sure that, in the next several months, that we can see some forward action?

Ambassador STRAUSS. Senator Roth, I do not know of a single thing that we can do that we are not going to do. No. 1, the same things you stated to me, I have stated to the Japanese Government. I have no magic wand. I am not going to say that I am sure about anything.

I want to point out to you, though, that this is the first time in a decade that those quotas have been increased. Now, they may not mount to much in dollars, and Senator Hansen knows that going

from 1,000 tons of beef exports to 10,000 tons, maybe you are talking about \$60 million or \$70 million worth.

But it is a lot better to be going to a tenfold increase from standing still. We are headed in the right direction on specific matters.

I have no guarantees to give. If somebody tells me something to do, I will go try to get it done, but I am not going to stand here and say we have accomplished something that we have not accomplished. I say we have set upon a course. We have got a public commitment. We will do our darndest to fulfill it and to see that it is fulfilled on the other side. We are going to take every reasonable step that we can think of and that anyone else can think of. I do not know anything else to do. It is just that simple.

I cannot change American buying habits on automobiles overnight, and neither can this committee, Senator. I cannot change American habits on television purchases and CB radio purchases overnight or in 6 months, and neither can this committee, Senator Roth.

This is a long-term process. I cannot get American business to increase their volume by 30 percent going into the Japanese market overnight, and neither can this committee, or American business. But we have to start, and we have started, and that is all that we have represented that we have done.

I would defy anyone to add anything to that communique and joint statement that we did not get in there that is in the realm of reasonable possibility.

Senator ROTH. Mr. Ambassador, I hope that 6 months from now we see that we really have taken a major step in the right direction. A lot of people are saying that a trade balance will not be turned around because of the agreement, but because of the appreciation of the yen, and I must confess that I am not nearly as optimistic in that area as some other people apparently are.

Ambassador STRAUSS. Senator, let me interrupt you right there and tell you why this trade balance will be turned around, if it is, in very simple, cold-blooded terms. It will be turned around because this committee and its counterpart in the House showed the kind of political will that was necessary. That is why it will be turned around. Because not only the Japanese, but other governments, will find out that if this does not start working both ways, it is not going to work at all and because they are frightened at the threat of our market being closed down if they do not open theirs up.

Let's not kid each other. It is not going to be done because of any outpouring of sympathy for American industry or the American working man and woman. It is going to be done because I show will, and this committee show will, and we work together, and that is the only thing that we have going for us—that, and President Carter's commitment. Nothing else.

Senator ROTH. I agree. It has to be a two-way street.

Ambassador STRAUSS. For purely selfish reasons it will be done or it will not be done at all, and anyone who tells you anything to the contrary is trying to mislead you. This committee has to stay hitched and I do and the President does, and together we might help this country work out of this trap. We will not do it any other way, Republicans and Democrats alike.

That is the best thing we have going for us.

Senator ROTH. Mr. Chairman, I have more questions, but my time is up.

Senator RIBICOFF. Senator Hathaway?

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

Mr. Ambassador, let me first ask you a couple of questions unrelated to the Japanese agreement. We have some misunderstandings, I believe, in the State of Maine and other potato-producing areas in the country. Has any agreement been reached with respect to reducing tariffs for Canadian potatoes to come into the United States?

Ambassador STRAUSS. No, sir, absolutely not.

We are negotiating on that now, and the stories coming out of the recent trip to Canada—as a matter of fact, you were on that trip—

Senator HATHAWAY. That is true.

Ambassador STRAUSS [continuing].—Were very misleading, were very unclear.

Senator HATHAWAY. I understand that even if any agreements were reached, they would not happen quickly and without consultation, and that they would be reciprocal anyway. In other words, if we reduced our tariffs, Canada would have to reduce theirs.

Ambassador STRAUSS. No question about it, Senator, and what I have said to various Members of the Senate and the House in leadership roles as you are, and concerned about it, we are not going to jump into any agreement and then come back and hand it to you and say, here, Senator Hathaway, vote for this treaty.

Before we do anything and start completing our negotiations in Geneva, we are not only going to be in touch with the members of this committee and with the various other congressional committees that are involved, whether industrial, agricultural, or whatever, but also with our private sector advisers. The same people that you represent back in your home State are working with us every day.

Senator HATHAWAY. All right, thank you.

The second question is in regard to textiles, which many of us have some concern with. I just wondered what the status was of the bilateral agreements that you are trying to work up.

Ambassador STRAUSS. Well, we have made continuing progress in the textile area. We have had, I would say, three-fourths of the people who represent the textile industry come in and see me, come in and express appreciation with what we have been able to accomplish. We have, for example—oh, I think it was last week or the week before last met with members of the textile advisory group, and I think that they were reasonably well satisfied—I say reasonably well. The same thing is true on the labor side. These are not only industry people I met with, but with union officials. The ILGWU has been in town and Chick Chaikin has been very complimentary of what we have done.

Now, they do not have everything that they want, but they know we cannot get them everything that they want, and I think we have been successful.

We have had some negotiations in Taiwan; we just called them off. We were not making any progress and we pulled our man back from there.

The only thing I know to do is if they are not going to move, we will pull back and operate a textile program independently on our own.

So we are taking a reasonably stern line, and I think you would be reasonably satisfied.

Senator HATHAWAY. Thank you.

Now, on the Japanese agreement, you say on page 6 of your testimony that you believe that the magnitude of your current account surplus is totally unacceptable. What do you think is a realistic surplus?

Ambassador STRAUSS. I do not see any reason at all why we cannot go to equilibrium.

Senator HATHAWAY. Well, I think it will take a period of time to accomplish. We pushed them to accomplish it in 2 years. We pushed them very hard. They agreed to do it in 2 years or shortly thereafter, as they have also talked in terms to indicate 3 years.

Ambassador STRAUSS. Senator, to tell you that we were going to accomplish a balanced account in 2 years would be an overstatement, but I think having that for a goal means we will make further progress than if we did not have it for a goal, and if we can get these buying missions to operate properly over here, if we can get that done, we will make bigger strides—not this year. You will not feel the impact this year. But by next year, we will really be making some major strides, and we have some very substantial efforts going forward.

And I would also encourage you to write these business constituents of yours to get in touch with Under Secretary Weil over at the Commerce Department when they write in about these Japanese markets, because there is going to be a specific program in place over there within the next 2 weeks.

It is in place now, but it will be actively moving, hard, within the next 2 weeks, and I think that it will be of help to them.

This Government has been derelict.

Senator HATHAWAY. I do not understand this Joint Trade Facilitation Committee you mentioned on page 10.

Ambassador STRAUSS. Well, we are going to be working very carefully with Japanese trade groups and our own trade groups. We are going to be in joint consultation, and those groups will be meeting together. We have a joint commission going into the wood products area, joint commissions going into the citrus area, joint commissions going into other purchasing areas.

Now, the nuclear group that is coming over here will not be a joint commission.

Senator HATHAWAY. In how many different areas do you have joint commissions?

Ambassador STRAUSS. Well, we have got, right now, I think five.

Senator HATHAWAY. And you expect to have more?

Ambassador STRAUSS. And they will be all moving in February and March, so the lumber task force, for example, is having a seminar here between about 12 or 14 representatives of industry and of Government in the next week or so, and then they go to Japan and go back into the Northwest.

Senator HATHAWAY. Now, on page 15 you mentioned that the Japanese are going to increase their imports of beef. But, will that necessarily give us the advantage? Australia and New Zealand can beat us out—

Ambassador STRAUSS. No, sir, that—

Senator HATHAWAY. In that area, so we are going to get more of the market, but it does not necessarily mean that we are——

Ambassador STRAUSS. Senator Hathaway, that means that we get all of that market, because where they have increased the quota is in hotel grade beef, and we are the sole supplier of hotel grade beef. So they increased their quota in an area where we are able to do business and the others are not.

Senator HATHAWAY. Well, one last question. On page 16, you say "The ultimate value of these consultations depends largely upon what we do to follow through on our efforts."

Are you talking about we, the Congress, or the business community, or what?

Ambassador STRAUSS. I think jointly, Senator Hathaway, and I would say to you and to other members of this committee that I think if a couple of Senators were in Japan every 60 days, it would be the healthiest thing we could do. It is my intention that our people are over there on a lot more regular basis or——

Senator HATHAWAY. I know two I would like to send over there indefinitely.

Ambassador STRAUSS. I know some of them, too, but I am not going to give you any names.

But seriously speaking, it is hard to evaluate, but the statements I read in the paper that Senators Roth and Curtis and Hansen made just before I arrived, a couple of days before, about beef specifically, were of tremendous help to us. Congressman Jimmy Jones, from Oklahoma, happened to be there just a couple of days before I was.

My experience was that those men from the Hill who had been in Japan for the 30 days prior to the time I was there were exceedingly helpful. The very day we were negotiating, Senator Kennedy, for example, happened to be coming back from China. He made a tough speech in Tokyo and it was meaningful.

Mike Mansfield and I were there and had breakfast with him that morning. It helped us in those negotiations, and we used it.

So I cannot overestimate it.

Senator HATHAWAY. You were not talking about any legislative action on the part of Congress?

Ambassador STRAUSS. No; we were not talking about——

Senator HATHAWAY. I mean in the statement, where you say——

Ambassador STRAUSS. Oh, no. I was not talking about legislative action; no. But I think the constant overhanging of what I feel, the pressures I feel, I would like the Japanese to feel, and the Germans to feel, and the European Community generally, everybody to feel some of the pressures from the Congress that I feel.

You know, you are breathing down my neck every day, Senator Hathaway. I would like to turn that red hot breath toward the people we are trading with.

Senator HATHAWAY. You are closer to it.

Ambassador STRAUSS. Thank you, sir.

Senator HATHAWAY. Thank you.

Senator RIBICOFF. Senator Curtis?

Senator CURTIS. Thank you, Mr. Chairman.

Ambassador STRAUSS. I welcome you here this morning, and I hope you will be able to place in perspective certain aspects of our trading relationships, with Japan as well as with the European community.

I think that your statement this morning that what we have gotten so far is promises and, with the exception of a few oranges and a small amount of beef, concessions are zero. I think that that is generally conceded as the facts.

Now, you have been quoted in the press as saying that the agreement reached in Tokyo was a dramatic breakthrough. Yet, if we compare with what Japan offered in December with the agreement in January, there appears to be little substantive change, merely additional symbolic promises.

These promises on the part of the Japanese Government are similar to those made in 1971. The Government at that time offered to liberalize import quotas, remove nontariff barriers, reduce tariffs, provide more in foreign aid, and increase public spending.

When these promises were made, the United States had a \$3.2 billion trade deficit with Japan. It has now reached approximately \$9.5 billion, and it appears to be growing. So much for the promises from our trading partners.

Following the so-called agreement made in Tokyo, we are now hearing that Japan will soon tell the U.S. President why they cannot live up to their January promises. Thus, 1971 seems to be repeating itself.

As you may know, I was with Senator Hansen in Japan. We called on all the Ministers. Some of them said that they could not increase their growth. Some of them said they had no intention of reducing exports to this country and that they had no intention of increasing their imports.

Their agricultural agency advised us that they did not want any increased exports at any time.

The information that we received was that it would be difficult, if not impossible, for the Government of Japan to grow at a rate of 7 percent for the fiscal year beginning April 1. Further, the Japanese have indicated that they do not intend to reduce exports to the United States, nor do they intend to substantially open their markets to our exports.

It appears that the Japanese intend to maintain the status quo, and the agreement between the United States and the Government of Japan is hardly "a major move on a new, enlightened course."

Now, I ask you, what kind of help are you getting out of the State Department in driving for a better deal for Americans in your dealing with Japan?

Ambassador STRAUSS. Senator, let me answer the question—I will start at the end with the State Department and then work back to your statement.

The State Department has been totally cooperative with me since I have been in this job; Richard Cooper and others. We had the head of the Japan desk with us throughout these negotiations, and he was as stern and as firm as you would have been in those negotiations. And I was very proud and pleased at the role they played.

Cy Vance has been fully supportive, and so I have no quarrel with the State Department in any way. I am always quick to criticize, ready to, and I think I have the guts to. I have no criticism of the State Department in that area.

Now, going back to your statement. To begin with, I have reviewed 1971 and further back than that, Senator, trying to do this

job. I would remind you that I was not in this Government in 1971; you fellows were. I have not been here but for 6 months, and I know there have been a lot of mistakes made by the executive, the legislative, and other branches. As long as I have been in this job, I have tried very hard to turn those things around.

Now, I cannot do any more, Senator, than to say to you what I have said today. Yes; I think this was a dramatic statement, and a dramatic change, and to get the Prime Minister, with all of the political problems that he has and his Trade Minister and his Special Minister, Mr. Ushiba, to go before the Diet and say we must make these changes in our trading relationship with the United States of America, for my money, that is a major breakthrough and a major statement, a major change in direction, and I stand on it.

No. 2, as I said, I have not represented it as being anything more than the first chapter in a long book. I have not misrepresented, I have not overrepresented this statement. If anything, I have underrepresented it.

Now, with respect to the fact that they said there would be no agricultural increase, I could not agree with you more. I know what you heard when you traveled around those bureaus, because I heard the same thing. And the statement you made, Senator, that there was no change, or little change between when Ushiba was here 60 days earlier and when I was there, is just factually incorrect, Senator, and you have been given the wrong advice. It is a major change in what he said then and what he says now. Have we implemented any of those changes? No. But it is a major change in course, a major change in public posture.

When governments change public posture, it takes time, and I cannot implement it overnight and you cannot implement it overnight, Senator; that is my point.

Senator CURTIS. All right.

Now, after all of those disappointing calls that we made over there, Senator Hansen and I had a press conference. We announced that this was totally unacceptable on the beef, to go to 2,000 or 3,000 tons. We, among other things, reminded them that we had ample capacity in this country to produce all of our own automobiles and all of our own steel.

I think that most people who know the facts and were there and investigated them afterward concede that the efforts of the representatives of this committee, Senator Hansen and myself, were the primary movers in getting that up to 10,000 tons, because it was not in the picture before.

Now, here is the kind of help—

Ambassador STRAUSS. Senator, I am certainly glad to give you credit for it, because something did it, and I said that the members of this committee have been of tremendous help, and if I have understated the amount of help you gave, I want to correct the record.

Senator RIBICOFF. If the Senator will yield, it is unfortunate that the two members who did so much for their constituents are not running for reelection.

Senator CURTIS. Well, we might have an interest in a little agriculture.

Ambassador STRAUSS. It may not be unfortunate for Democrats that are running though, Senator.

Senator CURTIS. Now, here is the support that we get out of the State Department. After our press conference, a cable went to the State Department, and I quote:

Embassy fears such statement create the aura of confrontation and U.S. dictation which will remove any chance of getting substantial improvements of Japanese agricultural offers. These are the personal views of Senators and we believe that the government of Japan will recognize them as such.

Ambassador STRAUSS. Senator, that is what makes it tough. Let me say this to you, sir. You know, and I know, that that statement was not made by a former distinguished colleague of yours who is in charge of that Embassy. It was not the position of Mike Mansfield, who was of tremendous help when I was over there.

Senator CURTIS. Well, they were professionals in the State Department.

Ambassador STRAUSS. But he has some clerk issue something, and there is not a darned thing he can do to protect himself from it, and that is exactly what happens. Hell, I cannot do anything about that either.

There is one more point that I want to make, Senator, about 1971. Now, when I paused, you came on—but the differences between 1971 and now is the point I tried to make to you. In 1971, there was not the concern in this committee and on the Hill that there is today. There wasn't the firmness and the joint bipartisan support from the people who were trying to represent this Government in 1971 that I have, and there was not the aura of protectionism that is floating around, overhanging the Japanese in 1971.

Those are advantages that I have had in negotiating that others have not had.

Senator CURTIS. Well, with these things happening in the State Department, absolutely attempting to pull the rug out from everybody that wants to help out American agriculture and industry, and with the attitude of the agreement with only promises and cosmetic concessions, we cannot possibly hope for much in Geneva. And I think that it might be effective, should you give thought to fulfilling your promise, to just walk away from the table if they will not give us anything.

Ambassador STRAUSS. Senator, I have said publicly and privately, publicly stated it and restated it, stated it yesterday in the press club, that if we did not negotiate a series of agreements in Geneva that were fair and just and equitable and would fully protect the interests of this country, it will never be looked at by the Senate; I will leave it in Geneva and come home.

I have said that before and I say it now. With respect to the agricultural interests that you have, I met with Senator Talmadge last week, said the same thing to him. We have some deep concerns in there. It is going to be difficult, not only to achieve the industrial progress we want to make but, in the field of agriculture, getting the Community's market opened as well as the Japanese.

It is going to be very difficult. We will not achieve all of our goals and we will have to sit down with those of you who are interested in that area and say, where is our choking point? How far can we go? What will be an acceptable level of progress.

And I well understand, Senator, the role of the Congress in the trade job. I am not unsensitive to it.

Senator CURTIS. Well, this committee with the concurrence of the House created the Office of Special Trade Representative for the primary purpose of taking it out of the State Department. And I think that you, as the Ambassador, should let the State Department know that they are not involved in these negotiations and to stay out of it.

Ambassador STRAUSS. Senator, I think if you will check the State Department, you will find that lack of sternness on my part in saying that I ran my business and nobody gets in the way is not one of my weaknesses. I have a lot of them, but that does not happen to be one of them.

Senator CURTIS. Well, I—and I certainly want the record to indicate no criticism whatever of our fine Ambassador, Mike Mansfield. It is the pros in the State Department who still want to run it, and still do not know how, and never did anything to help our trade.

We read in the papers and hear over the news about your assignment is political in nature in the White House. Is that division of activity creating any conflict in your responsibility of riding herd on every department of government and driving through on these trade agreements?

Ambassador STRAUSS. Senator, when the time comes that I cannot fulfill the responsibilities I swore to fulfill, you will not have to send for me, I will come up here and turn this job into you, I will assure you that. As long as I am the Special Trade Representative for this Government, I will be its Special Trade Representative. That you can be sure of. I may not be doing it well, but I will be doing it.

Senator CURTIS. Well, I still think that a single responsibility of driving through good trade agreements does not mix too well with too many overall political assignments for a sitting administration.

Ambassador STRAUSS. Senator, I think one of the strengths that I bring to the job is the fact that my political activities have given me many warm friendships on both sides of the aisle on this Hill and the ability to call on that reservoir of strength, whether it is with you or whether it is with someone else, has been a tremendous asset.

Senator CURTIS. I am not questioning your past political experience. I agree with you on that. I think it is a good thing, but I do raise the question about your current assignment.

Ambassador STRAUSS. Senator, let me just conclude on the State Department question with one point. I would be derelict if I did not say this.

There are many criticisms that one can level at every branch of this Government, and I have plenty of them in my little book to level at the various branches of this Government; we all do. But I would be derelict if I did not say to you, insofar as my discharging responsibilities of my office, the State Department has been, at the upper levels, fully cooperative. They have not interfered, and they have not tried to make policies in my area.

If they did, the President would not tolerate it, nor would I, at a lower level. That there are criticisms, I will not quarrel with you about, but in the policy area, I cannot be critical.

Senator CURTIS. Mr. Chairman, I ask at this time, and then I will yield the floor, to include in the record the press release issued by Senator Hansen and myself in Tokyo; also, the news article by Evans

and Novak which carries the copy of the State Department's cable; and also an editorial entitled "The Unhelpful State Department," from the Wyoming State Tribune at Cheyenne, Wyo.

Senator Ribicoff. Without objection.
[The materials to be furnished follow:]

For immediate release.
Tokyo, Japan.

JANUARY 6, 1978

FOLLOWING IS THE TEXT OF A STATEMENT MADE TODAY BY SENATORS CARL CURTIS (R., NEBR.) AND CLIFFORD HANSEN (R., WYO.), MEMBERS OF THE UNITED STATES SENATE COMMITTEE ON FINANCE

It was recently reported that 80 percent of all Americans believe American jobs and industries must be protected by raising import barriers. Therefore, the necessity of dramatically increasing Japanese import quotas and reducing tariff and non-tariff barriers is urgent and obvious.

We are not the trade negotiators. We came to Japan to present the case for American agriculture for a greater share of the Japanese market. The figures mentioned yesterday in the press as to proposed increases in beef and citrus exports to Japan are totally unacceptable to us and should never be accepted as satisfactory by Ambassador Strauss.

At the present time, the United States is the best customer of Japan. The trade balance amounts to about 10 billion dollars in favor of Japan. Yet only about 11 percent of Japan's beef purchases are made from the United States. The Government of Japan should take all positive steps necessary relating to tariffs, quotas, price mechanisms and other means to give the United States a substantial share of Japan's beef market.

The annual per capita consumption of beef in Japan is about 7 lbs. as compared to the United States per capita consumption of beef of about 130 lbs. If the United States is given free access to the market, and if the price of beef is made more affordable to the consumers, then the per capita consumption will increase several fold. This will substantially benefit the Japanese beef producers and Japanese consumers alike.

As ranking members of the Senate Finance Committee, we reject as totally unacceptable stories that a modest increase in beef, orange, and orange juice imports is agreeable to the United States. If the United States is to continue to be Japan's best customer for their products we should have free access to their market for agricultural products.

The projected \$10 billion trade surplus of Japan with the U.S. clearly demonstrates the unfairness of present Japanese trade policies. We are of the opinion that unless much greater concessions are made on the part of Japan, the United States Congress will respond to the public demand for greater protection from foreign imports.

The American people will not stand still as U.S. jobs evaporate. There is existing authority which would allow restrictions against excessive imports. For example, Section 122 of the Trade Act of 1974 provides for certain import restrictions to reduce balance of payments deficits.

In our opinion, the Congress will not be able to resist pressures for the implementation of such trade restrictions unless the Japanese response results in a change of the present unacceptable situation.

{From Wyoming State Tribune, Cheyenne, Wyo., Jan. 24, 1978}

CLIFF GAVE EMBASSY SHIVERS

(By Roland Evans and Robert Novak)

WASHINGTON.—While trade negotiators Robert Strauss was talking Japan into admitting more American beef imports, the U.S. embassy in Tokyo was privately bemoaning pressure put on the Japanese by U.S. Senators.

The pattern of hand-wringing by U.S. diplomats whenever a squeeze is applied to a foreign government is clearly evident in a confidential Jan. 7 telegram from the Tokyo embassy to the State Department. To the men around Strauss, this typifies what they have had to put up with in negotiations.

At issue was Japan's present 1,000-ton annual limit on U.S. beef imports. When Strauss proposed a 10,000-ton quota, the Japanese government came back with a 3,000-ton counter offer viewed as unsatisfactory by any standard. Visiting in Japan, two Republic Senators from beef-producing states, Clifford Hensen of Wyoming and Carl Curtis of Nebraska told a Tokyo press conference January 6 that the Japanese response was "totally unacceptable" and "should never be accepted by Strauss."

That produced shivers of fright at the American embassy. On January 7, a telegram signed by William C. Sherman, No. 2 man in the embassy, declared: "Embassy fears such statements create the air of confrontation and U.S. dictation which will remove any chance of our getting substantial improvement in Japanese agricultural offers. These are personal views of Senators and we believe GOJ (Government of Japan) recognizes them as such."

Whatever the Japanese recognize the Senators clearly did not "remove any chance" of a better deal. Arriving in Japan January 11, Strauss negotiated a 10,000-ton worldwide quota on high grade beef imports. Argentina may send a few steaks to Japan, but nearly all of this higher quota will be killed by U.S. cattlemen.

UNHELPFUL STATE DEPARTMENT

For years there has been a lingering suspicion in this country that the U.S. State Department better serves the interests of other countries than it does those of this one. But such mutterings have been dismissed as the fantasies of rightwing radicals.

Yet the Evans and Novak column in the adjacent column of this issue about the experiences of Senator Hansen and his Republican colleague from Nebraska, Sen. Carl Curtis, in their recent trip to Japan to attempt to increase U.S. beef exports to that country, would seem to bear out the allegations that have been made by some of our diplomats abroad.

Hansen and Curtis journeyed to Tokyo as members of the Senate Finance Committee's Subcommittee on International Trade to see what could be done about increasing the shockingly low 1,000 tons per year limit the Japanese had placed on beef imports.

As we have reported earlier, the Japanese in earlier negotiations had consented to an increase to 3,000 tons which was as nothing. In the Hansen-Curtis talks, however, the two senators as related by the Evans and Novak column and which the Wyoming Senator has privately told about to friends in Wyoming after his return, discovered that they were being undercut by the U.S. embassy in Tokyo whose trade counselors apparently were more interested in representing the Japanese than American interests. Of course, the Japanese resisted the increase in beef imports; as we have pointed out before, they are being pressured by their domestic beef producers who want to keep out any foreign competition.

All this at the same time, however, that American steel and electronics manufacturers, among just a few of our own producers, are clamoring for trade barriers to halt the massive influx of Japanese manufactured goods such as processed steel and cars, television and radio sets, tape recorders and a vast array of other things that flood this country and compete with our own manufacturers tremendously.

Ultimately, our U.S. trade negotiator, Robert Strauss, came up with an agreement with the Japanese to raise the beef import limits for all countries to 10,000 tons of dressed beef, which is not very much considering what the Japanese send our way. But it is something. But we wouldn't have had even that had it been left to our diplomatic staff at the embassy in Tokyo.

[Telegram]

DEPARTMENT OF STATE,
Tokyo, January 1978.

From: American Embassy, Tokyo.

To: Secretary of State, Washington, D.C.

Subject: Senators criticize Japanese agricultural offers.

1. Senators Curtis and Hansen at press conference Jan. 6 stressed that if press reports on quantities of beef and citrus to be offered United States were correct, quantities were "totally unacceptable" to them and "should never be accepted as satisfactory by Ambassador Strauss."
2. Senators criticized low percentage of United States in Japan's beef imports as well as low per capita consumption due to high prices.

3. Embassy fears such statements create the air of confrontation and U.S. dictation which will remove any chance of our getting substantial improvement in Japanese agricultural offers. These are personal views of Senators and we believe Government of Japan recognizes them as such.

WILLIAM C. SHERMAN.

JAPAN MAY FALTER ON TRADE VOWS—FUKUDA PLANNING TO GIVE CARTER AN EXPLANATION

(By A. E. Cullison)

TOKYO.—Prime Minister Takeo Fukuda, who hopes to travel to Washington before summer, plans to use the opportunity to try to explain to President Jimmy Carter that Japan may find it extremely difficult to meet most of the promises his administration made last week to Special Trade Representative Robert Strauss in Tokyo.

The Japanese prime minister, it was learned, intends to emphasize that although his government pledged to attain an inflation-adjusted 7 percent economic growth in fiscal 1978 (a term that begins on April 1), it may prove impossible to attain.

Japan promised during week-long negotiations that it would attempt to reach the 7-percent figure by stimulating internal demand and not by relying as heavily as it has in the past on exports.

But most private economists in Japan are insisting that such an expansion rate is impossible, the majority seem to feel that the Fukuda administration would be lucky to rack up an economic growth rate in fiscal 1978 of 4 or at most 5 percent in real terms.

Even a few of the Japanese government's own economists tend to agree that Tokyo may not find it possible to reduce the nation's current-account international payments surplus next fiscal year from the present estimated \$11.2 billion to something like \$6 billion. This was another of the Japanese promises to Ambassador Strauss.

Knowing full well that resumption of the congressional session later this month could see between 20 and 30 protectionist bills tabled by returning congressmen and senators, Mr. Fukuda would like President Carter to invite him to Washington by late April or early May.

It was learned by The Journal of Commerce, for example, that the Japanese prime minister is extremely worried that unless he explains his government's difficulties early in the year, later apparent failures to comply fully with Japan's promises could be considered a form of renegeing.

Certainly few Japanese now think it likely that Japan's current account surplus will completely disappear and become a deficit by fiscal 1979, as is broadly hinted in the agreement.

On the other hand, Mr. Fukuda would like to point out to President Carter that his administration does feel it will be able to follow the agreement to the extent of opening Japan's markets to more American and other foreign farm and manufactured goods by a series of unilateral tariff cuts, expanded import quotas and other measures to facilitate trade.

But the Japanese prime minister wants to personally emphasize to Mr. Carter that these broad commitments are not very likely to greatly reduce Japan's massive trade surplus—now estimated at around \$8 to \$9 billion with the United States and at a total of approximately \$18 to \$19 billion with all its trading partners.

Mr. Fukuda, however, does not plan to travel to Washington for this meeting with President Carter with empty hands. He hopes to arrive in the American capital following an official announcement from Tokyo that Japan intends to import 25 commercial jetliners worth an estimated total of \$729.2 million.

The orders, to be placed over the next 14 months, probably will include five large jet transports worth \$333.3 million for Japan Air Lines. These would consist of four Boeing 747 long-range jets (one a freighter) and a DC-10.

JAL ORDERS

JAL, which has two DC-10s on order from McDonnell Douglas, also will take delivery of the seven widebody jetliners during fiscal 1978.

TDA domestic airlines, in addition, plans to purchase three DC-9 jets by the end of March and two others in the April-September period of this year. TDA's orders are believed to be valued at \$75 million.

All Nippon Airways is to import nine U.S.-made jetliners valued at approximately \$291.6 million. These include two Boeing 727-200s, three Boeing 747 short-range jets and three L-1011 Tristars.

In addition, Southwest Air Lines (SWAL), a subsidiary of JAL operating in the Okinawa region, plans to take delivery in the near future of two Boeing 737 jetliners.

EXPECTS GOOD RESULTS

Prime Minister Fukuda evidently believes that this big and dramatic procurement program, though admittedly a one-time arrangement, will work wonders in taking some of the sting out of the protectionist threat in the U.S. Congress and provide more time for Japan to make delivery on at least some of its promises to Mr. Strauss.

He will tell President Carter, for instance, that Japan is at least showing its willingness to do its best to reverse the country's gigantic surpluses and move toward something of an equilibrium.

He is counting on none of the cynics in Washington reminding the U.S. chief executive that the commercial jet purchases were in the works long before the office of the President's special trade representative began its negotiations on cutting back the surplus.

But if the U.S. president is not satisfied with these moves, it is expected that Prime Minister Fukuda will speak of his intentions to redouble his reflationary package if necessary and possibly to adopt emergency measures to expand imports drastically to narrow the burgeoning trade gap before the end of this year if his administration's promises appear to be falling by the wayside.

JAPAN'S TRADE POLICY IS SELF-PROTECTIVE

(By Andrew H. Malcolm)

Tokyo.—Richard Cooper, the United States Undersecretary of State for Economic Affairs, came to Japan to try to convince Japanese leaders to open their country more to foreign traders. At a Cooper news conference on the two nations' growing trade troubles, a reporter expounded on one Japanese position, and then asked critically what the United States was doing to match that particular effort.

The question didn't startle Mr. Cooper, but the phrasing did. It was a verbatim repetition of a Japanese official's statement and question just moments before in closed-door negotiations. "You seem very well informed," Mr. Cooper remarked.

The reporter was Japanese, a member of a "nation club" whose strong social unity explains much of the nation's success—and now, the growing trade troubles with other countries that led to the preparation last week of what the Japanese consider a trade liberalization package. In a world in which wars, emigration and immigration, education, and modern communication and transportation have mixed nationalities, traditions and customs, conservative Japan is still a country apart. It maintains its group-conscious individuality. The language has a revealing verb: "chigau." It is used to mean "to be wrong." Literally, it means "to be different."

Japan's social and cultural homogeneity is derived from the centuries of enforced feudal isolation that ended little more than a century ago. Immigration into the country is still not permitted. No matter what their nationality, foreigners here are called "gaijin," or "outside people." In the 32 years since the destruction of Japanese cities and industry in World War II, that same cohesiveness has enabled a nation of 113 million, with no conventional natural resources and less space than United States Ambassador Mike Mansfield's home state of Montana, to forge the third most powerful economy in the world. By the 1960's, annual growth rates of 10 percent or more were taken for granted.

Japan's success in global competition was due in part to Government direction and investment-loan assistance to help turn its factories from guns to exports, in part to its easy access to cheap maritime transportation and, in large part, to its energetic and conscientious labor force. In the country's paternalistic corporations workmen such as Takashi Kinuta, a Honda automobile assembly line worker, "naturally" checks the windshields on Hondas he sees on the street to make sure the installation was right.

Workers' wages are low. (In the steel industry, for instance, \$6.31 an hour last year, including benefits, compared with \$12.22 in the United States.) But Mr. Kinuta and workers like him are guaranteed lifetime employment. That means security. For the employer, it also means no layoffs, and difficulties in costcutting.

And that helps explain why at times an export price, even one below cost (so-called dumping) is acceptable.

Japanese productivity is high. Labor-saving technology, plus diligence, enable Japanese steelworkers to produce 9.35 metric tons of finished steel per 100 man-hours, compared to 8.13 in the United States. There are, however, no comparable figures for the output of Japan's politicians, an aging band of shifting factions dominated since 1955 by the Liberal Democratic Party (which is actually quite conservative).

The party now holds only a thin parliamentary majority. But the narrow margin matters less than it would in other countries with similar political systems. Japan's establishment of politicians and businessmen and bankers is closely linked through the conservatism, the elite university background (the most prestigious is Tokyo University) and most important, by the fact that they are Japanese. It produces a kind of national team spirit that causes Japanese reporters covering, for instance, the current United States-Japan trade negotiations to refer instinctively to the United States on the one hand and to "wanakuni," an evocative Japanese word that means "our country" on the other.

In Japan, decisions, whether governmental or corporate, are reached from the bottom up, a process of consensus-building that is lengthy but insures an unusual unanimity and efficient execution of a program. Thus, the impact of the November 28 cabinet reshuffle by Prime Minister Takeo Fukuda was solely psychological; it never touched the vast bureaucracy that makes the real decisions. It was also designed to readjust power alignments in the liberal party. The ruling party's traditional base is in the declining rural areas and agricultural interests that lead the domestic struggle against liberalization of foreign trade, and the farmers' continued influence is reflected in the token agricultural concessions that Nobuhiko Ushiba, the new trade envoy, carries to Washington this weekend.

International criticism of Japan's instinctive insularity and trade policies has grown sharply. Recently, Robert Muldoon, New Zealand's Prime Minister, said it was time the Japanese were "dragged kicking and screaming" into the international community. As he put it: "They have finally got to stop being so Japanese and become international citizens."

Many Japanese regard such remarks as those of poor losers—or possibly racists—in less competitive, less organized countries. But strong criticism from abroad, especially from the United States, provides Japanese reformers with a reason and impetus for change. A handful of internationally-minded, self-confident and younger businessmen and politicians is slowly becoming more prominent in the island nation's hierarchical society. Privately, they believe Japan must better accommodate itself to an increasingly interdependent economic world. These men seem less concerned with the taint of "bata-kusai," the sour butter smell which Japanese generally associate with foreigners and Japanese too heavily influenced by foreign ways, and they are optimistic. But people with long experience here believe the Japanese will continue to deal with each crisis only under pressure, and only on an ad hoc basis, by offering, in what is a common expression here, "cosmetic concessions."

Senator RIBICOFF. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Ambassador Strauss, I think this has been a very worthwhile and productive morning and I would welcome an opportunity to reciprocate with my good friend, the chairman of this subcommittee, by saying that we have talked about beef and we have talked about citrus; I am going to talk about something that I know will be of interest to the distinguished senior Senator from Connecticut, nuclear power.

I would observe that I am told that the number of man hours necessary to construct just one nuclear powerplant entails the full-time efforts of 30,000 man-years of work. No one need remind my good friend, Senator Ribicoff, that GE is a pretty important employer in the great State of Connecticut.

I do have some questions that I would like to ask you about that, because, on page 16 of your statement, you state that the ultimate

value of these consultations depends largely upon what we do to follow through on our efforts. I agree with that, and I note that on page 14 you say also the Japanese Government has announced its intention to form a number of joint industry groups to explore the possible purchase of citrus products, forest products, and then I underline nuclear powerplant and equipment and to increase imports of beef.

The January 13, joint U.S.-Japan communique included as a specific Japanese trade measure the following item: "Dispatch to the United States a mission to explore the possibility of purchasing electric powerplant machinery and equipment, including nuclear powerplant components and equipment."

The Washington Post reported that the Japanese had specifically requested the addition of the nuclear plant reference. Could you comment on the circumstances surrounding the addition of this item? Is it, in fact, representative of a high-level of interest in our nuclear exports?

Ambassador STRAUSS. That came out of some very private conversations that Mr. Ushiba and I had in the early stages of our conversations when he was here. You will recall also that I mentioned it to a number of you who discussed it a little further with him. We formalized it over there and I think it is going to lead to substantial purchases of nuclear powerplant components in this country.

As I said, there are those who think this is a program that this country should not be fostering, but my view is a very simple one: If those things are going to be bought, they might as well be bought here instead of being bought in Germany and built in Japan.

It is something they can purchase from us, something they want to purchase from us, something that will help them bring their account surplus in balance.

Senator HANSEN. I could not agree with you more.

Ambassador STRAUSS. We have already been informed of a 20-member team that will be over here: I think sometime in March.

Senator HANSEN. I appreciate the President's philosophical desire to do everything he can to make improbable the development of nuclear weapons by countries that are not now making them, but it seems to me as though in this respect he is expressing concern over a train that has already left the station.

As you say, if Japan does not buy these plants from us, why, they will be buying them someplace else.

And if we are concerned, as I know you are, and as I think all Members of the Senate are, it seems as though this is an ideal place to try to address and rectify that imbalance in trade.

Ambassador STRAUSS. I do not want to be held to this figure, Senator Hansen, but I think we are talking about a \$2 billion of potential purchases here, and that is a lot.

Senator HANSEN. Well, I was told that one plant is \$1 billion, but with the rapidly escalating rate of inflation, you could be right today. My figures are a week or two old.

As you may know, the Senate will be considering shortly legislation which places a series of new regulatory controls and requirements on U.S. nuclear exports. Would it be your view, in light of these specific Japanese interests as well as that of other trading partners that the

legislation should provide predictable and workable export licensing regimes?

Ambassador STRAUSS. I would like to see that type of legislation proposed, but I would like to have a little more time before I furnish a specific answer.

Senator HANSEN. Further, what would be the impact on our trade relations and this agreement if the new export licensing regulations creates a de facto moratorium on nuclear exports, either generally or specifically to Japan?

Ambassador STRAUSS. Well, it is obvious, Senator Hansen, that if we were to create impediments to the sale of nuclear plant components, it would have an adverse impact on our ability to sell those components, and thereby reduce the trade account.

Senator HANSEN. The Council on Environmental Quality has distributed draft guidelines to executive agencies which would require environmental impact statements for U.S. international activities in other countries.

I understand the guidelines would require Federal agencies to document and consider foreign impacts, both for direct U.S. Government activities abroad and the licensing of commercial exports and activities abroad. This would place an immediate de facto moratorium on nuclear exports and related Eximbank financing, as well as many other activities.

What is your view, as special trade representative, regarding the advisability of such a new requirement?

Ambassador STRAUSS. Senator Hansen, I have some very serious concerns in this whole area. Now, these proposals are preliminary in nature, as I understand them.

Now, I do not want to be negative or critical, but I would say to you that it is something that I intend to monitor very carefully, something that I expect to be heard on very forcefully, and I am very concerned that nothing be done—I have very strong reservations about anything being done that would, in any way, impede our ability to do business outside of the United States with respect to products that are manufactured in this country.

We will be, as I said, monitoring closely any proposals that are made, and we will be presenting our position on them. That is about all I have to say on that now.

We do not need any unnecessary barriers to trade. We are having a tough enough time right now with what we have been experiencing overseas.

Senator HANSEN. If we finally are drowned under a blizzard, it will not be snow, it will be paper. I might note parenthetically, some 212 environmental impact statements are going to be required by the Department of the Interior before approval can be given for grazing permits in Wyoming. And the amount of time, the number of people who must have their full-time efforts committed to the preparation of those impact statements, and the amount of money that will go into them is unbelievable.

And that is just within this country. But it seems to me that putting environmental impact statements as a prerequisite to the export of materials to manufacture machinery in this country raises issues that I think are of serious foreign policy concern, and the question of sover-

eignty in foreign countries, longtime delays, litigation, and all of that sort of thing.

In a word, I do not think we have any business, any business, getting into that kind of an operation.

Ambassador STRAUSS. I thank you for that statement, sir.

Senator HANSEN. The Japanese are anxious to proceed with their own domestic nuclear power program using imported U.S. fuels and equipment. That will require a new, negotiated U.S. agreement in September 1979 for U.S. approval of some of the intended uses.

What would be the impact on our trade relations if the pending legislation—that is, S. 897—by statute, would prohibit unilaterally Japanese intentions and thus deny U.S. officials of any flexibility of the 1979 renegotiations?

Ambassador STRAUSS. I am not as familiar with that legislation as I probably should be. Senator, I think your question speaks for itself, it almost answers itself. I am not familiar with the legislation.

Senator HANSEN. It might be that—you might have someone on your staff examine this particular legislation with particular reference to that; it would be helpful.

Ambassador STRAUSS. I assure you that it will be done.

Senator HANSEN. Well, I appreciate your responses, Mr. Ambassador. It seems to me as though we are headed in the wrong direction with the tack we have taken in this whole nuclear field, and I would hope very much that we can turn that around so as to permit GE and the State of Connecticut to share with the few crumbs that we are going to get from the Japanese purchase of more beef, Senator Ribicoff.

Senator RIBICOFF. May I respond?

As a Senator from the State of Connecticut, if I think a Connecticut manufacturer or citizen is wrong I do not hesitate to tell them so. I am for selling nuclear plants to Japan or any other country, but I am not for selling them reprocessing plants to make weapon-grade plutonium to blow the world up in a nuclear conflagration.

I think the President of the United States has taken the lead and the nuclear suppliers are now following that lead. I do not think the Japanese, with their sensitivity to Hiroshima, are interested in going into the problems of nuclear holocaust. If there is one nation that does not want nuclear holocaust, it is the Japanese.

And I am against GE from the State of Connecticut, or any other State, selling any country in the world nuclear plants with reprocessing capability to make weapon-grade plutonium.

Your answer was proper, Mr. Strauss, because that is coming up in the Senate, either on Thursday or Friday, and it carries on the program that has been enunciated by the President of the United States and my feeling is that the Soviet Union and Germany and England and France will go along with that policy, so it will be international.

So now we can sell nuclear plants to Japan or any other country without the reprocessing of weapons-grade plutonium.

Senator HANSEN. Well, Mr. Chairman, if I could, I did not mean to leave the impression that the Japanese are interested in buying reprocessing plants. Insofar as I know, they are not at all, and what I said by way of the crumbs for beef was just intended, in a very

good natured way—as you must know, I am a great admirer of yours and I did not mean at all, in any way, to have you think that I was saying anything that you might take umbrage at. I just wanted to make that clear.

Senator RIBICOFF. No, but I think it becomes very important because this is a big field, and it is a policy that goes to the heart of universal survival, and I think that there is an understanding about this that peoples of the world—now, I think that those who are against the reprocessing of weapon-grade plutonium are not necessarily against the question of building nuclear plants or nuclear power. I am for the building of nuclear plants; I think the worlds needs it—Japan, the United States, and the whole world.

But I think that we have to keep in mind what the problems are, and I do not think that the restrictions on the reprocessing of plutonium in any way would affect the Japanese buying a DE or Westinghouse or Babcock & Wilcox or Combustion Engineering product.

I would like to shift, for a few minutes——

Senator CURTIS. Mr. Chairman?

Senator RIBICOFF. Yes, sir.

Senator CURTIS. I have to leave. Could I propound a unanimous-consent request?

Senator RIBICOFF. Without objection.

Senator CURTIS. Thank you very much.

Senator DANFORTH has five questions that he has prepared and he would like to submit them and have them answered for the record.

Senator RIBICOFF. Without objection.

Senator CURTIS. I thank my distinguished chairman.

[The material to be furnished follows:]

Senator DANFORTH. It would appear that the Trade Facilitation Committee has real potential for improving our trade relationships with Japan. I am concerned about the problem of informing U.S. corporations of its existence. Has there been or will there be a substantial effort to publicize to our nation's businesses, especially smaller and middle-sized firms, that the Trade Facilitation Committee exists to help them with any problem they might incur in trying to export to Japan?

Mr. STRAUSS. The Department of Commerce has an extensive program underway to inform all sectors of the U.S. business community about the Committee.

The January 30 edition of Commerce America, a bi-weekly magazine distributed by the Department, carries a message explaining what the program is and who the proper authorities are to notify if exporters are having any difficulty shipping to Japan.

In addition, the Department of Commerce this month will begin distributing to 8,000 businessmen and organizations across the country a bi-weekly newsletter entitled Sell to Japan Campaign. It will include information on trade promotion events, other U.S.-Japan business news, plus the progress the Trade Facilitation Committee has made, including the various cases the Committee has resolved. The first issue will reproduce the joint Strauss/Ushiba communique so that the public will be aware of the overall program and its background.

The Department of Commerce has already begun working on, and solving, complaint cases that have been submitted under the auspices of the Trade Facilitation Committee.

Senator DANFORTH. Due to the widespread nature of alleged dumping practices, and the inference that can be drawn about government involvement, it would seem that discussion of dumping practices by Japanese firms would have been an appropriate topic for discussion in your bilateral talks. Was the dumping problem discussed, or did you feel that the only way it should be addressed is through our domestic laws? If the problem was discussed, what was the outcome?

Mr. STRAUSS. Dumping was not discussed specifically in our talks, because of the discussions between Treasury officials and the Japanese on this matter. I understand the Japanese were quite helpful in providing the Treasury with information with respect to their production costs, which our Treasury people used in arriving at our trigger-price system.

Senator DANFORTH. What, if any, commitments, promises or predictions did the Japanese make about reductions in our bilateral trade deficit with them this year? What are your views on the likely bottom line trade figure this year and in 1979?

Mr. STRAUSS. The Japanese made no explicit commitments to reduce the bilateral imbalance to a specific figure. They indicated that the effect of their fiscal stimulus program in FY 1978 (March 31, 1978 to April 1, 1979) and of yen appreciation will be to reduce substantially their current account surplus. The current account surplus should begin to be reduced in the fourth quarter of 1978. However, for 1978 as a whole, Japan's current account surplus is not likely to be reduced much from the about \$10 billion surplus recorded in 1977. In 1979, if the Japanese fiscal program is successful and the yen appreciation is maintained, Japan's current surplus should be reduced to about \$3 billion.

Again, on a bilateral basis, this should mean a slight reduction in 1978, a small surplus in 1979, with a balance which should eliminate serious trade frictions between our two countries by 1980. But, as I have said, this depends on the whole program working, including a better export performance on our part.

Senator DANFORTH. I understand that you have set an informal July 15 deadline for completion of the basic agreements in Geneva. Is this true? Why this particular date? Does it indicate that you intend to seek Congressional action this year? If not, what is your legislative timetable for the Geneva agreement?

Mr. STRAUSS. Well, I can't unilaterally set deadlines, Senator. I have talked to our trading partners about the need to reach political-level agreement on a Tokyo Round "package" as soon as possible, and I said I thought this could be by middle or late July. Several of my counterparts have more or less gone along with that as a target.

The reason is that when you account for most of the other negotiating teams being off duty from the end of July until after Labor Day, the next possible target would have been fall. Then you probably wouldn't see the final results until sometime next year, and we need to move faster than that.

We'll need some time after the last tough political judgments are made in the capitals and Geneva to go through the package with our private sector and Congressional advisors. The law itself requires that we give Congress 90-days' notice before entering into any non-tariff-measure agreement.

Congress's own schedule is not certain. A lot depends on how long the Canal treaties and the energy and tax bills take, and whether Congress comes back after the election. But I don't see how we could have a final agreement through both houses before November.

Senator DANFORTH. I am quite concerned about reports that discussions of the new countervailing duty/subsidies code are lagging. Do you foresee the possibility of having to forego thorough discussion of this or any other major item at Geneva?

Mr. STRAUSS. Senator, I share your concern. I know, I have said, that arriving at an agreement in the subsidies/countervailing duty area will be one of the most difficult tasks we face in the negotiations. We made a start at moving toward an agreement in this area last December when we and our negotiating partners set out some guidelines for ourselves to point us in the right direction. We will have high-level discussions on this issue over the next several weeks with the EC and others. I think everyone realizes that failure to reach an agreement in this area of the negotiations could have serious consequences for our trading relations.

As for foregoing it, I think that might well scuttle the whole negotiating package. I can't see bringing any set of agreements back up here on the Hill without a substantial element or elements in it which would give us a better international discipline over export subsidization.

Senator RUBINOFF. I would like to shift to the MTN. I think we have been on the Japanese situation long enough.

As I understand, the United States has offered to apply a tariff reduction to U.S. imports worth about \$45 billion, with the understanding that other nations would give an equivalent reduction. The overall average cut in U.S. tariffs would be approximately 40 percent.

Are you in a position to state as to what industries, or what items, would be affected by the tariff cut?

Ambassador STRAUSS. Senator, I am not, because the truth of the matter is that those offers are not firm offers. Those are offers that are on the table for negotiating purposes, and that 40-percent level is to enable us to have the ability to pull back on some very sensitive areas and still say above whatever level we end up at.

So there is no finality whatsoever in any single thing that is there. I have reserved the right—we have reserved the right, at the end of the day, to take a look at every single thing before we approve any single thing, so nothing is done; it is conversation up to now. These are our offers, but they are not firm offers.

Senator RIBICOFF. Of course, this is the main part of your job, and it is a tough one. And when you are all through, you are going to have to come back to the Congress for approval.

Ambassador STRAUSS. That is correct.

Senator RIBICOFF. And I know that these talks have taken a lot longer than anyone had anticipated—the Tokyo round has been going a long time.

As you see the talks developing on tariff reductions and non-tariff-barrier agreements, what would you anticipate the impact of the end results in these negotiations on the American economy and American jobs? That is the problem we are going to have to face here in the U.S. Senate.

Ambassador STRAUSS. I think it is going to have a very positive impact, and I think it is going to be a very positive signal to the world that we get together and do something. There are specific things that we need very badly, and we are going to have to give up some things that others need if we are going to achieve a balanced negotiation.

For example, this country needs the removal of many nontariff barriers. This country needs a resolution of the whole subsidy question. We need it very badly. It is a tough nut to crack.

Members of this committee will be interested to know that my Deputy Ambassador Wolff has a former employee of this committee's staff, Dick Rivers, to assume the basic responsibility in our office for negotiating subsidies. And he will be assisted in that by Ambassador Wolff and others—Fred Bergsten of the Treasury Department, and others.

But that is an area in which we hope to make some real progress. If we can do something—it is going to be tough, but if we can do something in subsidies and countervails, we really will have helped the American economy.

I think there are going to be safeguards that will come out of the negotiations which give us the ability to protect sensitive industries, so that they will be very meaningful to us.

What I am getting around to saying is that I think that tariff reductions are secondary in terms of importance, when you look at what we can do in the non-tariff-barrier areas. That is the real meat of this negotiation, and I think that we can make some worthwhile progress.

If we can not, we will not do so in other areas.

Senator RIBICOFF. All right, how are you getting along?

Ambassador STRAUSS. Well, we have moved——

Senator RIBICOFF. I mean, on nontariff barriers. Subsidies, as I understand it, has been moving slowly.

Ambassador STRAUSS. In a number of areas, in Government procurement for example, we have done very well. In safeguards we have made some progress.

Where we are behind is, in the area of subsidies—as a matter of fact, in 2 or 3 weeks, and we expect to get to work on that. And what I said to Ambassador McDonald is that we are bringing these things along in parallel. Do not slow down everything else to let subsidies catch up, but let's go all out on subsidies now, and let this catch up with where we are on other issues.

How are we doing in the negotiations over there? Well, Senator Ribicoff, we have met every deadline that we have set. Everyone said that it was impossible to meet them. And we have met deadlines—on Christmas eve, at the last minute, we circulated drafts of a number of controversial issue paper. No one thought it would be possible to get these drafts out for consideration.

Surely, there are a lot of positions to the contrary, held by two or three delegations. But, the Japanese, the EC, ourselves, the Nordics, and others all put offers on the table, realistic offers, in mid-January.

So we may be years late but we have done an awful lot in the last 3 months.

Senator RIBICOFF. Mr. Strauss, I think, to put this in perspective for the people of this Nation, it is true that we had a \$26 billion-plus trade deficit, which is certainly horrendous. But last year we paid \$45 billion for imported oil and that contributed to that \$26 billion deficit. If we did not have that foreign oil bill, we would have had a \$19 billion surplus, which would have a great impact on the value of our dollar and on the economy as a whole. So, as you go around the world, talking to the Japanese, the Germans, the Europeans and in Geneva, what is the impact upon America's economic standing in the world because we do not have an energy policy?

Ambassador STRAUSS. Senator Ribicoff, that is one of the best questions that has been asked today. We never start talking about anything until we consider two things: No. 1, our gluttonous appetite and inability to bring any kind of reasonableness to our energy program, and to develop a comprehensive energy program in this country; and No. 2, the impact that that has on the dollar.

As a matter of fact, if you sit down and talk to officials of a country whose currency has risen 25 percent in value as against our own, and the first thing they say is that we have already given us all the tariff cuts that we need. What are you going to give us now? they ask.

I think that nothing that is before this Nation is as important as the developing of a comprehensive energy program, a meaningful and reasonable and balanced one, as the earliest possible date by this Congress, by the White House.

Senator RIBICOFF. Mr. Strauss, during the course of your testimony you have mentioned the contribution that can be made by members of the Senate's taking an interest. I think that is our obligation. I do not refuse to see any foreign visitor at the request of either the State

Department, the White House, yourself or a foreign embassy to talk about the problems, as I view them, in trade.

Now, all of us—Senator Roth, myself, every member of this committee—we have a lot of work to do, not only in the Finance Committee but in our other committees. But we want to be helpful; we want to make a contribution.

Looking at the timetable, we do not want to waste our time.

What are the target dates that you think are important in Geneva, or in West Germany, or in Japan, that should require our presence abroad?

Ambassador STRAUSS. I think that the presence abroad of representatives of this committee, Senator, in April and May is crucial. The impact, both in this town and in the foreign capitals of the world, the impact of the bipartisan support that the Hill has given my efforts in trade has been the most positive thing that I have had going for me—that and the President's very firm posture that he has taken.

And I think that, in Geneva, April and May are crucial dates for us if we are going to have the political decisions in place during July. We cannot do it without your help.

Japanese trips; I think every time we have an opportunity to encourage a member of the Senate, particularly this Trade Subcommittee, or a Member of the House, particularly of Congressman Vanik's committee, to stop in Tokyo and see those people, is of vital importance, to share with them the political climate in this country.

Senator RIBICOFF. I suggest that your staff try to look at your schedule and determine important dates. I know you cannot, because it is not dependent purely on the United States' position. But as you appreciate, we need as much advance notice as we can get. It is easy if it happens to fall in a recess—and I have been hoping that it would fall in the March recess, but apparently it will not.

Ambassador STRAUSS. That is a little early.

Senator RIBICOFF. I know. Originally, I thought it would. But if you could tell us in advance what a key date or a key few days would be, we would try to be helpful to give you the back up you need, but we would need as much advance notice as we can get so we can consult with the leadership to make sure that our presence on important votes would not be required.

Ambassador STRAUSS. Senator, I will do that, and let me add one more thing, as we are concluding, winding down here.

I have asked Mr. McDonald—he will be back here in a few weeks—I specifically asked that he call on each member of this committee and on its counterpart in the House to discuss with them how vital it is that they be there at various times and try, even if Congress is not recessed, if it is a time when you have a few days, 4 or 5 days where the workload is not quite as heavy, that you get over there and give us some help. We need that help.

Senator RIBICOFF. I have one question here from Senator Talmadge I do believe that you have answered the question, but I should put it for Senator Talmadge who is a member of this subcommittee.

Mr. Ambassador, as you well know, many farmers in Georgia and elsewhere in our country are in desperate straights trying to make ends meet. It seems to me that one of the brightest possibilities for disposing of the surplus of the many agricultural commodities that we have

on hand at a fair price is through increased exports to countries such as Japan.

Historically, Japan and other foreign countries have discouraged imports of our agricultural commodities. What have you done to address this problem, and what future actions do you anticipate that you will take in this regard as this country's Special Trade Representative?

Ambassador STRAUSS. I believe that that question has been rather fully answered; I will be glad to restate it now.

Senator RIBICOFF. I think you have too, but I think that, for purposes of the record and for Senator Talmadge, if you would answer that in full and make sure that Senator Talmadge gets a copy.

Ambassador STRAUSS. In the first place, Mr. Chairman, when I accepted this job, the first thing I did, the first public utterance that I made, was that in the Tokyo Round, agriculture would be moved up on a front burner along with industry and be negotiated in parallel. And I did that because, as I reviewed the history of our trade relations there has been a feeling—and I think justifiably so—that agriculture had believed it was left out, as if industry were the tail wagging the dog, just with agriculture barely included at the last minute. So that was the first thing I did, was set a course to be sure agriculture was included—and I have reemphasized that position from time to time.

Number 2, in all of our negotiations, we have worked very carefully and very closely with the Agriculture Department. Bob Bergland has been, several times, to Geneva and to Brussels with me, talking with Finn Gundelach, who is Commissioner of the EC.

Finally, we have gone over in some detail the negotiations in Japan and—that had strong emphasis on agricultural aspects.

So what we have done in our Japanese negotiations with respect to the European Community, we have made it very clear to the EC that we must have increased market access of our agricultural products.

As you well know, we import dairy products, we import lower grade beefs and other things, but in other products, we have got to dramatically increase our exports and we have told them so.

Next month, we go into the negotiation of an international wheat agreement. I think these talks start in February and go through March.

Secretary Bergland and I met this past week with our staffs and we have a pretty clear understanding of where we are going there.

Senator RIBICOFF. Senator Roth?

Senator ROTH. Mr. Ambassador, I would just like to comment on this area of agriculture, perhaps not so much to you, but as to the Japanese generally, because this is an area, where I, for one, am not satisfied with their answer to our trade negotiators.

I recognize that it presents some very difficult political problems for them. The rural community is a major part of the constituency of their government. I also recognize, and agree with them, that they cannot become completely dependent upon foreign producers of food.

But the fact remains that America could provide the Japanese consumer with food, I am told, at about 25 percent of what they actually pay.

So if there is ever an area where if both parties really believe in liberalized trade policies helping the average citizen, this is one of them.

I think that they have to take a hard look and begin moving in an area of increased exports in this area from the United States, because it is one of the things that we produce more efficiently and at a lower price, and I think that we can be a reliable supplier, despite some of the problems in the past.

I just might make one other comment—I think this is an area that we should push and push hard, because you said earlier that there was not the protectionism a few years ago that there is today. That may be right. I am not entirely certain in my own mind.

All I can say, Mr. Chairman, is that when the trade bill that authorized these negotiations came up, there was not much enthusiasm in the Congress or in the Finance Committee, and I think that I was one of the first early ones to come out in support of it.

Ambassador Strauss. I know that.

Senator ROTH. And it bothers me that we are beginning to narrow that base of support. The farmer has been, basically, in contrast to past years, supportive, but you are beginning to hear now some of the farm groups talk a little bit like labor.

One of the things I have urged, and urged strongly in the short range is that the Japanese make some large agricultural purchases. It seems to me that they could build some good will. If they cannot use the food in Japan, there are a lot of hungry people in Asia where they have foreign aid programs, and I understand they have considered this. There is no reason why they cannot buy from us to help some of these underfed people elsewhere.

Ambassador STRAUSS. That is under consideration, Senator. I think, if anything, your statement is an understatement, not an overstatement, of what we ought to be doing and of the problem. And the 25 percent, I think, is a very modest estimate of the cost. I think it is even less than that.

Senator ROTH. Maybe we ought to get the voice of Ralph Nader on this problem to the consumer. I do not know.

Ambassador STRAUSS. I will say one thing—I can use all the help I can get. I have my hands full.

Senator ROTH. Mr. Chairman, I have two of three other questions which I am going to ask, I just wanted to make that general observation. I hope that the Ambassador has not decided he wants to extend these visits to every year rather than every 6 months, because of the questions.

One thing does bother me and I would like to get your comments on, was including the statement on a national energy policy within 90 days, in the joint United States-Japan statement. From some of the discussions I have heard up here on the Hill, that might be a hard thing to bring about.

I am not on the conference committee, so I cannot be certain when the bill would come out.

But let me ask you this, if we do not have that energy program within 90 days, would that give an opportunity to Japan to say, well, you have not met your obligations and we are not in a position to meet ours so we are free from any—

Ambassador STRAUSS. Oh, I do not think so, Senator Roth. But, I think if we do not have that energy bill, our whole posture with the entire world, not just the American public, will suffer for it, not

only with our trading partners but in the whole area of our relationship with the nations of the world.

It is going to have a severe impact on our monetary problems that we are now having anyway, and I cannot overestimate, again, the importance that I attach to an energy program.

I think we have got a long way to go. I am still confident—from the conversations I have had and continue to have—that we will have an energy program within the next 90 days.

Senator ROTH. I just hope that this would—

Ambassador STRAUSS. I do not think it is—

Senator ROTH [continuing]. That this would provide a rationale for the other side to back off of their obligations.

Ambassador STRAUSS. No, sir.

Senator ROTH. In the case of the reference price system, I think it is fair to say that both the European producers and Japan are going to build rather large surpluses of steel. Our danger of this, I suppose, particularly in the European case, where steel is subsidized very heavily by the government, they are going to try to dump it in other areas. Might they try to dump it in the form of cars or nuts and bolts?

I wonder if your office is looking at this aspect of the problem. Might it not be desirable to have a full discussion of steel as a sector in Geneva or elsewhere?

Ambassador STRAUSS. Yes, we are having those full discussions of steel and, as a matter of fact, there is a bit of work being done in our office right now with respect to some kind of posture we ought to have and the kind of steel negotiations that we ought to have in the MTN.

Senator ROTH. Mr. Chairman, I would just like to express my appreciation for the Ambassador's coming up and his candor and willingness to answer our problems. I do hope that, say, within 2 or 3 months from now we can continue to review the progress of the trade negotiations.

Ambassador STRAUSS. I will look forward to it, Senator.

Senator RIBICOFF. Well, may I say to Senator Roth that it is my intention to keep an ongoing review and oversight over this whole problem. I note that, in this room, there are representatives of not only the domestic press but of the foreign press and many countries who are interested in this problem of trade, and that is understandable.

It is starting to be understood abroad and it has not been for some time. The constitutional role the Congress plays in trade is fundamental: It is the responsibility of Congress to regulate trade. We delegate some authority to the President but Congress ultimately is responsible for trade policy. Ambassador Strauss therefore has a dual role. He has a responsibility not only to the executive branch but to the legislative branch.

And the key position that Ambassador Strauss has in the trade negotiations is that he has and retains the confidence, not only of the President, but Congress on a bipartisan basis. And he has this confidence because he keeps in constant touch with the President and Congress. Congress is aware of what the Ambassador is doing, and the Ambassador is aware of the sentiment of the Congress as well as the President.

Consequently, he is not operating in a vacuum. He is not just making a speech or entering into a discussion. When he speaks, he is speaking not only on his own predilection or his own personal philosophy, but his words reflect what is doable; whether agreements will be accepted; whether they will be approved by Congress.

So Ambassador Strauss has a very important position because I think he is the most sensitive man in Government today toward the philosophy and thinking of the Congress of the United States. That is why it really would facilitate these negotiations if other countries realized that he is not just talking for himself, but talking for the Government of the United States, both the executive and legislative branches.

I do appreciate your coming before us. If, at any time, you feel that you would like the advice of the Senate, if you would like our thinking, all it will take is a telephone call from you and this can be arranged rapidly for our mutual convenience.

For our part, if we feel that it is essential to have you in hearings such as this, we will certainly get in touch with you to see that you are made available to us.

Ambassador STRAUSS. Thank you.

Senator RIBICOFF. Thank you very much.

[The prepared statement and attachment of Ambassador Strauss follow.]

STATEMENT OF AMBASSADOR ROBERT S. STRAUSS, U.S. SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Mr. Chairman: I welcome this opportunity to report on our recent consultations with the Government of Japan. As you are aware, our talks culminated on January 13, in Tokyo with the release of a joint statement by the Japanese minister of state for external economic affairs, Mr. Ushiba, and myself. I think it appropriate, Mr. Chairman, that a copy of that joint statement appear in the record of these hearings. As I have said publicly on a number of occasions, Mr. Chairman, I believe this document, if substantially implemented, could redefine the economic relationship between the United States and Japan.

At the outset, Mr. Chairman, I would like to say that consultations between our two countries on matters of mutual concern are an altogether desirable and necessary process. We believe in a world of growing economic interdependence. The economies of Japan and the United States are the two largest single-nation market economies in the world. Our trade approaches one-quarter the value of western world trade. The United States is the largest single market for Japanese exports. Japan is a major purchaser of U.S. agricultural exports, primarily grains. Indeed, there is more land under cultivation for Japan in the United States than there is land under cultivation for Japan in Japan. We depend upon one another for our mutual prosperity, and the rest of the world looks to our two countries for economic leadership. Together there is much we can do to preserve and strengthen the world trading system and to foster the recovery of the world economy. In the words of Prime Minister Fukuda, "Japan and the United States share a common destiny." Accordingly, it is essential that we continue to consult and coordinate our economic policies closely.

U.S. OBJECTIVES

During 1977, senior officials of our Government met frequently with officials of the Japanese Government. Our objectives in these consultations were two-fold:

First, we sought to convey our deep concern that Japan's massive current account surpluses, in the light of current global economic conditions, were generating pressures which could undermine the global trade and payments system—A system under which both our countries have prospered; and

Second, to encourage the Japanese Government to take corrective action which would result in a current account deficit and would relieve those pressures. Specif-

ically, we sought to encourage the Japanese Government to adopt policies aimed at achieving a higher rate of economic growth while simultaneously taking steps to increase imports into Japan, especially imports of manufactured products. In addition, we urged the Japanese Government to join us in a commitment to achieve equivalent market access at the conclusion of the multilateral trade negotiations in Geneva.

For the year just ended, Japan has posted a record current account surplus (trade in goods and services, plus foreign income) of more than \$10 billion—fully one quarter the size of the OPEC surplus. The previous high was \$6.6 billion, set in 1972.

We believe that a current account surplus of this magnitude is totally unacceptable in the light of current economic conditions, and indeed, imposes a severe strain on the global trade and payments system. Accordingly, we urged the Japanese Government to take steps to reduce its current account surplus in the coming year and eliminate it in the year or two thereafter. In addition, we made a number of suggestions as to how this might be accomplished.

I am pleased to report to the subcommittee that the Government of Japan, which shares our concern over the size of its current account surplus, is adopting our strongly presented suggestions made during the consultations.

The Japanese Government has undertaken steps aimed at achieving a marked diminution of its current account surplus in the coming Japanese fiscal year. In addition, for fiscal year 1979 and thereafter, under present international economic conditions the Japanese Government intends to exert all reasonable efforts with a view to further reducing its current account surplus aiming at equilibrium and to accept a deficit if one should occur.

The Japanese Government has reiterated its real growth target of 7 percent for the coming fiscal year, and has stated its intention to take all reasonable and appropriate measures to achieve such a target. In particular the Japanese Government has announced a 15 month budget which includes substantial increases for public expenditures to increase demand within the Japanese economy. It is our view that the single most important tool at the disposal of the Japanese Government for reducing its surplus is the achievement of a higher rate of growth.

Although there is skepticism on the part of some whether a 7 percent growth target can be achieved, Prime Minister Fukuda and Minister Ushiba believe it is obtainable and have so stated to the Japanese diet. I think it should be said that the stimulus which is implied by such a target will result in a higher rate of growth than would have otherwise occurred.

In addition, the Japanese Government has stated that it is its policy to promote the increase of imports from manufacturers. As you are aware, only 20 percent of Japan's imports are manufactured products; the balance represents imports of raw materials. The Japanese Government has stated that it anticipates that the total volume of imports of manufactures will increase steadily both in real terms as well as relative to the overall Japanese demand for manufactured products. In this regard, the Japanese Government has stated its intention to expand its import promotion activities and to review progress in the newly established joint trade facilitation committee.

Both Governments believe it is essential that the multilateral trade negotiations be advanced to a successful conclusion in the coming year. In this regard, the Japanese Government has stated its intention to support the acceleration and early conclusion of the MTN with a view to eliminating or reducing tariffs and nontariff barriers. In particular, the Japanese Government recently joined us in tabling tariff offers in Geneva using the swiss formula as a working hypothesis aiming at a final result of the weighted average reduction of around 40 percent in duties.

In addition—and I believe that this is extremely important in terms of a long-term relationship between our two countries—the Japanese Government has accepted our proposal that they must achieve basic equity in their trading relations by affording major trading countries substantially equivalent trading opportunities on a reciprocal basis. To achieve parity in their trading relations and equivalent openness of their markets with the United States, they have agreed to undertake deeper than formula tariff reductions on items of interest to other countries with the aim of achieving comparable, average levels of bound tariffs.

The Japanese Government will undertake a number of specific steps aimed at increasing imports into the Japanese market. For example, as you are aware, the Government of Japan has announced that it will undertake tariff reductions in advance of the MTN averaging 23 percent on 318 items. The 318 items on which cuts will be made represent \$2.6 billion in 1976 Japanese imports, \$724 million of

which comes from the United States. In addition, the Government of Japan has announced complete elimination of quotas on 12 items.

In addition, the Japanese Government has announced a 10-fold increase in high quality beef imports; a 3-fold increase in orange imports to 45,000 tons a year; and a 4-fold increase in orange and grapefruit juice to 4,000 tons a year. While the dollar amounts are not dramatic, the change in direction and philosophy is.

The Japanese Government intends to take a number of other steps aimed at liberalizing access of foreign goods to the Japanese market. These include liberalization of government procurement practices; extension of the standard method of settlement; improvement in inspections and testing procedures; expansion of import financing; reform of foreign exchange control; and support of the newly established trade facilitation committee. I consider the trade facilitation committee in the Commerce Department one of the integral parts of our program to achieve greater access to the Japanese market in the next few years.

Also the Japanese Government has announced its intention to form a number of joint industry groups to explore the possible purchase of citrus products, forest products, nuclear plant machinery and equipment, and to increase imports of beef.

CONCLUSION

It is not possible at this time to evaluate with certainty the effects that these steps will have upon the Japanese current account or the performance of the Japanese economy. In examining the specific measures which are being undertaken it is important that they be viewed as a whole and as an initial phase of what will no doubt be a long-term process. What we have here is only the first chapter in a long and tedious book to be written. There is a risk of overstating the value of what we have accomplished. At the same time, however, there is a risk of underestimating its potential. The ultimate value of these consultations depends largely upon what we do to follow through on our efforts. We must maintain the political will and take such steps as we can to see that the Japanese do the same. I have recommended to the President that we must review and monitor our progress and report on it regularly to the Congress and to the President. If we neglect this aspect, we will end up with a few minor trading concessions, at best. If we follow up properly, we may together—Congress and the executive branch—have truly brought about a major positive step forward in our international trade posture for the benefit for every American and indeed the world.

ATTACHMENT A

JOINT STATEMENT BY MINISTER USHIBA AND AMBASSADOR STRAUSS

On January 12 and 13, 1978, the government of Japan and the United States of America, through their representatives, Minister of State for External Economic Affairs, Mr. Mobuhiko Ushiba, and the President's Special Representative for Trade Negotiations, Ambassador Robert S. Strauss, consulted upon a series of policies and measures designed to contribute to global economic expansion and to strengthen their economic relations. The objective of the consultations was to develop common policies which would facilitate constructive adjustment to changing world economic conditions and the economic relationship between Japan and the United States.

In particular, Minister Ushiba and Ambassador Strauss agreed that a new course of action, building on the steps outlined below, was necessary to avert increasing unemployment and a worldwide reversion to protectionism.

INCREASED ECONOMIC GROWTH

Both sides agreed to take major steps to achieve high levels of non-inflationary economic growth. The government of Japan reiterated its recently adopted real growth target of seven percent for Japan fiscal year (JFY) 1978, and stated its intention to take all reasonable and appropriate measures, including those previously announced with respect to public expenditures, in order to achieve this target.

The government of the United States confirmed its intention to pursue policies aimed at the maintenance of substantial, noninflationary economic growth, as will soon be detailed by President Carter.

Both sides agreed that in the present international economic situation, the accumulation of a large current account surplus was not appropriate.

Accordingly, Japan has undertaken steps aimed at achieving a marked diminution of its current account surplus. The Minister added that in JFY 1978 Japan's current account surplus would be considerably reduced through the expansion of domestic demand, the effect of yen appreciation in recent months, and a series of new measures for improving the access of foreign goods to the Japanese market. In JFY 1979, and thereafter, under present international economic conditions, all reasonable efforts would be continued with a view to further reducing Japan's current account surplus, aiming at equilibrium, with deficit accepted if it should occur.

The United States stated its intention to improve its balance of payments position by such measures as reducing its dependence on imported oil and increasing its exports, thereby improving the underlying conditions upon which the value of the dollar fundamentally depends. The Ambassador expressed confidence that in the next ninety days an effective energy program would be enacted by the Congress.

TRADE OBJECTIVES

To preserve and strengthen the open world trading system, both sides fully support the acceleration and early conclusion of the Tokyo Round of the Multilateral Trade Negotiations (MTN) each making substantial contributions in full cooperation with other participants to reduce or eliminate tariff and non-tariff barriers to trade.

Both governments agreed that their joint objective in these negotiations is to achieve basic equity in their trading relations by affording to major trading countries substantially equivalent competitive opportunities on a reciprocal basis.

To achieve parity in their trading relations and equivalent openness of their markets, deeper than formula tariff reduction would be utilized.

In this connection, both sides expressed their intent in the course of the MTN to consider favorably taking deeper than formula tariff reductions on item of interest to each other with the aim of seeking to achieve comparable average levels of bound tariffs, taking into account non-tariff measures at the end of the MTN, taking fully into account the interests of third countries.

The government of Japan intends to take all appropriate steps to increase imports of manufacturers. The government anticipated that the total volume of imports of manufacturers, as well as the share of these imports in total Japanese imports, would continue to increase steadily. Both sides agreed to review progress in these matters in the Joint Trade Facilitation Committee or other appropriate forums and to take whatever corrective actions might be necessary.

TRADE MEASURES

The minister stated that Japan is taking the following significant actions to increase imports:

Advance tariff reductions on \$2 billion of imports effective April 1.

Removal of quota controls on twelve products.

As regards high quality beef, we shall make mutual efforts to exploit demand so that within the hotel and general quotas there will be an increase in importation by 10,000 tons on a global basis beginning in JFY 1978.

A three-fold increase in orange imports to 45,000 tons.

A four-fold increase to 4,000 tons in the quota for citrus juice.

Conducting a sweeping review of its foreign exchange control system and planning a new system based on the principle that all transactions should be free unless specifically prohibited. As a forerunner of the new system, certain immediate measures of liberalization are to be announced soon.

Formation of an inter-industry citrus group to study the present state and future developments in the citrus situation including juice blending and seasonal quota, and to report to their governments by November 1, 1978.

Dispatch of a forest product study group to the U.S. Northwest with the objective of expanding and upgrading this trade.

Dispatch to the United States of a mission to explore the possibility of purchasing electric power plant machinery and equipment, including nuclear plant components and equipment.

Dispatch to the United States of a government-industry buying mission sponsored by the Joint Trade Facilitation Committee.

A Japanese cabinet decision to secure for foreign suppliers substantially increased opportunities under government procurement systems.

Simplification of inspection requirements on imports.

BEST COPY AVAILABLE

Expansion of credit for imports into Japan.
 Relaxation of rules for the standard method of settlement.
 Cooperation in international efforts to curb excessive competition in export credits.

ECONOMIC COOPERATION

Referring to Official Development Assistance (ODA), the Minister reaffirmed the intention of the government of Japan to more than double its aid in five years and noted that, as part of such efforts, proposed ODA for JFY 1978 had substantially increased and that the quality of ODA had improved through an increase of grant aid. He added that the government of Japan would pursue its basic policy of general untying of its financial assistance.

Ambassador Strauss welcomed these developments and noted that the President would seek legislation to increase substantially U.S. bilateral and multilateral aid to developing countries.

REVIEW PROCEDURES

In addition, both sides agreed:

To coordinate closely with each other and their trading partners including the European Communities in Multilateral and Bilateral forums.

To improve access to Japanese markets by making every effort to assure the success of the Joint Trade Facilitation Committee in its work to increase imports of manufacturers, and resolve concrete problems encountered in trade with Japan including the aim of overcoming non-tariff barriers by applying a liberal approach.

To continue regular technical exchanges on growth problems and prospects through the Joint Economic Projections Study Group.

To review global and bilateral economic policy this spring in Washington at the next meeting of the Sub-Cabinet Group.

To review progress made in all these areas at a meeting between Minister Ushiba and Ambassador Strauss next October.

Senator RIBICOFF. The committee will stand adjourned.

[Thereupon, at 12 noon, the subcommittee adjourned.]

[By direction of the chairman, the following communication was made a part of the hearing record.]

BEDELL ASSOCIATES,
 MANAGEMENT COUNSELLORS, PLANNING,
 Washington, D.C., February 6, 1978.

HON. ABRAHAM RIBICOFF,
 Chairman, Subcommittee on International Trade, Senate Finance Committee, Dirksen Senate Building, Washington, D.C.

DEAR MR. CHAIRMAN: We shall always remember the ringing words used by Ambassador Strauss at the very timely February 2 hearings you chaired when he described the January 13, 1978 understanding he reached with Minister of State for External Economic Affairs Ushiba of Japan:

"What we have here is only the first chapter in a long and tedious book to be written. There is a risk of overstating the value of what we have accomplished. At the same time, however, there is a risk of underestimating its potential."

We applaud the Ambassador's candor, his dedication, his energy and resourcefulness and his determination.

In connection with that January 13 understanding, we can identify 3 serious concerns as they relate to specialty crop exports from Western United States, including walnuts, dried prunes, apples, and cherries.

First, the fundamental import quota policy administered by Japan against U.S. agricultural exports is nowhere challenged in the understanding as being inconsistent with GATT trading rules, or with the U.S. trading negotiations objectives as written in the Trade Act of 1974 and as clearly stated in the Reports issued by both Houses which accompanied the legislation. Without such a challenge, the Japanese might well conclude that the U.S. fully accepts the quota system without reservation, thus making any further sales increases for beef or oranges, or other products subject to tedious and extended negotiations for which the U.S. must make some concession. Is this the intention of the Congress?

Second, we did not find provision for any mechanism to be established, on a bilateral basis, whose purpose is to achieve reduction of nontariff barriers. If no mechanism is established, on what basis do growers of a wide range of specialty

crops in western United States achieve increased sales? Individual negotiation with the combined might of the Japanese government?

Third, it appears that only through high level and direct U.S. Government intervention can there be achieved export increases. Such a phenomenon confers on the Government the role of marketing executive and chief negotiator for all specialty crop growers, the success or failure of which is related to the resolution continuously of the entire gamut of issues that may exist between our 2 countries. It appears to place trade on the sole basis of political power and clout rather than improving the quality of life. Is this the intent of the Congress, and the Senate?

Under present conditions, specialty crop growers would absolutely require the presence of a representative with the position, outstanding skill, knowledge and interest equal to that of Ambassador Strauss in order to anticipate increased sales to Japan. That appears to place an almost impossible burden on any President. Ambassador Strauss will be a very difficult act to follow.

In summary, if the book to be written about Japanese agricultural imports does in fact become long and tedious, the very principles on which GATT is founded may well have eroded, and the objectives described in the Trade Act of 1974 may cease to be even remotely achievable.

This letter may be used as part of the hearing record if that is your wish, and we would hope that you might so include it.

Respectfully,

DONALD W. BEDELL,
(On behalf of Diamond/Sunsweet).

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