ISSUES RELATING TO THE DOMESTIC AUTO INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 396

A BILL TO IMPOSE QUOTAS ON THE IMPORTATION OF AUTOMOBILES FROM JAPAN DURING 1981, 1982, AND 1983

MARCH 9, 1981

Printed for the use of the Committee on Finance

Part 2 of 2

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S. 396 AND THE CURRENT SITUATION OF THE U.S. AUTOMOBILE INDUSTRY

MONDAY, MARCH 9, 1981

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

The subcommittee met, pursuant to adjournment, at 9:30 a.m., in room 2221, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Chafee, Wallop, Grassley, Symms, Baucus and Boren.

[The press release announcing the hearing and S. 396 follows:]

[Press Release No. 81-107]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE SETS HEARING

Senator John C. Danforth (R., Mo.), Chairman of the Subcommittee on International Trade of the Committee on Finance, announced today that the Subcommittee will hold a hearing on March 9, 1981 on S. 396 and the current situation of the domestic automobile industry.

The hearings will begin at 9:30 a.m., in Room 2221 of the Dirksen Senate Office Building.

On January 14-15, 1981 the Subcommittee held hearings on the problems of the U.S. automobile industry. Testimony was received concerning the impact of imported automobiles on the domestic industry, the effect of Government regulation, structural and technological changes, and mechanisms for aiding workers, producers, dealers, and related industries, including parts suppliers.

On February 5, 1981 Senator Danforth, together with Senator Lloyd M. Bentsen (D., Tex.), the ranking minority member of the Subcommittee, introduced S. 396, a bill to restrict importation of automobiles from Japan for a temporary period. In statements accompanying the legislation, Senators Danforth and Bentsen emphasized the need to consider the problems of the industry as a whole. Temporary import restraints were described as a necessary "breathing-spell" while the U.S. industry retools, and while capital formation and regulatory reform measures take effect. They announced their intention to work closely with the Administration, and specifically the President's Task Force on the Problems of the Automobile Industry, to develop tax and regulatory legislation which along with S. 396, will form a comprehensive package.

These hearings were originally planned for late February. However, the Task Force is expected to submit its recommendations to the President at the beginning of March. Therefore, at the request of Secretary Lewis and Ambassador Brock, the hearings have been moved to March 9.

Witnesses testifying at the hearing or submitting testimony should direct their testimony to possible solutions to the problems of the U.S. automobile industry, including, but not limited to the following:

(1) S. 396, or other forms of import restrictions,

(2) Taxation and regulatory changes, and

(3) Assistance for workers, dealers, and related industries, including parts suppliers.

Requests to testify.—The Committee requested that persons desiring to testify during this hearing make their requests to testify in writing to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, *not later than* Tuesday, March 3, 1981. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—The Committee urged all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. The Committee urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.—The Committee observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the Committee require witnesses appearing before the Committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

The Committee stated that in light of this statute and the rules, and in view of the large number of persons who desire to appear before the Subcommittee in the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) Not more than 5 minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.—Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Statements submitted for inclusion in the record should be typewritten, not more than 25 double spaced pages in length and mailed with five (5) copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Wednesday, March 3, 1981.

II

97TH CONGRESS
1ST SESSION

S. 396

To impose quotas on the importation of automobiles from Japan during 1981, 1982, and 1983.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 5 (legislative day, JANUARY 5), 1981

Mr. DANFORTH (for himself, Mr. BENTSEN, Mr. RIEGLE, Mr. GLENN, Mr. EAGLETON, Mr. LEVIN, Mr. LUGAR, and Mr. METZENBAUM) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To impose quotas on the importation of automobiles from Japan during 1981, 1982, and 1983.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. DEFINITIONS.

For purposes of this Act—

(1) The term "automobile" means an on-the-highway, four-wheeled, passenger automobile provided for in item 692.10 of the Tariff Schedules of the United States (19 U.S.C. 1202).

(2) The term "entered" means entered, or withdrawn from warehouse, for consumption within the customs territory of the United States.

(3) The term "Secretary" means the Secretary of the Treasury or his delegate.

SEC. 2. QUANTITATIVE RESTRICTIONS DURING 1981, 1982, AND 1983.

During each of calendar years 1981, 1982, and 1983, the aggregate quantity of automobiles that may be entered from Japan may not exceed 1,600,000. The quantitative limitation imposed under this section for each of such calendar years may be applied by the Secretary on a calendar quarter or other intra-annual basis if the Secretary determines that such application is necessary or appropriate to carry out the purposes of this Act.

SEC. 3. ADMINISTRATION.

The Secretary shall take such action as may be necessary to ensure that the quantity of passenger automobiles which may be entered during calendar years 1981, 1982, and 1983, or any intra-annual period therein, does not exceed the limitation established for that year or period under this Act.

○

Senator DANFORTH. The hearing will come to order.

The U.S. auto industry is facing the greatest crisis in its history. On January 14, I began a series of hearings on the problems of the industry. That same day, newspapers reported that General Motors had lost more than three-quarters of a billion dollars in 1980, the company's first annual loss since 1921.

In mid-February, Ford announced 1980 losses of $1.5 billion, the largest single-year loss ever recorded by an American corporation. Ford's claim to this dubious distinction ended just a few days later when Chrysler announced an annual loss of $1.7 billion.

Thanks to rebates, several U.S. automakers experienced increased sales in late February. But despite this increase, domestic sales of Amerian cars were down 4.2 percent from February of last year.

Meanwhile, import sales set a February record of some 220,000 cars, winning a record share of the U.S. market for the month of 28.7 percent.

Moreover, the February rally was a costly one for U.S. companies. General Motors' initial rebate offer ranged between $500 and $700.

In spite of Ford's 10 percent rebates, the company still suffered a year-to-year sales decline in late February, a period when other companies' sales were improving.

When the rebates expire, industry analysts are reportedly expecting another slump. Clearly, there is no way that U.S. automakers can depend on rebates to spur sales and also meet their commitment to invest $70 to $80 billion in retooling over the next several years.

In addition to chairing hearings before this subcommittee in mid-January, I have also chaired hearings before the Senate Subcommittee on Surface Transportation, and held hearings in the State of Missouri. I have discussed the auto problem with Senate colleagues, members of the administration, labor, the auto manufacturers, dealers, and senior officials of the Japanese Government.

I admit that I do not have all the answers. I continue to explore possible relief measures in the tax and regulatory areas. But I strongly believe that the bill which Senator Bentsen and I have introduced is an important step in the right direction. This bill would temporarily limit imports of Japanese cars to the annual average of the last 4 years.

As much as I believe in free trade, I also believe automobile import restraints are necessary for the health of this basic American industry.

It has been argued by some that we should let market forces resolve the problems faced by our auto industry and not interfere. But in this case, past Government intervention in the marketplace helped create the mess we find ourselves in today.

Unfortunately, Senator Dole could not join us today because he is still recovering from his recent illness. He is recovering well, I might add, and Senator Bentsen is honoring a longstanding commitment in Texas.

Senator Bentsen's prepared statement is of critical importance to this issue. There are copies available at the press table and I commend them to all who are following the state of the U.S. auto industry.

[The prepared statements of Senators Danforth and Bentsen follow:]

Opening Statement of John C. Danforth

The United States auto industry is facing the greatest crisis in its history. On January 14, I began a series of hearings on the problems of the industry. That same day, newspapers reported that General Motors had lost more than three quarters of a billion dollars in 1980—the company's first annual loss since 1921. In mid-February, Ford announced 1980 losses of $1.5 billion, the largest single-year loss ever recorded by an American corporation. Ford's claim to this dubious distinction ended just a few days later when Chrysler announced an annual loss of $1.7 billion.

Thanks to rebates, several U.S. automakers experienced increased sales in late February. But despite this increase, domestic sales of American cars were down 4.2 percent from February of last year. Meanwhile import sales set a February record of some 220,000 cars, winning a record share of the U.S. market for the month of 28.7 percent. Moreover, the February rally was a costly one for U.S. companies. General Motors' initial rebate offer ranged between $500 and $700. Chrysler offered 7 percent rebates on most of its cars. In spite of Ford's 10 percent rebates, the company still suffered a year-to-year sales decline in late February, a period when other companies' sales were improving. When the rebates expire, industry analysts are reportedly expecting another slump. Clearly, there is no way that U.S. automakers can depend on rebates to spur sales and also meet their commitment to invest $70 to $80 billion in retooling over the next several years.

In addition to chairing hearings before this Subcommittee in mid-January, I have also chaired hearings before the Senate Subcommittee on Surface Transportation, and held hearings in the State of Missouri. I have discussed the auto problem with Senate colleagues, members of the Administration, labor, the auto manufacturers, dealers, and senior officials of the Japanese government. I admit that I don't have all the answers. And I continue to explore possible relief measures in the tax and regulatory areas. But I strongly believe that the bill which Senator Bentsen and I have introduced is an important step in the right direction. This bill would temporarily limit imports of Japanese cars to the annual average of the last four years. As much as I believe in free trade, I also believe automobile import restraints are necessary for the health of this basic American industry. It has been argued by some that we should let market forces resolve the problems faced by our auto industry and not interfere. But in this case past government intervention in the marketplace helped create the mess we find ourselves in today.

Unfortunately Senator Dole could not join us today because he is still recovering from his recent illness—he is recovering well I might add—and Senator Bentsen is honoring a longstanding commitment in Texas. Senator Bentsen's prepared statement is of critical importance to this issue. There are copies available at the press table and I commend them to all who are following the state of the U.S. auto industry.

Today I am pleased to welcome three distinguished members of the new Administration to this panel. Ambassador Brock and Secretary Baldrige should be arriving shortly and I am anxious to hear their views on the problems facing the U.S. auto industry, and on what the Congress and the Executive Branch can do together to resolve some of those problems.

Before we begin, however, I would like to say that I understand that the Administration, which will have to negotiate these matters with the government of Japan, may not be in a position to offer a definitive program to this Subcommittee today. We ask that the witnesses limit their prepared remarks to summaries of their written statements, which will be made a part of the record so that as much time as possible can be left for discussion.

Statement of Senator Lloyd M. Bentsen, Subcommittee on International Trade

I regret, Mr. Chairman, that a long-standing commitment in Texas prevents me from attending the subcommittee meeting on automotive imports this morning. I want to assure you and other subcommittee members, however, that I remain committed to the provisions of S. 396, which would limit the number of Japanese automobiles imported into this country during the next 3 years.

I am sure you have noticed that editorial reaction to this legislation has tended to be critical of any action that might interfere with "free trade." Newspapers, of course, do not have to contend with competition from abroad which may help explain the tenor of comments on S. 396. In considering the merits of this legislation I think it is important to understand that there are 200,000 auto workers without jobs and hundreds of thousands unemployed in related industries who cannot afford the luxury of righteous indignation.

Without the hammer of S. 396 I am convinced there would be a real danger that the problem of automobiles would be treated as just another item on the platter of United States-Japanese trade issues. We would voice our concern and the Japanese would acknowledge there might be a problem. Then they would negotiate for as long as possible and give up as little as possible. By the time we had a joint communique the industry most important to our economy and our national security might be battered beyond repair, sacrificed on the altar of free trade.

I recently read in the Washington Post about a great new breakthrough in United States-Japanese trade. After years of hard work and millions of dollars in expenditures, a major American firm finally won permission to market somewhere between 50,000 and 200,000 pocket pagers in Japan. The Japanese, of course, have been marketing their pocket pagers in this country for years.

I welcome that breakthrough, because it is an issue I have followed personally for some time. However, the fact that it has taken us this long to crack the multibillion dollar NTT monopoly market in Japan says a great deal about the continuing lack of symmetry in our trading relationship. I really find it difficult to understand why it is only natural for the Japanese to market close to 2 million vehicles in this country but it is a triumph of vast dimensions for America to win a special dispensation to sell a strictly limited number of pagers in Japan.

It is apparent, Mr. Chairman, that the problem of auto imports will not go away by itself. Last month imports accounted for a record 27.8 percent of all cars sold in this country, and it is no secret where the vast majority of those cars are coming from.

We have both stated on several occasions that the provisions of S. 396 do not constitute an answer to the problems plaguing the domestic automobile industry. Anyone familiar with the problem knows it is far bigger than simple import penetration and will not be solved with a quota, particularly one as generous as we have proposed.

As we have stressed in the past, the sole purpose of our legislation is to give the domestic auto industry, currently in a very precarious condition, time to make the corrections and huge investments necessary to compete and prosper in the future.

I sincerely hope that this hearing will contribute to that process and appreciate the opportunity to have these comments included in the record.

Senator DANFORTH. Today I am pleased to welcome three distinguished members of the new administration who will be testifying, Ambassador Brock, Secretary Baldrige, and Secretary Lewis. I am anxious to hear their views on the problems facing the U.S. auto industry, and on what Congress and the executive branch can do together to resolve some of those problems.

Before we begin, however, I would like to say that I understand that the administration, which will have to negotiate these matters with the Government of Japan, may not be in a position to offer a definitive program to this subcommittee today.

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Senator Chafee.

Senator CHAFEE. Thank you Mr. Chairman.

Mr. Chairman, members of this committee, today's Trade Subcommittee hearing signals the beginning of a misguided retreat from support for freer international trade and a venture into the dangerous waters of protectionism.

Once begun, the slide toward higher tariffs, special quotas and other forms of protectionism will not easily be reversed. The ultimate loser will not only be the American consumer, but also the very industries these practices are meant to benefit.

The legislation currently before this subcommittee attempts to make a scapegoat of the Japanese auto industry, and to blame current difficulties of the American automobile industry on its Japanese counterpart. The implications of what is being proposed here today go far beyond autos and trade, for what is involved here is nothing less than the basic position of the United States as the world's foremost proponent of freer international trade.

Two points trouble me, Mr. Chairman. They are:

First, the attempt to divorce the consequences of protectionist legislation benefiting the U.S. auto industry from its impact upon the broader spectrum of U.S. trade, both as it affects the cost of other imports and as it affects the competitive position in our own exports.

Second, the attempt to resolve one basic policy question, how to deal with the deteriorating position of the U.S. auto industry here at home, by focusing not on legitimate questions of productivity, excessive wage rates and marketing decisions of U.S. automakers, but by wreaking havoc upon another basic policy; namely, the American position of leadership in moving the world toward freer international trade generally.

On the first point, proponents of auto import protection show little comprehension of the complicated interdependence of the American, European, and Japanese economies.

The Japanese must export to finance their near total dependence upon imported oil, raw materials and a substantial amount of their food. Lost automobile export revenues must be made up elsewhere, through reduced Japanese imports of American agricultural products, and we should recall that Japan is our single largest customer for the bounty of our farms, through expansion of other Japanese exports to the United states, or through greater competition with our own exports in European and other markets.

The American export surplus we enjoy in our trade with Europe, for example, will this year equal our deficit with Japan,

Import protection for the American automobile industry, in short, is robbing Peter to pay Paul. It would simply force a reshuffling of trade, and any increased profits for Detroit would come at the expense of other, more efficient U.S. producers and their employees.

This, of course, would inevitably lead to new demands for other trade barriers. Import restrictions are as contagious as the common cold, and they would not stop with automobiles, but would quickly spread to other commodities and manufactured goods.

Since the early 1960's, under six different administrations of both political parties, the United States has convinced other nations to dismantle trade barriers and to open markets to international trade and commerce. These achievements have not come easily, but only after the most patient and time-consuming negotiations.

I think members of this committee are aware of that, those efforts, as members of any committee in this Congress.

The most notable and most diligently fought for efforts have been agreements with Japan to move toward a position of freer trade. In large measure, we have succeeded because of our own example; it is precisely because the United States offers one of the most open markets in the world that we have had success in convincing the Japanese and others to join us in lowering trade barriers.

This brings me, Mr. Chairman, to my second major point of disagreement with this legislation, the confusion of policy objectives that this bill entails.

The crux of the problem with the American automobile industry is not how open or how closed the Japanese economy is to foreign imports. In fact, the Japanese are taking significant steps to open their markets to more abundant imports from the United States and other countries.

For example, Japan's tariffs on industrial products are generally lower than those of the European community on the United States.

The real issue here is the deteriorating position of the U.S. automobile industry and what brought Detroit to its present precarious position.

I will not take the time here to detail the abundant evidence which shows that imports of Japanese automobiles are not the root cause of Detroit's problems. Suffice it to say that excessive wage settlements, failure to keep pace with productivity, and marketing decisions which led American automakers to continue to emphasize large, fuel-inefficient automobiles just as the buying public had caught up with the economic necessity of switching to smaller cars, all have had a more important bearing on Detroit's problems than imports.

These were the findings of the International Trade Commission, the only independent, nonpartisan economic adviser on trade issues. Clearly, the current recession has added to these problems.

But, I wish to make mention of the wage costs in this industry.

In 1980, the average hourly wage of major assemblers in the U.S. auto industry was $9.25, without fringe benefits, with fringe benefits the average wage of the U.S. automobile worker has been estimated to be around $19 an hour.

But, I took major assemblers, the less skilled workers.

These average hourly wages of these less skilled workers in the automobile industry are 50 percent higher than the average wage of a production worker in the United States, and nearly 100 percent higher than the average wage of a production worker in my State of Rhode Island.

Detroit's extraordinarily high auto workers' wage levels are in part responsible for its current problem.

"The United Auto Workers," said Robert J. Abernathy, of the Harvard Business School, in testimony last April, before the Senate Banking Committee, has "positioned the industry costwise to $500 to $600 per car level difference between the UAW wage and the average wage," in the United States.

When we are asked to restrict Japanese imports, Mr. Chairman, we are in fact asking the U.S. workers and Rhode Island workers to pay hundreds of dollars extra for an efficient car in order to protect the job of an auto worker, whose salary is nearly twice as high as those workers who are paying the price.

Under this legislation, Mr. Chairman, the rich get richer, and the poor get poorer.

Mr. Chairman, I submit for the record a New York Times' editorial of March 5, 1981 on this subject.

Thank you.

Senator DANFORTH. The editorial will be included in the record.

[Statement of Senator Chafee and the newspaper article follows:]

PREPARED STATEMENT OF JOHN H. CHAFEE

Today's Trade Subcommittee hearing signals the beginning of a misguided retreat from support for freer international trade and a venture into the dangerous waters of protectionism.

Once begun, the slide toward higher tariffs, special quotas and other forms of protectionism will not easily be reversed. The ultimate loser will be not only the American consumer, but also the very industries these practices are meant to benefit.

The legislation currently before this Subcommittee attempts to make a scapegoat of the Japanese auto industry, and to blame current difficulties of the American automobile industry on its Japanese counterpart. The implications of what is being proposed here today go far beyond autos and trade—for what is involved here is nothing less than the basic position of the United States as the world's foremost proponent of freer international trade.

Two basic points trouble me, Mr. Chairman, They are:

First, the attempt to divorce the consequences of protectionist legislation benefiting the U.S. auto industry from its impact upon the broader spectrum of U.S. trade, both as it affects the cost of other imports and as it affects the competitive position of our own exports.

Second, the attempt to resolve one basic policy question—now to deal with the deteriorating position of the U.S. auto industry here at home—by focusing not on legitimate questions of productivity, excessive wage rates and marketing decisions of U.S. automakers, but by wreaking havoc upon another basic policy, namely the American position of leadership in moving the world toward freer international trade generally.

On the first point, proponents of auto import protection show little comprehension of the complicated interdependence of the American, European, and Japanese economies. The Japanese must export to finance their near total dependence upon imported oil, raw materials and a substantial amount of their food. Lost automobile export revenues must be made up elsewhere, through reduced Japanese imports of American agriculture products—and we should recall that Japan is our single largest customer for the bounty of our farms—through expansion of other Japanese exports to the United States, or through greater competition with our own exports in European and other markets. The American export surplus we enjoy in our trade with Europe, for example, will this year equal our deficit with Japan.

Import protection for the American automobile industry, in short, is robbing Peter to pay Paul. It would simply force a reshuffling of trade, and any increased profits for Detroit would come at the expense of other, more efficient U.S. producers and their employees.

This, of course, would inevitably lead to new demands for other trade barriers. Import restrictions are as contagious as the common cold, and they would not stop with automobiles, but would quickly spread to other commodities and manufactured goods.

Since the early 1960's under six different Administrations of both political parties, the United States has convinced other nations to dismantle trade barriers and to open markets to international trade and commerce. These achievements have not come easily, but only after the most patient and time-consuming negotiations. The most notable and most diligently fought for have been agreements with Japan to move toward a position of freer trade. In large measure, we have succeeded because of our own example; it is precisely because the United States offers one of the most open markets in the world that we have had success in convincing the Japanese and others to join us in lowering trade barriers.

This brings me, Mr. Chairman, to my second major point of disagreement with this legislation—the confusion of policy objectives that this bill entails.

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United States and other countries. For example, Japan's tariffs on industry products are generally lower than those of the European community on the U.S.

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But, I wish to make mention of the wage costs in this industry.

In 1980, the average hourly wage of major assemblers in the U.S. auto industry was $9.25, without fringe benefits, 50 percent higher than the average wage of a production worker in the United States.

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When we are asked to restrict Japanese imports, we are in fact asking a Rhode Island worker to pay hundreds of dollars extra for an efficient car in order to protect the job of an auto worker, whose salary is over twice as high.

The rich get richer, the poor get poorer under the proposals to restrict imports.

[From the New York Times, Mar. 5, 1981]

Why Reward Failure in Detroit?

Detroit is panting for import controls on Japanese cars. Lest anyone doubt it, one group of auto workers made the point in front of the cameras this week by smashing a Toyota with sledgehammers. And slowly but surely, the Reagan Administration is moving to accommodate them.

The President has taken no official position, but to judge by the unofficial comments of Transportation Secretary Drew Lewis and Trade Representative Bill Brock, the political attractions are almost irresistible—and delusive. One hopes that the President thinks carefully before committing his administration to some sort of quota system whether formal or "voluntary." A lid on imports might relieve immediate political pressures. It would also undermine the long-term prospects for economic recovery.

Undeniably, Detroit has been badly hurt. All four auto companies suffered record losses in 1980, and at least a third of the work force is on indefinite layoff. Ford is reeling; Chrysler and American Motors are being kept alive only with the aid of financial respirators. In the next few years, the American industry must invest tens of billions in retooling to regain its competitive position in world markets. But no one is very eager to lend it the money, and only mighty GM has enough resources of its own.

In flush times, the industry might be able to raise some of the money in Washington, perhaps disguised as refundable tax credits. But Congress cannot afford to help much. In fact, as part of its economic recovery program, the Reagan Administration is asking for sharp cuts in special "trade adjustment assistance" to unemployed auto workers.

That is why the import quota idea is so seductive. It would cost the Government nothing. Indeed, it might help balance the budget by generating tax revenue and reducing unemployment payments. And a quota would appeal to Americans' sense of fair play: The Japanese won't buy our cars, why buy theirs?

But import protection would be felt in higher prices. With less competition from Toyota, Honda and Datsun, Detroit could freely pass on price increases to car buyers. President Carter's council of Economic Advisers estimated the cost of quotas at an incredible $50,000 a year per re-employed worker.

The intangible costs could be even greater. America's auto companies have a huge problem, but with the exception of Chrysler they have not been forced to look inward for solutions. Labor makes up the bulk of the cost of making cars. Yet workers in this deeply troubled industry still earn half again more in pay and benefits than the average American worker. Giving the car makers the quota they want would be an open invitation for every ailing industry to turn first to Washington for aid or protection.

Only ideological purists believe that Government should avoid any part in the auto makers' recovery. The industry matters too much. Government might help by deferring safety and air pollution requirements. Or it might permit development of common parts for future vehicles. But aid must act as a catalyst to productivity, not as a reward for failure.

Senator DANFORTH. Senator Grassley, do you have an opening statement?

Senator GRASSLEY. Yes.

Senator DANFORTH. Proceed.

Senator GRASSLEY. Thank you, Mr. Chairman.

Any move to restrict world trade by congressional action must be carefully examined. A compelling national interest should be established before any hasty congressional action is undertaken.

For that reason, these hearings are of great importance to the tenor of America's role as an international business partner.

The Congress must not frivolously erect trade barriers. While such action might benefit our Nation in the short run, the longrun consequences of such action would be disastrous.

The United States can no longer prosper in isolation. We are dependent upon other nations of the world for raw materials, equipment, and other commodities.

We are also dependent upon foreign markets to attempt to better our balance-of-payment deficit caused in part by our large purchases of foreign oil.

I look forward to hearing the testimony of these witnesses, and will carefully weigh their testimony, before making this important decision.

A situation in my district probably expresses best the irony of the issue that now confronts us in these hearings. The UAW members of the John Deere Co., in my State of Iowa, express their concern for the plight of their Detroit brethern with a sign placed outside of the parking lot of the UAW meeting hall and headquarters in Waterloo, Iowa. That sign says, "Park your foreign cars in another parking lot."

In that sign, as well as also in these hearings, there is obviously an attempt and a concern to help the UAW workers in Detroit, to help the city of Detroit, to help the car manufacturers like Ford, General Motors, and Chrysler.

But the irony of this issue is also a concern of mine when we look at what passage of this legislation and the restricting the importation of cars might do to Midwestern America if retaliation occurred.

For instance, those same UAW members in Waterloo, Des Moines, Ottumwa, Dubuque, Moline and Bettendorf, Iowa, that manufacture John Deere tractors must realize that Japan is the largest foreign importer of John Deere products. Ten to 20 percent of John Deere's overseas business is with Japan.

The prosperity of those workers in the John Deere plants obviously rests upon trade peace between Japan and the United States. The prosperity of workers at the John Deere plant also depends upon the prosperity of the American farmers who see Japan as the largest importer of soybeans from the midwest.

We must be careful in our efforts to help a small segment of the economy which needs a respite from the present detrimental impact of imports fashion that is going to help one segment of the economy, and potentially not to hurt an even larger segment of the economy. A solution must be carefully crafted. It must be done after careful analysis and negotiation at the bargaining table, not within the Congress of the United States.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman, and members of the committee. I look forward to hearing our witnesses this morning.

I think what this really boils down to, Mr. Chairman is, we have two questions that have to be answered. We can have quite a discussion here about free trade and the virtues of it, which I happen to philosophically, for the long term, think free trade is in the best interest of not only the United States, but the world.

But the question has to also underline, do we have a fair trade partner with the Japanese under the present circumstances?

Are we getting fair cooperation back and forth, both ways?

Those are questions that I hope we can get answered this morning with respect to how our exports are treated when they go to Japan.

The other question is, we have suffered for many, many years, under an adversarial relationship between the Federal Government and the producers of this country, not only with excessive tax laws, but excessive regulatory activities that have put the auto industry and other industries in a very bad situation because of this adversarial relationship.

So, I think the question is, are we really going to have a Government now that will be a cooperator to producers as our trading partners in Japan have, and if so, how long does it take for this new era of cooperation to have an impact so that our own auto industry can once again be competitive with our foreign imports.

I look forward to these hearings and for the progress of what may come from this activity this morning.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Wallop.

Senator WALLOP. Thank you, Mr. Chairman.

I want to thank you for holding these hearings. I think it is fair to say that the plight of the auto industry did not happen because Detroit had a better idea. Competitively, they have not turned out the sort of automobile that appeals to the American consumer not only from a price standpoint, but from a quality standpoint as well.

Detroit's problems have also come about because of an inherently self-indulgent work force. Governments, Republican and Democratic, have been only too quick to push the industry and the unions into wage settlements because of economic needs.

So, everyone shares a little bit of blame in the process that arrived at the situation described so ably by the chairman in his opening remarks.

It still seems to me that for the time being an interim period of negotiated limits would appear necessary from the standpoint of our own national security. It would also allow the new Administration which has pledged to relieve some of the limits and restrictions created by unnecessary regulation to become a partner in the productive sector in the society which it seeks to represent.

I would say with regard to the remarks from my friend from Rhode Island, that freer international trade is a chimera, especially with Japan. One needs only to ask somebody who has been in the business of trying to sell them beef what that involves and how their limits are set and how access to the United States is so simple to achieve.

It is true that with agricultural products like soybeans and others, we have free access, because they have high needs and they do not have substitute places to achieve those.

I think American citrus growers would be interested to know how free the access has been to Japan.

Especially Japan which is said to be so high in the free trade world and has negotiated remarkable limits on its exports of automobiles to Europe, and has yet decided to increase their production with the idea in mind, obviously, that no one in the United States is going to demand the same trade restrictions as the European trading partners have.

I just don't understand how the people can claim that Japan is a free trade leader.

I think it is fair to say, Mr. Chairman, that negotiated settlements are not trade war, nor do they imply an abandonment of the concept of trade peace. I think that they are necessary as a concept to save a domestic American industry. I think the more temporary that that is, the better off both nations will be.

Thank you.

Senator DANFORTH. Thank you.

The first witness will be Senator Levin.

STATEMENT OF HON. CARL M. LEVIN, U.S. SENATOR

Senator LEVIN. Thank you very much, Mr. Chairman, and other members of the committee. I appreciate the opportunity to be here. Because you are familiar with my remarks, I will keep them brief.

This legislation takes an important philosophic step by modifying and refining our traditional support for a total free trade system. That step, I would suggest, is unavoidable, since we are the rare free trade nation in what is a restricted trade world.

If Japan, for example, sees its lumber industry outcompeted by American exports, they call for restraint on the part of American lumber firms. I would refer the committee to last Thursday's Wall Street Journal for a description of how Japan is now protecting its lumber industry or seeks that protection against us.

This is in total support of what Senator Wallop has just said.

When we, however, see our auto industry injured by a flood of imported cars, while the industry is trying to modernize so they can compete, we only begin to wonder if the situation is serious enough to allow us to consider maybe asking the Japanese if perhaps they might be willing to sit down and talk with us about some of the problems that we are having.

The difference between our policies and the policies practiced in the rest of the world, in Japan, has produced a sad legacy. Rising unemployment, the attendent cost to our Treasury and to our people, a declining industrial base which threatens our jobs and our national security, and a decimation of basic industries such as steel and automobiles.

But, Mr. Chairman, if we do accept the fact that we need to provide temporary protection for our industrial base and our economic future, the question we confront is what level of protection gives us the greatest gain for the least cost.

Here I am sorry to say I have some problems with the legislation that you are considering. I believe that the line needs to be drawn at a lower number. Given the current stockpile of Japanese cars now on our borders and given the possibility that there may be a good many more of them here than we know about now, it is important to recognize that whatever the limit we set, the number of units available for sale will be greater, at least 150,000 units greater, according to at least some of the estimates that I have seen.

Given the current economic climate and the projected demand for new cars, a 1.6 million limit simply will not bring the kind of sales and employment return that we deserve to get.

If we are going to make the shift in philosophy represented by this bill, then we ought to set the permitted sales volume at a level which gives our domestic economy the greatest boost. We should not just say we will set these temporary quotas and our job is done. We should set them at the right level.

A level of 1.6 million is going to involve all of the political pain associated with a philosophic shift, without getting us much of the practical reward that we made the shift for.

I urge you to come closer to the 1 million unit level which would represent meaningful restraint and offer us a major chance for our domestic industry to get back on its feet.

I would like to make one closing statement, Mr. Chairman. This weekend I met in 3 town meetings with 1,500 Michigan citizens. There is tremendous anger and deep hostility at having by far the highest unemployment rate in the country.

There is tremendous anger and deep hostility, because at the same time the administration is proposing major cuts in protection for the unemployed. There is tremendous anger and deep hostility that the President is now apparently wavering on the commitment he made in Michigan, during the campaign that:

> Government has a responsibility to convince the Japanese that in one way or another the deluge of their cars into the United States must be slowed while our industry gets back on its feet.

The people know they are not going to easily get back to where they once were. Even if we totally banned the sale of imports in this country, my home State will not soon return to its former fortune.

The people do not have unrealistic expectations. They know what they have lost. But they also know that a meaningful import bill, with these temporary quotas, can help them begin the process of their recovery.

It would be foolish and cruel, in my opinion, to tempt them with quotas, but deny them the relief that they really need.

It would be foolish to come so far and then stop before we reach the kind of restraint which would help return the industry and its workers to their feet.

Mr. Chairman, we have come a long way to get to the point of holding these hearings on this subject. Your leadership has been instrumental in bringing us this far.

Mr. Chairman, you have taken truly courageous steps on what I know is a very difficult road.

I thank you very much, and I would be happy to answer any questions if there are any.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Levin, the legislation proposes an import limit of 1.6 million. Is that correct?

Senator LEVIN. I think that is the effect of the approach at this time.

Senator CHAFEE. You would like that limited to 1 million?

Senator LEVIN. I think it should approach the limit which I think will provide more effective relief which is 1 million.

Senator CHAFEE. One million?

Senator LEVIN. That is a limit which I believe would approach and provide more effective relief. I don't think that is a magic figure. I think that is a more appropriate figure if we are going to make the philosophic modification which is implied in this bill, I think we ought to have the kind of temporary relief which really makes a bite in the problem.

Senator CHAFEE. For how many years?

Senator LEVIN. I leave that up to the good discretion of the committee and to the people in the agencies who have to administer this bill and to the industry. I have heard figures range from 2 to 5 years. I don't know whether there is any magic number between them.

Senator CHAFEE. Thank you.

Senator LEVIN. Thank you, Mr. Chairman.

Senator DANFORTH. Let me just make a couple of points. The first is that the number in the bill is 1.6. I have frequently pointed out that selecting the right number, at least at the time that the bill was introduced, was more an art then a science.

My view at the time the bill was introduced was that 1.6 was probably about right. Since that time and after numerous discussions with a lot of people, I personally feel that a figure somewhat lower would probably be better, somewhere in the neighborhood, I would say, of about 1.4.

But, the fact that 1.6 is in the initial form of the bill would certainly not lock us in to that permanently, and should not limit the scope of our discussion.

Second, clearly from my standpoint, and I think from the standpoint of most of the cosponsors, negotiated restraints would be preferable to legislated restraints. The position I have taken with the administration is to draw their attention to the story of the tortoise and the hare. I think that the legislated approach should be the tortoise in this race and if the administration wants to negotiate restraints, fine.

If, on the other hand, the administration does not seek to negotiate restraints, then Congress will proceed with this legislation as we are doing today.

Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I have no questions.
Senator DANFORTH. Senator Symms.
Senator SYMMS. Mr. Chairman, I just have one brief question. Senator, it goes back to your town meetings that you held this weekend. I read from the Wall Street Journal here. I just happened to open the page to it. It said, "Ford to slash steelmaking operations by June if UAW doesn't accept pay cut."
I will just read the first paragraph.

Ford Motor Company said it plans to sharply cut its steel making operations here in Dearborn, Michigan, unless 5,000 steelworkers agree to pay cuts. Ford said it asked the United Auto Workers Local Union 600, for a 50 percent reduction in incentive pay for steel workers that ranges from $9.00 an hour to the top regular wages of $11.00 an hour.

Did they talk about that at the town meetings at all?
Senator LEVIN. Sure. They are very much aware of the contribution that they are being asked to make, that they already made, particularly with the Chrysler workers. They realize that much of this pain is going to have to be carried by various segments, and they are not going to be excluded. They are very much troubled by it.
Senator SYMMS. Are they willing to go ahead and do this? Did you get that impression?
Senator LEVIN. In many cases they have already done this in terms of the Chrysler workers, and they are willing to bear a fair share. They want to make a contribution. They are anxious to make a contribution. They want to work. They have 14.2 percent unemployment, in Michigan. They want to work.
Senator SYMMS. Thank you Mr. Chairman.
Thank you, Senator.
Senator DANFORTH. Senator Wallop?
Senator WALLOP. No questions, Mr. Chairman.
Senator DANFORTH. Senator Boren.
Senator BOREN. Thank you, Mr. Chairman.
Senator Levin, I commend you on your good statement today. I am very sympathetic with what you have had to say. Normally, I do not favor trade restrictions, but in this situation, I think when we look back at the contribution which our own Government has made to the problems of the automakers, and when we look at some of the unfairness that exists in trade policies between our countries and particularly Japan, at the current time, it does make me sympathetic to a temporary action of this kind. Although I agree with what the chairman has said, if it could be negotiated, it would of course be preferable.
But, I think the beginning of the process of these hearings should be a message to the administration that there are many of us who are very, very serious about providing some breathing room to our domestic industry so it can have a recovery.
I was curious about your figure of 1 million, which you suggested. I didn't follow in detail how you arrived at that figure, and why you think the 1.6 million figure set in the bill is inadequate.
Could you go back over that again?
Senator LEVIN. I would agree with the chairman, that this is not science, but art. It is an estimate of what will really provide some relief. The best estimate we can make in our office is that 1.6 will not provide a substantial relief for the problem, and that a figure

closer to 1 million would. It is just a matter of computing the difference.

Senator BOREN. What do you assume will be the level of imports and units if no action is taken? If there is not a negotiated or legislated solution?

Senator LEVIN. Somewhere between 1.6 and 2.0, depending on the market. A lot depends on interest rates and the state of the economy, and there is no certainty.

Senator BOREN. In fact, the first month of this year the rate would be even higher than the two continued through a yearlong average. Because, wasn't it over 200,000, I believe in the first——

Senator LEVIN. Indeed, it was, and was over two last year, as well.

Senator BOREN. So, you are assuming that you would need what order of magnitude in terms of reduction over the past year? How many units freed up that the domestic market could target for?

Senator LEVIN. Well, I would hope up to 1 million over last year's level.

Senator BOREN. Thank you very much.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Senator Levin, I think you provided this country with a great service by testifying, as has the chairman of this subcommittee. I don't think any of us are really clear as to how far we should go in the United States to impose these kinds of barriers to trade. Most of us are ambivalent about it. It is a very delicate question. It is a very difficult question.

I personally, though, am a cosponsor of this resolution for two reasons. One, to get the dialog going. We can't sit back and do nothing in this area. I think the very least, the introduction of this resolution will help to achieve a very positive result.

Second, I come from a State which tries to export a lot of agricultural products. As you know, some Governments, including the Japanese Government, pose fairly high barriers to our products.

I understand that under GATT and under the multilateral trade negotiations, the United States and the Japanese Governments have worked out an agreement.

It is, however, my belief that we should go further in encouraging various countries to lower their barriers to our products. That is the second reason I am supporting this resolution, to send a message to the Japanese Government, so that they know that we too are serious about encouraging them to lower their barriers to trade.

I hope as a result of this, the resolution, this hearing, that we will observe some reduction in their barriers to our products as well.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Senator Baucus.

Senator Levin, you and any of the other Senators who would like to join us on the committee, as the hearing proceeds, are certainly welcome to do so.

Senator LEVIN. I thank the chairman. Again, I want to point out that I think he has really taken some courageous steps. And again, the road which I know is difficult for you, for the committee, for all of us, and the Congress, who believe in free trade in principle, but who want it to be a two-way street, and have seen it not become that, but instead have watched others take advantage of our open doors, while doing to us in the beef industry, in the lumber industry, in the tobacco industry, what the Japanese and others have done.

I thank you.

[The prepared statement of Senator Levin follows:]

STATEMENT OF SENATOR LEVIN

Mr. Chairman, I appreciate the opportunity to be here today. Since my views on this issue are well known to the members of the Committee, I will keep my remarks brief.

Mr. Chairman, this legislation takes an important philosophic step by modifying and refining our traditional support for a total free trade system. That step is, I would suggest, an unavoidable one since we are the rare free trade nation in what is a "restricted trade" world. When Japan, for example, sees its lumber industry outcompeted by American exports, they call for restraint on the part of American lumber firms, as reported in the Wall Street Journal. When we, however, see our auto industry injured by a flood of imported cars, while it is trying to modernize so they can compete, we only begin to wonder if the situation is serious enough to allow us to consider maybe asking the Japanese if they might be willing to sit down and talk with us about some of the problems we are having.

The difference between our policies and the policies practiced in the rest of the world has produced a sad legacy: rising unemployment and the attendant costs to our treasury, on people, a declining industrial base which threatens jobs and our security, and a decimation of basic industries like auto and steel. But once we have accepted the fact that we need to provide temporary protection for our industrial base and our economic future, the question we confront is what level of protection gives us the greatest gain or the least cost.

Here, I am sorry to say, I have some problems with the legislation you are considering. I believe that the line needs to be drawn at a lower number. Given the current stockpile of Japanese cars now in our borders, and given the possibility that there may be a good many more of them here than we know about now, it's important to recognize that whatever the limit we set, the number of units available for sale will be greater—at least 150,000 units greater according to at least some of the estimates I have seen. Given the current economic climate and the projected demand for new cars, a 1.6 million limit simply will not bring us the kind of sales and employment return that we deserve to get.

If we are going to make the shift in philosophy represented by quotas, then we ought to set the permitted sales volume at a level which gives our domestic economy the greatest boost. We shouldn't just say, "well we set quotas, our job is done." We have to set the quotas at the right level.

A level of 1.6 million is going to involve all the political pain associated with a major philosophic shift without getting us as much of the practical reward we made that shift for.

I urge you to come closer to the 1 million level which would represent meaningful restraint and offer us a major chance for our domestic industry to get back on its feet.

Let me make one closing comment. This weekend I met in three town meetings with about 1,300 Michigan citizens. There is tremendous anger and deep hostility at having by far the highest unemployment rate in the country. There is tremendous anger and deep hostility because, at the same time, the administration is proposing major cuts in protection for the unemployed.

There is tremendous anger and deep hostility that the President is now apparently waivering on the commitment he made in Michigan during the campaign that "government has a responsibility to convince the Japanese that, in one way or another, the deluge of their cars into the United States must be slowed while our industry gets back on its feet."

The people know that they are not going to be able easily to get back to where they once were. Even if we totally banned the sale of imports in this country, my home state will not soon return to its former fortunes. The people don't have unrealistic expectations. They know what they have lost. But they also know that a meaningful import bill can help them begin the process of recovery. It would be cruel to tempt them with quotas but deny them the relief they need. And it would be foolish to come so far and then stop before we reached the kind of restraint which would help return the industry and its workers to its feet.

Mr. Chairman, we have come a long way to get to the point of holding these hearings on this subject. Your leadership has been instrumental in bringing us this far. You have taken truly courageous steps on what I know is a difficult road.

Senator WALLOP. Mr. Chairman, could I just make a comment on what Senator Levin has just said?

Senator DANFORTH. Yes, Senator Wallop.

Senator WALLOP. Thank you, Mr. Chairman.

It is all well and good to be a leader of free trade in the world. But, to be a leader you have to have a few followers. So far, I see us going over the hill all by ourselves.

Senator DANFORTH. Senator Quayle.

STATEMENT OF HON. DAN QUAYLE, U.S. SENATOR

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

I would ask my statement be inserted in the record and in the interest of time, I will summarize.

First of all, I would like to commend you for holding these hearings. I hope they lead to a serious communication and a dialog with Japan.

Foreign Minister Ito is going to be visiting this country on March 21 to March 24. Hopefully we can negotiate a voluntary restraint and a voluntary situation that will be satisfactory to all parties.

There has been a lot of talk about free trade. We are for fair free trade. Senator Wallop brought up the beef problem that he has. I am sure it would also affect Senator Boren an' his State, and others, including my own State.

The facts need to be pointed out when we talk to Japan that we have, as of now, a $10 billion trade deficit with that country.

Japan is not the war-torn nation of the mid 1940's. This is not 1950. This happens to be 1981, and Japan is the third most successful industrialized nation in the world today.

Along the same lines with Japan coming into the industrial world, a number of us are concerned about its share and burden of defense spending.

The United States, today, is prepared to increase its defense budget authority by 25 percent in 1982. That will represent over 6 percent of our GNP, yet Japan retains a Maginot Line attitude of only less than 1 percent of its GNP on defense spending.

But, today, Mr. Chairman, you have focused our attention on the auto industry, and coming from the State of Indiana where one of five of my fellow Hoosiers are employed in the auto industry, it is of great and serious importance to me.

It seems that there are basically three alternatives.

One, we can go ahead with the legislation proposed by you on the mandatory quotas, which all of you have expressed a serious problem of getting into protectionist legislation.

Two, we could do nothing, which would be wrong.

Or, three, I think we could offer a tax credit for the purchase of new American-made automobiles and light trucks.

Mr. Chairman, when I first talked about a tax credit, my question, as the question of all of you would be, was: "What is going to be its drain on the Treasury?" If we are going to get into a tax credit for the purchase of new American-made automobiles, isn't this going to be a severe adverse effect on the revenues, in this day of scarcity of revenues?

I have done a study and used some assumptions. I would like to go through it with you, on a chart, that will show and make the argument that we could, in effect, not have a loss of revenues, but the net effect, particularly by putting back to work 440,000 people in a period of a year and a half—by the end of December 31, 1982—that the net effect to the Treasury would be an actual increase.

Let me just go through the chart with you on the sales side. We are now at selling 7.5 million cars and light trucks. Assume you have a tax credit which I propose of $750. According to the CBO estimates, any 10-percent decrease in prices increases sales by 25 percent.

A 25-percent increase over a period of a year would generate 2 million additional sales. In a period of a year and a half, which this tax credit would cover, 3 million additional sales would be generated.

One job is created for each additional 4.5 units sold. I think this is fairly common knowledge with the auto industry on the impact of additional sales on employment.

If you have 2 million additional units sold you are talking about 440,000 jobs.

This breaks down—and these again are industry figures—120,000 jobs directly, and indirectly through the suppliers another 320,000.

Now, let us look at the Treasury and the impact of this plan on the return and the costs.

According to present figures, with unemployment compensation, TAA, food stamps, the loss of revenues by being tax consumers rather than tax producers, it costs the Treasury about $14,000 annually for each unemployed auto worker.

Over a period of a year and a half, that would be $21,000. You multiply that times 440,000, and you get $9.2 billion.

In addition, there would be an additional tax on the companies that would be into a profit mode. You can add $2.2 billion.

The drain on the Treasury of a straight tax credit of $750 multiplied by, we estimate, 4.2 million cars and light trucks being sold, comes to $10.7 billion.

So, in conclusion, Mr. Chairman, even if there is an agreement reached with Japan, I would say that perhaps we should proceed with this tax credit. We did it for the housing industry, in the recession of 1973-74, for the purchase of new residential homes. It would be temporary, and it is something that if you take these costs and say, "We are going to continue this unemployment," that the net effect is not as serious as some may believe.

Thank you for allowing me to testify.

Senator DANFORTH. Thank you, Senator Quayle.

Senator Chafee.

Senator CHAFEE. I have no questions. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Quayle, I think this idea is certainly worth exploring. There are a number of things we can do to help the automobile industry in the tax area, with regulatory reform, and so on. I think we are going to have to proceed on a number of fronts at the same time.

I would only point out that it is my view that import restrictions are a necessary ingredient. They are the sine qua non of trying to help the automobile industry regain its strength. They are not the only thing we can do, but an absolutely essential part of what we can do. We must at least achieve this.

Senator QUAYLE. I would only say that it seems everyone we talk to about restraints or mandatory quotas through the legislative route, that most people anguish over the thought of having to do that. They really don't want to do it, but we have no alternative. As you said, it may be essential that we do, but nobody really wants to do it.

Well, if we don't really want to do it, I am simply offering an option that may get to the same result, particularly if we can point out to Japan, and I commend you for bringing this to the attention of everyone, that we could have some sort of voluntary arrangement.

Senator DANFORTH. Thank you very much.

Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator Quayle, I obviously agree with the approach that you are taking. Last year, as a Member of the House, I drafted legislation creating a tax credit for the purchase of domestic cars up to a certain amount of money.

Senator QUAYLE. There have been suggestions and during the research that fuel economy should be the prime issue. There are all sorts of requirements that you could put on to qualify for a tax credit to use this as an incentive orientation.

But when you get down to the bottom line of trying to write something like that and trying to have the public understand it, the best approach we felt was just simply a tax credit for the purchase of a new American-made automobile or light truck.

Senator GRASSLEY. I ran into the problem of trying to justify a tax credit for very, very expensive cars. Also, because most or at least a large share of the small, fuel-efficient cars are in the cheaper price range, a price limit has the beneficial effects of justifying it for those who feel the purchase of luxury cars should not be subsidized promoting fuel efficiency.

So, I am only throwing these two additional considerations out for your consideration as you pursue this bill through the legislative process.

Senator QUAYLE. Yes.

Senator LEVIN. Thank you.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Thank you, Senator Quayle, for bringing your idea to the committee this morning. I just have one question. According to your figures here, where there won't be any drain on the Treasury, why did you limit it to $750?

Why not $1,000, or $1,500?

Senator QUAYLE. Well, we picked $750. There are those who advocate a higher tax credit and, of course, if you have a higher tax credit you would have perhaps more sales.

If you would like to go higher, I would welcome you aboard. Perhaps they might compromise at the Quayle point of $750.

Senator SYMMS. How did you come up $750?

Senator QUAYLE. Well, we looked at anywhere from $250 to $1,000. Where we came up with the $750 was basically an in-between figure.

Senator SYMMS. In your research you must have thought about this from the rebate programs of some of the major auto suppliers you have run. What has happened to their sales after the rebate comes off?

Senator QUAYLE. Well, this would be an additional incentive. They can't continue to give rebates and expect to retool and recapitalize.

They have to be taking some of that money and putting it back into capital formation. No matter what happens to the arrangement with Japan, and if they can come to some sort of voluntary arrangement, fine. But I think legislation like this for a fixed period of time to help the auto industry out and get it back on its feet would be perfectly proper.

You have to realize that the Government was certainly a contributing factor in the demise of the auto industry in this country of ours. I am not going to say that the management in Detroit didn't make some disastrous decisions, because they are culprits also. But our tax policies, our regulatory policies, our Government action toward the auto industry, and an entire industry, certainly has contributed to the situation in which it finds itself today.

So, for a short period of time, since we are so dependent and interrelated to the auto industry, that a tax credit would be proper.

Senator SYMMS. In other words, you would prefer to have this passed by legislation than you would to have a volunteer agreement settled by the trade negotiators from Japan and the United States?

Senator QUAYLE. Actually, I hope we can have both.

Senator SYMMS. You would like to have the voluntary restraint and this to get it going?

Senator QUAYLE. I think Japan is going to have to realize that they just can't open up their markets or flood our markets while they restrict our markets over there.

We are for free trade. You go back to even Adam Smith, who said that whenever a government subsidizes an industry there is a way for another government to retaliate.

There is no doubt that there are trade barriers and there are institutional barriers in Japan to our businesses here. It is time to come to grips with this problem on a bilateral basis with Japan, which would result in voluntary restraint, voluntary agreement. But even on top of that, which I hope we can achieve, I think a tax credit for a short period of time is simply desirable and would definitely be beneficial to the auto industry.

Senator SYMMS. Thank you very much. Thank you for being here.

Senator DANFORTH. Senator Wallop.

Senator WALLOP. No questions, Mr. Chairman.

Senator DANFORTH. Senator Boren.

Senator BOREN. I have no questions, Mr. Chairman.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Senator Quayle, did I understand you correctly to say that these are CBO estimates?

Senator QUAYLE. Some of it is.

Senator BAUCUS. Which is and which is not?

Senator QUAYLE. CBO is the additional sales, where the credit assumes a 25-percent increase in sales, with a 10-percent decrease in price. That is a CBO estimate.

Senator BAUCUS. Is that a matter of general principle or is that for American cars and light trucks?

Senator QUAYLE. That is a matter of principle.

Senator BAUCUS. So CBO has not said, "OK. If this were to become law that this would be the result in terms of American cars and trucks." Is that right?

Senator QUAYLE. What they are saying, and their assumption says that if you reduce the price by 25 percent, which in effect a $750 tax credit would average, because the average cost of the——

Senator BAUCUS. I know. That is speaking generally.

Senator QUAYLE. We took basic assumptions from credible sources and then applied it to our factual situation.

Senator BAUCUS. But does CBO say that if the $750 tax credit were passed that there would be 2 million additional cars purchased in America?

Senator QUAYLE. No. As a matter of fact, their actual case, and I don't have it here, was a tax credit I think of $1,300, and was much, much higher. They said it would show it would have these additional effects.

Senator BAUCUS. So this is not a CBO estimate.

Senator QUAYLE. I am not saying that this, all of this together. What I am saying is the CBO estimate, is their assumption and statement here that if you reduce the price by 25 percent you will get a 10-percent increase.

Their actual assumption was a much higher tax credit.

Senator BAUCUS. Thank you.

Senator DANFORTH. Senator Quayle, thank you very much.

Senator QUAYLE. Thank you, Mr. Chairman.

[The prepared statement of Senator Quayle follows:]

STATEMENT BY SENATOR DAN QUAYLE OF INDIANA

Mr. Chairman, the auto industry, which has provided employment for one in five of my fellow Hoosiers, is laboring under a heavy burden of high interest rates, sagging sales, huge capital expenditures and growing foreign imports.

The Big Three automakers lost over $4 billion in 1980 and Chrysler made history posting a loss of $1.7 billion, the largest ever for an American firm.

The situation in the auto industry is critical, not just for my home State of Indiana, but for the Midwest, where 90 percent of automotive parts are manufactured, but the entire nation as well.

Although sales have improved somewhat in recent weeks, sales of domestic cars and trucks remain severely depressed—approximately three to four million vehicles below normal.

Some employees have been recalled, but more than 200,000 hourly-related workers continue on lay-off. Add to these the unemployment and reduced hours among auto supervisory staff and workers in related industries and you have painted a statistical picture of the economic costs of lower car sales. We have all seen and felt the human costs behind these statistics.

As I see it we have three options: We can do nothing and hope that it all works out in the end. It might work out but the costs in human suffering would indeed be great.

The second choice, which will be discussed at length today, is to restrict imports of Japanese automobiles to 1.6 million units a year for the next two years, a drop of 300,000 units from 1980 Japanese imports.

Forced restriction of imports is not the answer to restructuring domestic automotive demands. Even if Japanese imports were cut back to 1976 levels, the resultant increase in U.S. domestic sales would be less than one million units annually under the most optimistic assumption of switching buyers to U.S. made autos. The auto industry would be helped just enough to encourage other industries to seek import restrictions without restoring the basic level of demand the industry needs.

A third alternative is a tax credit. This proposal would increase sales by granting a $750 tax credit to purchasers of domestically produced cars and light trucks, excluding fleet sales. This credit would last for only 18 months.

The effects of the tax credit are illustrated in the chart before you. Without the credit, domestic nonfleet car and truck sales are likely to continue at 7.5 million units annually. The credit would reduce prices by an average of 10 percent, raising sales by roughly one-fourth, to an annual rate of 9.5 million units.

The two million additional units sold, shown by the hash marks in the first panel, will create—more accurately restore—an estimated 440 thousand jobs. The second panel shows the number of restored jobs, about 120 thousand in the auto industries and the remainder in supplier and service industries. These figures are based on the generally accepted ratio of one job for every four to five additional units sold.

The substantial cost of the credit (estimated at $10.7 billion for the credit eligibility period from July 1, 1981 to December 31, 1982) will be more than offest by the returns to the government in the form of increased tax revenues from employed workers and reduced payments for unemployment compensation, trade adjustment assistance and other government transfer payments. The value of these payments, we estimate, would be in excess of $11 billion for the 18 month period if auto and truck sales remained at 7.5 million units.

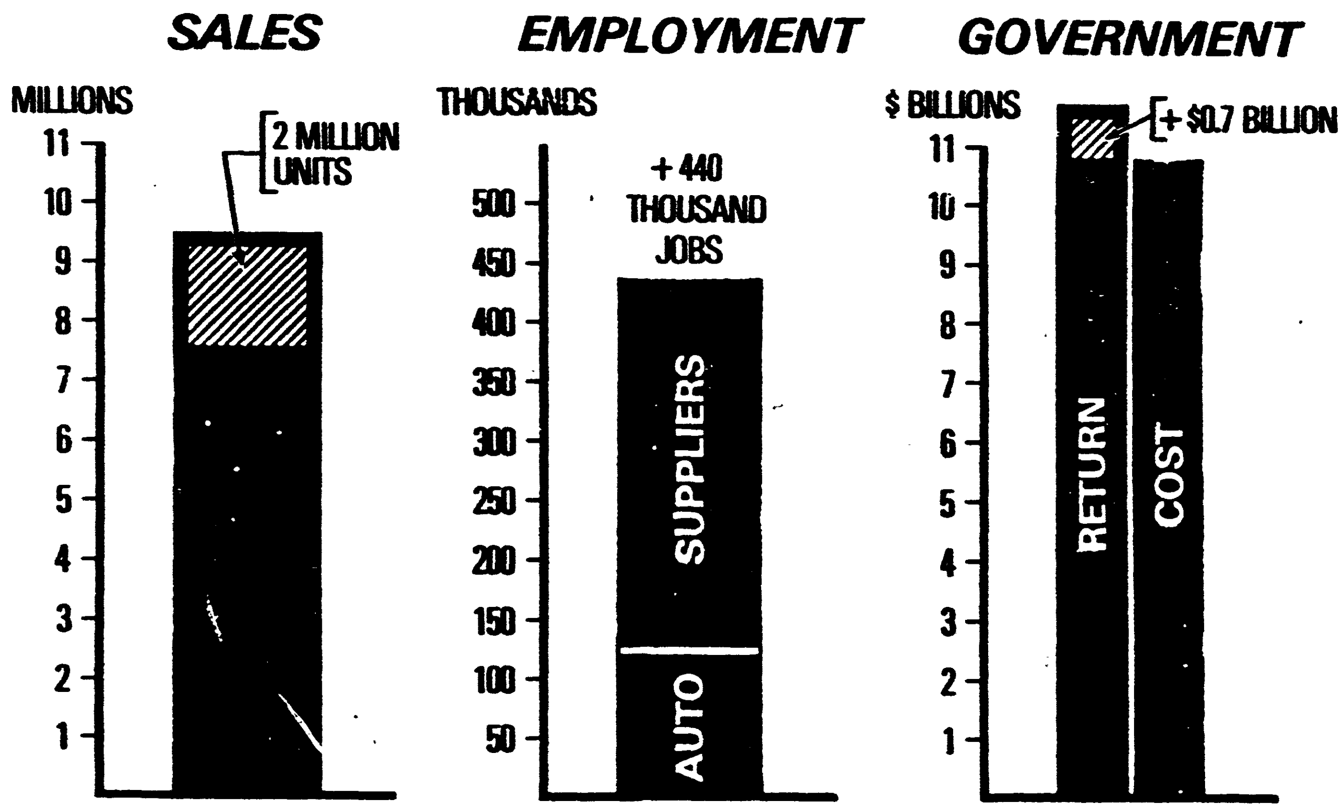
The net return to government, which we estimate at nearly three-quarters of a billion dollars, obviously depends on a number of responses that can not be projected exactly.

The reverse side of the chart contains the specific assumptions used in our estimates. They are similar to those used by the auto industry and in a cross section of independent studies. The net return may turn out to be somewhat smaller or larger. On balance, however, we believe that the tax credit will be at least matched by the return. Certainly restoring the jobs of 400,000 workers must be given considerable weight in addition to the monetary gain to the Treasury.

Likewise, an increase in auto and truck sales of 2 million units during the next year and a half would give the industry the aid it needs to get through this difficult transition period. At the same time it offers a real opportunity to attract American buyers to American-made products.

I urge the members of this Committee to give serious consideration to a tax credit for purchase of American made vehicles as an alternative to placing restrictions on foreign imports.

EFFECTS OF A $750 TAX CREDIT FOR CARS AND LIGHT TRUCKS ON:



ASSUMPTIONS AND CALCULATIONS FOR $750 TAX CREDIT

Credit applies to domestically produced cars and light trucks purchased between July 1, 1981 and December 31, 1982 (excluding fleet sales)

Projected level of unit sales: (annual rate for second half '81 and full year '82)

with credit 9.5 million cars and light trucks
without " 7.5 million cars and light trucks
2.0 million additional sales per year
(3 million for credit period)

Additional sales with credit assumes approximately a 25% increase in sales for a 10% decrease in price*

One job is created (or restored) for each additional 4.5 units sold

2 million units = 440,0000 jobs / 120,000 direct(automotive workers)
/ 320,000 indirect(suppliers & other)

Return to Government (from reduced unemployment, trade adjustment assistance, other transfer payments, increased tax revenues)

$14,000** annually per worker ($21,000 for 1 1/2 yr credit period)

440,000 reemployed workers x $21,000 = $9.2 billion

3 million additional units sold for credit period provides $2.2 billion more in corporate taxes from auto and truck firms

3 million units x $740 per unit = $2.2 billion

Total Return to Government

$9.2 billion + $2.2 billion = $11.4 billion

Cost of tax credit

14.25 million x $750 per car = $10.7 billion
(9.5 million units per year for 1 1/2 years)

Net Return $0.7 billion

*Assumes an average price of $7500 and a short-term price elasticity of -2.5; these assumptions are the same as those used in a Congressional Budget Office staff paper on the auto industry (July 1980)

**Annual average for auto and related supplier worker based on data from The U.S. Automobile Industry, 1980, Department of Transportation, January 1981(data adjusted to 1981-82 wage levels)

Senator DANFORTH. Senator Riegle.

STATEMENT OF HON. DONALD W. RIEGLE, JR., U.S. SENATOR

Senator RIEGLE. Mr. Chairman, I appreciate your leadership on this issue. This is a tough, strategic problem for this country. You have helped bring it into focus. I am grateful for that.

I might say, too, that the three members of the administration who are here, Secretary Lewis, Trade Representative Brock and Secretary Baldrige, have all done fine work in the early days of this administration to understand this problem and develop an approach to solve it.

If I may, I will summarize my prepared statement.

First, the level of auto imports is an urgent problem. It inflicts significant costs to our economy in terms of unemployment, a tremendous drain in our balance-of-payments deficit, and a substantial increase in the Federal deficit. Something has to be done about it. If left alone, the problem will not solve itself, it will get worse.

I want to show you how the Japanese market penetration has developed by State. Most public reports talk about a Japanese market penetration of about 22 to 23 percent now. Some have claimed that such a penetration rate is artificially high, and will recede. However, the national rates actually understate substantially the trend line we are on.

[Referring to map.]

The Japanese auto industry's entry into the American market has followed a two-coast strategy. The States colored bright purple, on the west coast and on the east coast, are States where the market penetration by the Japanese is greater than 21 percent.

In California, the market penetration by the Japanese is almost 39 percent; 38 percent in Oregon, 36 percent in the State of Washington, 30 percent in Idaho, and 29 percent in Utah. Similarly high rates are found in a number of other Western States

The same thing is found on the eastern seaboard. In Maine the percentage penetration is nearly 24 percent, about 23 percent in South Carolina and so forth all along the coast.

Where the Japanese have concentrated their efforts, they have captured very high percentages of total sales. They have not yet completed the expansion of their distribution network into the center of the country; it is only a matter of time before they do. Mr. Toyoda, and many others, have made that clear.

So, there are no natural forces that will drive down the market penetration rate. Unless there is effective national action, Japanese penetration nationally will continue to rise.

I think there is no surer way for the United States to lose its basic economic strength and its ability to project leadership around the world, both economically and militarily, than to have the American industrial base essentially cut in half.

That is the threat that is brought by the invasion of the Japanese cars and trucks. It hits our auto industry now, but it has its spillover effect in the steel industry and rubber and glass and the machine tool industries. The impact will fall across a number of key sectors of the economy.

In short, if nothing is done the problem will get worse, and there will be grave consequences for our country.

Now, some have claimed that to do nothing would uphold the principle of free trade. That is an outrageous proposition.

I have seen that position set forth in editorials in the Wall Street Journal and the New York Times and the Washington Post. They all sound as if they are written by the same writer. They all urge the United States to uphold the virtues of free trade in automobiles. Where do we find a free world market in automobiles? We don't have free trade in automobiles. We have not had it for 20 years.

The Japanese market has always been closed to American cars for all practical purposes. That is how Japan built its auto industry into a tremendous corporate colossus.

That is why Japan this year will send 2.2 million cars into the United States, take back less than 20,000 of ours. In fact, no country has been allowed to penetrate the Japanese auto market.

So, the notion that we have free trade is outrageous on its face. The powerful barriers to trade are seen in the fact that the price of an American car in Japan is three times its retail price here in the United States.

I would like to make the following suggestions for working out import relief here.

First, any limitation must be effective. It can't be fuzzy and ephemeral. It can't rest on gentlemen's agreements that aren't verifiable.

Whatever arrangement is worked out, whether it is an orderly marketing agreement, a voluntary restraint agreement, or a legally imposed quota, has to be precise and it has to be something that we can monitor.

Second, the U.S. Government must develop the capacity to carefully monitor the number of cars coming into the country under any agreement. There have been many reports that cars have been stockpiled here in the United States over the last several months and that Japanese companies have been underreporting their shipments and sales. Any agreement must include those cars that are currently in the inventory.

Third, the level must not be set at a level that is too high. Legislation that is now pending would establish quotas at 1.6 million units. That is much too high for a starting point of negotiations. I think the final agreement must reach a level between 1.2 and 1.6 million units.

Finally, the agreement must span the period needed by the U.S. auto industry to adjust to new conditions of international trade. I don't think a 1- or 2-year agreement will be sufficient. Breathing room must be provided for at least 3 years, and it may have to be longer than that.

But, even the highest limits that have been discussed here in Congress would still be very generous to the Japanese. In fact they would be more generous than those any other nation in the world has offered the Japanese. I should think that they would be delighted to have the most stringent agreement we have considered.

Mr. Chairman, we may face a surge in auto sales this spring. I hope there will be. I hope interest rates will come down enough so people can afford to buy cars again in large numbers. Sales will have to rebound sometime during the next year or two.

But if the Japanese walk away with the increased sales, that is going to be a tremendous additional setback to all the American producers. Each company is running massive deficits at this time, as you well know.

Mr. Chairman, I hope this committee will act forcefully. I think we can solve the import problem responsibly. I think we can work it out either in law or at the administrative level, but it is essential that something be done before we find ourselves with permanent damage that we are unable to repair.

Senator DANFORTH. Senator Riegle, thank you very much.

Senator Chafee.

Senator CHAFEE. Mr. Chairman, in your opening remarks you said part of the problem of the U.S. auto industry has been caused by the U.S. Government.

Could you amplify on that a bit?

Senator DANFORTH. Well, I think that this is clearly the case. I think that therefore, when, as Senator Riegle pointed out, the editorial writers write on this subject, they clearly have it backwards. I do not believe that laissez-faire economics means that the Government is free to make a mess and then walk away from it.

It is clear that governmental policy has contributed greatly to the problem that we now face. I am sure that there is a lot of blame to go around. You pointed the finger at the industry, at the UAW and so on, but I think Government has also played a substantial role in this.

How? First, governmental energy policy. We have artificially restrained the price of gasoline, for the best of purposes, namely, compassion on the part of Government, but the effect was created in the minds of the American people the sense that they could afford to buy large cars.

In the minds of the automobile manufacturers it created the notion that they could afford to continue producing large cars.

Then, when the OPEC cartel began raising the price of gasoline, when governmental energy policies led to the fuel lines which were created in early 1979, suddenly, very suddenly, there was a rush on Japanese automobiles, because the Japanese were in the business of producing small cars. Until that rush, the Japanese cars were not very widely sold in the United States. But, between 1976 and 1980, total Japanese sales went up from about 900,000 to about 2 million.

Second, regulatory policy has not fallen equally on the Japanese and on the United States, and again, for the best of purposes, we have placed all kinds of restrictions on American manufacturers; environmental restrictions, safety restrictions, and so on.

Even the way we wrote the air bag restrictions the burden fell first on the large cars which were made in the United States, which I might add, are the safest cars. Then they fell on the small cars, the Japanese cars, despite the fact that statistically, the six most dangerous cars sold in the United States are produced in Japan.

Senator CHAFEE. Thank you.

Senator DANFORTH. Finally, with respect to the need to invest in new plant equipment, which you pointed out so eloquently in your opening statement, I think that it is clear that our governmental tax policies are not the kind which make it possible for industry to recoup the replacement cost of plant and equipment through depreciation.

Basically, we have provided inadequate incentives in this country through governmental policies for the sort of retooling which we need to save this industry.

I think that the Government is up to its elbows in this problem and that Government therefore, can't just walk away from it.

Senator CHAFEE. Thank you, Mr. Chairman. I would point out that the air bag legislation never took effect.

Senator Riegle, on the first major point you made about U.S. energy policy artificially restraining the low price of gasoline you consistently voted for the limitations on the prices of oil, did you not?

Senator RIEGLE. That's correct.

Senator CHAFEE. Thank you.

Senator, why are the Japanese cars selling so formidably? Why are the American consumers buying them? Are they forced to buy or do they prefer the Japanese cars?

Senator RIEGLE. I think Senator Danforth summarized that quite well. We had a tremendous change in market demand in the United States, Senator Chafee, and it came very suddenly. There was a very rapid shift when oil supplies were short and prices went up through the roof.

As a matter of fact, the shift was so dramatic that in a period of 2 weeks' time, almost all the traffic that was in the showrooms of domestic producers just moved across the street into the showrooms of the foreign car producers.

Before the oil shock hit us, the cars that were not selling were the small foreign cars. Larger American cars were preferred by most of the buyers in the United States.

Now, we can sit there and say the American automakers were wrong. And perhaps, in retrospect, they were wrong. It is always easy to be right in retrospect. But there was a radical change that no one had anticipated. It has given the Japanese a great windfall. They have enormous profits to finance the expansion of their dealer network and the modernization of their products.

We are kidding ourselves if we think that there is little danger that all States will show a much higher level of foreign car sales.

All we are asking for is to give the American industry and its workers the chance to get back on their feet and compete. If we do nothing, we are going to drain the lifeblood right out of this industry and the industrial power is going to end up in Japan. I think that would hurt America.

Senator CHAFEE. Senator, is price a problem?

Senator RIEGLE. It is part of the problem.

Senator CHAFEE. Is it not true that price is a problem as indicated by the rebates offered by the U.S. auto manufacturers; thus, stimulating the sales of U.S. cars?

Senator RIEGLE. Price is part of the problem. Some people feel that the rebates are offsetting the high interest rates.

That may be the case. I am not sure whether the problem is the interest rates or the base price of the car. Clearly, if we could move the prices down lower that would be better.

I might say, however, in response to your point on airbags, that huge amounts of money were spent by this industry on airbag research and airbag tooling. That cost is reflected in the price they must charge for cars. Hundreds of millions of dollars were spent. That is part of the price burden that we are referring to here.

Senator CHAFEE. What are the United Auto Workers doing to contribute to this? Let us take the Ford workers. I am not talking about giving up future pay raises, I am talking about immediate cuts.

As you know, in the testimony received, the United Auto Workers are the highest paid workers in the Nation.

Senator RIEGLE. That is not exactly true. I mean, they are certainly not higher paid than the airline pilots or many of the people of the Teamsters Union.

Senator CHAFEE. I don't think we want to compare an airline pilot to a production worker on the Ford line.

Senator RIEGLE. Well, you said organized workers who were organized under a labor contract.

Senator CHAFEE. Yes. Industrial production workers. The indications are that with fringes, wages are around $19 an hour.

Also indicated is that they are about 50 percent higher than the average industrial worker in the United States.

Now, are they taking cuts? I don't mean giving up future benefits, I mean immediate cuts?

Senator RIEGLE. Well, I think you raise an important issue. It should be discussed in a serious way. Wage differentials among industrial sectors within the United States or between U.S. autoworkers and Japanese workers are difficult to measure precisely and result from complex causes. Those differentials will have to be understood, but we must see them in a broad context.

We have seen a reduction of wage rates in the Chrysler situation, as you know. The Federal loan guarantee package forced that adjustment.

Senator CHAFEE. I will be interested in the testimony, but I don't believe any Chrysler worker took a cut. I believe Chrysler workers took a reduction in future benefits. But I don't believe the testimony will show any of them took cuts. So, they remain the highest paid workers in the country.

What bothers me, Senator, is that you are asking the workers in my State, who are earning half of what a Chrysler worker or a Ford worker is earning, to be restricted in the type of automobile he can buy and to be forced to pay a higher price in order to support your workers.

I have great difficulty believing this to be fair.

Senator RIEGLE. Well, first of all, they are Americans. Whether they happen to work in Rhode Island or work in Michigan, I would hope that we in Congress would think of them as working in the United States.

I think the question of comparative wage rates is an important one. I would hope that the committee would look at that.

You know, part of the UAW wage package that you refer to includes the cost of the health care program that the UAW has negotiated for its workers.

There is a national health care system in Japan. So that the cost of those same benefits are not calculated into the wage rates of the Japanese workers. That is a substantial factor.

Now, you may not want to treat that as an important consideration. I think it is. I think we ought to look at such issues carefully before we firm up our opinions on wage rate differentials.

The wage differences are discussed in the DOT report. I would be happy to have that issue put on the table and discussed, along with all the other items. I don't think we can side-step that question.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I have no questions. Thank you, Senator Riegle.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. I have no questions.

Senator DANFORTH. Senator Boren.

Senator BOREN. I have no questions. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Will prices of American cars go up if this resolution passes?

Senator RIEGLE. I think that, as part of the understanding, there should be price restraint by the American producers. If we go forward with some kind of import limitation which I think would be sound for the country and help rebuild the industry, I think it is reasonable to expect price restraint by domestic producers.

Senator BAUCUS. On the face of it, if there is a limit on imports, one would expect prices of American products to go up.

Senator RIEGLE. I don't think we should accept that premise.

Senator BAUCUS. Apart from any restraint. You are saying you would expect some restraint on the part of the industry. That may be the case, and that is fine, but apart from that restraint, on the face of it, that would be the first reaction, wouldn't you think?

Senator RIEGLE. Well, I would hope that we can continue to keep downward pressure on prices. I realize it is difficult to do that. But it is important to keep the prices at a reasonable level.

We should not accept an artificial increase in prices as a result of a reduction in foreign imports.

Bear in mind, all the domestic producers now have small car models available and they have unused productive capacity. There is competition now among all the American producers with four-cylinder, front wheel drive, high-mileage cars.

We have production lines sitting idle for K cars, for the new Ford entries, the Lynx and the Escort, for the GM cars, for VW of America, and for American Motors small cars. That is hurting this country.

I think that will provide price competition. I think some moral persuasion can help here also.

Senator BAUCUS. We all agree this is a pretty complex problem. I frankly think that part of the reason for the apparent decline in the American automobile industry is the failure of American management to aggressively try to market our products, in this case cars, overseas.

Certainly Japan has tried to market its cars in our country. That is why we are here.

Senator RIEGLE. Senator Baucus, you really can't get into the Japanese market.

Senator BAUCUS. That is the point I am getting at.

So, what efforts has the industry undertaken to try to lower some other trade barriers in Japan?

We hear the industry coming up here and they want to limit the number of cars that come into the United States. It seems to me part of the problem is what Japan is doing to us. So, what efforts is the industry taking to try to encourage Japan to lower its barriers of trade so that American companies can begin to market their products overseas as aggressively as other countries have marketed their products in our country.

Senator RIEGLE. I don't think the auto companies can get that job done for us. I think that is a Government-to-Government issue.

Senator BAUCUS. We don't see the auto industry coming up and asking us——

Senator RIEGLE. Oh, yes they are.

Senator BAUCUS [continuing]. But now you don't see them coming up in a steady stream as effectively as they are on this, trying to lower the amount of Japanese cars coming into our country.

Senator RIEGLE. That is right, but there is a reason for that. If the Japanese today said they were going to lower their indirect barriers tomorrow morning, that doesn't solve the problem for us. They would have had to do that 5 or 7 years ago to be of any help over the next year or two. In fact, in a sense, that is a ploy used by some Japanese in debate.

Senator BAUCUS. That would help us 5 to 7 years from now, though.

Senator RIEGLE. Yes, but our problem is today. We are trying to craft a remedy that deals with a desperate emergency.

Senator BAUCUS. I understand that, but I think we are also trying to craft a somewhat middle-term, long-term resolution, as well, in addition to an immediate short-term resolution.

Senator RIEGLE. I know an auto dealer in Detroit who is prepared to open a retail dealership in Tokyo within the next 2 months if he can get the Government approval to set up shop and start selling cars. He can't get the approval. That is how open the Japanese market is.

Senator BAUCUS. Thank you.

Senator DANFORTH. Senator Riegle, thank you very much. Since the outset of this problem you have been the foremost leader in the Senate in trying to establish a better climate for the American automobile industry. I appreciate your presence. If you would like to join us, you are welcome to do so.

Senator RIEGLE. Thank you very much. I would like to. Maybe I can sit next to Senator Chafee. [Laughter.]

[The prepared statement of Senator Riegle and chart follow:]

Testimony of Senator Donald W. Riegle, Jr.
before the Senate Trade Subcommittee
March 9, 1981

Mr. Chairman, I want to thank you for this opportunity to share my views on the need for limiting the importation of Japanese cars into this country.

I am convinced that these hearings are an important part of what may be our last good chance to avoid serious, lasting damage to this Nation's most basic industry. Hundreds of thousands of American jobs will be affected by the public action - or inaction - that ultimately results from this subcommittee's work.

Mr. Chairman, the problem of rising Japanese imports has been the subject of Congressional hearings for months. Strongly worded warnings have gone out again and again to Japanese carmarkers. Time and again, Japanese officials have assured us that they are sensitive to our concerns and that they will ease off. Instead, the Japanese have continued their predatory market strategy.

Six months ago I testified on this problem before the International Trade Commission. I ask that my testimony at those hearings be included in the record at the close of my remarks. Last November, the ITC concluded that current U.S. law did not permit them to offer relief.

Since then, the import problem has only gotten worse. The latest reports indicate that the Japanese captured a 23.7% share of the U.S. market in February. That is an annual rate of 2.2 million units. All imports accounted for 28.8% of U.S. car sales.

The U.S. industry can't sustain that loss of market share. No other nation would permit the damage that we have already suffered. The numbers are staggering:

- Over 360,000 workers laid off in auto manufacturing and related industries.
- Tens of thousands more who have fallen off the unemployed rolls and no longer counted.
- 1607 auto dealerships closed in one year.
- Auto companies with over $4 billion in losses just when they must finance the most massive capital investment program in history.
- Thousands of supplier firms with financial positions stretched to the breaking point.

Mr. Chairman, we are near the point of no return in slowing down foreign auto imports.

Some have claimed that if we do nothing, the import share will in time drift from 29% back to their historic levels of about 15%. I believe that is just whistling in the dark. In fact, the national import figures mask how serious the threat has become.

(Map attached)

The Japanese have been carrying out a two coast strategy - establishing and expanding their distribution system. The potential for market penetration is demonstrated by looking at the state figures. There are no natural forces that will draw the Japanese back to 15% of the market. As you can see, they have a 36% or greater share in the three Pacific Coast states and sizeable share in many other states.

Some have claimed that we should not treat Japanese companies unfairly. I believe that the Japanese have taken unfair advantage of America's open markets more than any other country. American products are shut out whenever the Japanese think they will disrupt their markets. The problem of the lumber industry was recently in the news. (Include article in the record.)

Some have claimed that U.S. auto companies should compete in the free markets with Japanese companies. I believe that this premise indicates a fundamental misunderstanding of the world auto market. The Japanese auto industry grew behind massive trade barriers. Japanese auto exports still benefit from powerful government assistance that we are only beginning to understand.

Mr. Chairman, it is clearly in the national interest that the U.S. auto industry over the next four years be brought back to full international competitiveness and technological excellence. This need was clearly outlined in the Department of Transportation study on the auto industry that was released January 11, 1981.

No one suggests that imports are the sole cause of the problems of the U.S. auto crisis. And no one believes that import restraint alone will solve the problems.

I am convinced that no effort can succeed unless Japanese imports are reduced, and reduced far below their current levels while the U.S. auto companies are adjusting to new market conditions. Less regulation and lower interest rates will help, but even with these, we will still need temporary import restrictions.

It appears that the Administration is nearing a decision on that issue. I am sure that strong action would receive overwhelming support from Congress.

If we are not careful, however, this historic opportunity for solid relief may be lost with cosmetic gestures. I want to register four concerns.

First, any limits must be effective. News reports indicate that the Administration may turn to a voluntary arrangement rather than an enforceable orderly marketing agreement or mandatory quotas. Reducing the Japanese auto imports is a complex goal, that may be best achieved by negotiations between the U.S. Government and the

Japanese. But we cannot be satisfied with an agreement that does not include rigorous and thorough monitoring. I ask this subcommittee to make sure that the U.S. government is given the tools to monitor any agreement closely and enforce its provisions if necessary.

Second, limits must be imposed so that Japanese car sales really are controlled during this transition period. I have been hearing from several sources that Japanese companies have for months been shipping far more cars into this country than the trade reports have indicated. I have been told that they may be stockpiling hundreds of thousands of cars in anticipation of import limits. I respectfully request that this Committee ask the GAO, the Commerce Department and the Customs Service to verify the number of unsold Japanese cars that are now on U.S. soil. Certainly these stocks should be deducted from the first year import volume permitted under any agreement.

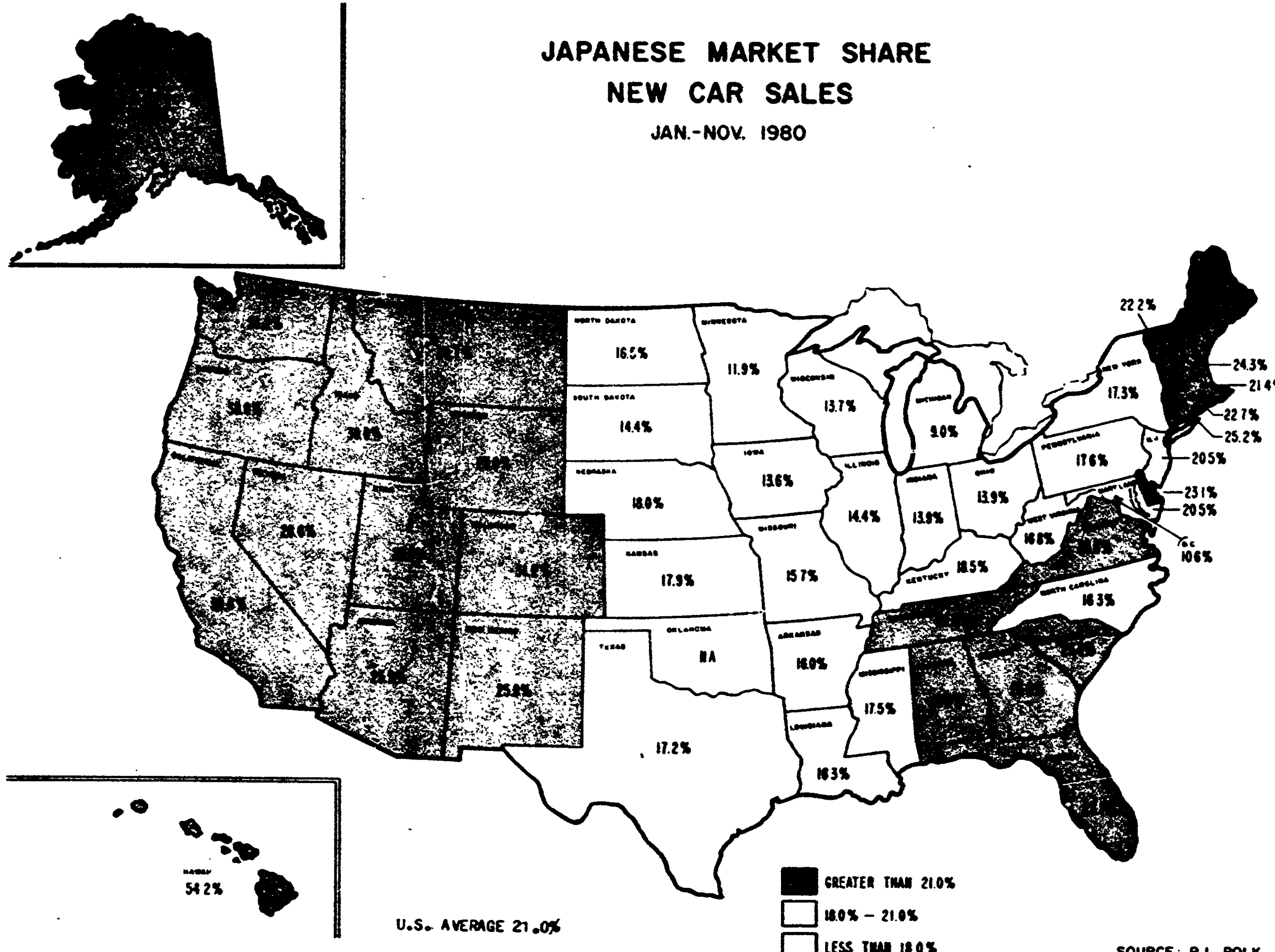
Third, the level of the import limits must at the start be set low enough to be effective. The Danforth/Bentson bill suggests a quota of 1.6 million vehicles per year for three years. Perhaps that level might be too high. If U.S. auto sales remain weak - as most analysts expect - a starting level of 1.2 to 1.4 million Japanese imports might be far more appropriate. If total U.S. sales recover sharply, the limit could then be eased in future years.

Fourth, if any legal hurdles stand in the way of an agreement, Congress should promptly remove them. I understand that the Administration believes that the President now has authority to negotiate an import limitation agreement with the Japanese government and that the Japanese firms would be protected from U.S. anti-trust suits if the Japanese government establishes the agreement by law. If it appears that U.S. anti-trust laws could be used to obstruct any such agreement, I would be happy to work with you, Mr. Chairman, and other members of this committee to see that the necessary exemptions are enacted quickly.

Mr. Chairman, the damage to our auto industry is on the verge of getting out of control. Our willingness to tolerate Japan's damaging trade policy has gone on far too long. We have to cut back the inflow of foreign cars firmly -- and RIGHT NOW. We have to hold down those levels temporarily, while the U.S. auto industry converts its product lines and production facilities. Otherwise, Americans are going to pay dearly for the cost of a destroyed domestic auto industry.

I commend this committee for its leadership in this issue, and I look forward to working with you on real solutions.

JAPANESE MARKET SHARE
NEW CAR SALES
JAN.-NOV. 1980



JAPAN ASKS U.S. LUMBER FIRMS TO REDUCE EXPORTS IN FURTHER SETBACK TO THE INDUSTRY

(By Marilyn Chabe)

SAN FRANCISCO.—The slumping U.S. lumber industry was dealt another blow as Japanese lumber dealers, in an apparent about face called for the U.S. and Canada to cut their lumber exports to Japan this year 20 percent.

In U.S.-Japanese trade, the shoe usually is on the other foot, with American industries asking Japan to limit its exports of autos and other items to this country. But Japan cited an alarming rise in inventories and domestic prices that have plunged 15 percent below the cost of imports amid falling housing starts. The Japanese warned that many of their 43,000 lumber dealers will go bankrupt soon unless North American exports of finished lumber are swiftly and sharply curtailed.

This came as a surprise to U.S. observers who recalled that last fall's bilateral talks between U.S. and Japanese industry and government officials had ended with a consensus that the Japanese would expand—rather than contract—their imports.

"If they're going to keep the good faith generated at those meetings, they should expand lumber imports as they stated they would last fall," said Gus Kuehne, executive vice president of the Northwest Independent Forest Manufacturers.

Mr. Kuehne and other observers admitted to some skepticism at the Japanese forecast of expanded U.S. imports last fall. However, he said that he wasn't prepared for such a dramatic cutback request either. "We just didn't think business would expand quickly," be said.

"If they're successful and sales do go down, it will mean additional curtailment of production in the West," he said. And in view of the industry's already depressed state, he warned: "Every drop means that that many more will be unemployed."

Weyerhaeuser Co. executives noted that most of recent North American increases in lumber exports have come from Canada, "So if there's any cutback in lumber exports, it shouldn't be from the U.S.," Mr. Kuehne argued. He noted about 90 percent of U.S. forest products exported to Japan are logs, rather than finished lumber, while about 85 percent of Canadian exports are finished lumber.

Other observers saw Japanese inventory and pricing difficulty as a short-term problem that arose from overzealous purchases last year. "The Japanese buy like crazy when business is good, and turn off the spigot when business is weak," one analyst said. "And in 1979 and early 1980, they were buying as if there were no tomorrow."

"No doubt about it, it is bad right now," concurred H. A. Roberts, executive vice president of the Western Wood Products Association. "But it shouldn't affect potential product exports to Japan over the long run."

Negotiations between U.S. and Japanese lumber industries are set to continue in three weeks in Japan, and Mr. Roberts said he plans to tell his Japanese counterparts "that the U.S. group wants to be positive in its outlook, but we aren't going over there with great expectations." "I'm skeptical about how much the Japanese will upgrade their purchases from lumber to finished products," he said. "After all, they have a lot invested in their own finishing plants.

Mr. Kuehne, however, was adamant. "At a time when we have U.S. mills built to cut lumber to Japanese specifications, they come out with an announcement that strikes at the very heart of any effort to increase our exports and improve sales."

Senator DANFORTH. The next witnesses are the administration panel, consisting of Secretary Lewis, Secretary Baldrige, and Ambassador Brock.

STATEMENTS OF HON. ANDREW L. LEWIS, JR., SECRETARY OF TRANSPORTATION; AMBASSADOR WILLIAM E. BROCK III, U.S. TRADE REPRESENTATIVE; AND HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Senator DANFORTH. Secretary Lewis, I don't know what your time situation is. I know that you told me before the hearing started that you hoped to make an 11 o'clock appointment. [Laughter.]

Mr. LEWIS. Sounds like I am in trouble.

Senator DANFORTH. It sounds like a tough go, to me. I think that obviously, the testimony of this panel is the heart of these proceedings this morning. I would hope that you could stay.

Mr. LEWIS. Will do.

Would you like us to proceed, then?

Senator DANFORTH. Yes.

Mr. LEWIS. Thank you very much for having us here today. Our procedure will be that I would first like to make some preliminary comments, and then call on Secretary Baldrige, then Ambassador Brock, and then open it up for questions.

First of all, Mr. Chairman, the statement submitted by me, I think is self-explanatory, and with the committee's approval, I would like to have this be a part of the record of the hearing and not repeat what has been said there.

[The prepared statement of Secretary Lewis follows:]

TESTIMONY OF SECRETARY OF TRANSPORTATION DREW LEWIS

Mr. Chairman, I appreciate the opportunity to appear before this Committee to discuss the condition of the U.S. auto industry and the work of the Administration's Task Force on the problems of the industry. I mentioned in my confirmation hearings that I considered the health of our auto industry to be the single most pressing problem that would face me as Secretary of Transportation. After nearly two months at the Department, dealing with a wide range of issues, I can make that statement again today with complete certainty that it is true.

I do not think that I need to go into detail on the nature of the auto industry's problems for this Subcommittee. They have been sufficiently documented in the Department's recent report on the subject.

As an update to that report, however, I would add some recent developments. The 1980 year-end results are now public and the news was not good. General Motors lost $763 million; Ford lost $1.54 billion; Chrysler lost $1.71 billion; and American Motors lost $198 million—record losses for each company. Although sales figures showed considerable improvement for the last week in February as a result of the deep discounts offered by all U.S. automakers, 1981 year-to-date sales totals are still running about 14 percent behind last years already depressed levels. Layoffs at GM, Ford, Chrysler and AMC, while declining during the last quarter of 1980 from their record high levels of last summer, are still persistently hovering around 200,000 persons. Imports continue to cut deeply into the domestic market, with record high February sales of some 219,000 units, accounting for 28.7 percent of total sales in the U.S. The turn-down rate for auto loan applications is still running at roughly 30 percent. Frankly, gives the sluggish start of the new year, I cannot be particularly sanguine about the industry's prospects for significant profits in 1981.

Not only is finding a solution to the problems of the auto industry among my top priorities; it is also among the top priorities of the President. Less than a week after taking office, President Reagan asked us to form an Automotive Task Force to address the industry's serious problems. On January 28, 1981, I announced the formation of the Task Force, which in addition to myself, has five other cabinet-level officials: Secretary of the Treasury Donald Regan; Secretary of Commerce Malcolm Baldrige; Secretary of Labor Raymond Donovan; U.S. Trade Representative Bill Brock; and Chairman of the Council of Economic Advisors Murray Weidenbaum.

Since its formation the Task Force has been exploring the full range of alternatives available to Government, industry and labor to help turn the fortunes of the domestic auto industry around. The members of the Task Force and their staffs have been and are carefully looking at and actively discussing the industry's many problems, including those relating to: Trade policy; capital formation and productivity improvement; Government regulation; worker assistance; community assistance; antitrust; and the availability of credit for dealers and consumers.

We are now in the process of pulling together the views of the various members on these subjects, which we will then synthesize and convert into a decision package for the President. We hope to be able to present the Task Force's report to the President in the next several weeks.

I and other members of the Task Force have met frequently with the parties directly affected by the auto industry's current plight to make certain that we have the benefit of their views and knowledge. In the last few weeks, I have spoken with the heads of each of the U.S. auto companies, and with the leaders of the United Auto Workers; with the Governor of Michigan, the Governors of other hard hit states and the Mayor of Detroit; with representatives of the supplier industry; with financially strapped auto dealers; and with many concerned members of the Congress. This communication and the exchange of ideas that accompanies it is critical to finding a workable, long term solution to the problems of the industry. For if anything has been made clear to me during my short tenure as Secretary of Transportation it is that, just as the finger of blame for the industry's problems cannot be pointed at Government or labor or management alone, neither can a lasting solution emerge from the actions of a single party.

I firmly believe that Government, management and labor each have something of value to contribute to the task ahead; and, furthermore, that each must be willing to make that contribution if our efforts are to be of lasting value. I must say that I have been encouraged in that respect by the thoughtful and constructive discussions we have had with all parties.

Although we cannot as yet go into detail on the proposals the Task Force will put before the President, I can point to a couple of actions on the part of the Administration with the Congress that should prove of significant aid to the auto industry.

First and foremost is early Congressional action on the President's comprehensive economic program, which is designed to reduce Government's demands on sources of capital needed by the private sector, encourage consumer and investor confidence and bring interest rates down to reasonable levels. The plain truth is that we will not bring buyers back to the showrooms, we will not return workers to plants, we will not get production lines operating at efficient levels again, we will not see the auto companies earning profits to plow back into improved designs and facilities—until we get the economy back on track. I am convinced that the auto industry ultimately will be one of the primary beneficiaries of the President's economic program. Unfortunately, due to their tax loss situations, most of the U.S. automakers will not gain any near-term benefits from the accelerated cost recovery features of the President's tax reform program.

The second thing I can point to is the long needed critical review of Government regulation of the auto industry that we have underway. There is no question that the need to meet numerous Government regulations has diverted financial and human resources from use in the development of more efficient automobile designs and equipment and has added to the prices consumers must pay. All agencies are currently reevaluating their regulations. In my own Department, for example, I have already proposed a one-year delay of the present motor vehicle occupant protection standard. The Task Force is putting together a comprehensive package of similar regulatory actions affecting this industry. Even after the Task Force has completed its work, individual agencies will continue to pursue these types of efforts to reduce the auto industry's regulatory burden.

As you can see, we are making strides to address some of the industry's most pressing problems. There remains much to be done, however. The auto industry's problems will not be easy to solve and they will not be solved overnight. But solve them we must, for the auto industry is vital to this country's economic well-being.

We are determined—through a concerted effort by the Administration, the Congress, management and labor alike—to return our auto industry to health and to strengthen its competitive position in world markets.

Mr. Lewis. In that report I comment on the long-term impact of the President's economic package and the benefits accruing to the industry from regulatory reform. I would like to reemphasize three points very briefly.

Just look for a minute, if you will, at the condition of the industry itself.

AMC is 48 percent owned by Renault, which is 99 percent owned by the French Government.

Chrysler is basically Government sponsored.

Ford, despite what we may read in the Economist, here in Washington, is in deep trouble. Their sales are $37 billion with working capital of less than $500 million, working capital down from about $3 billion in 1978, despite the fact we look at their balance sheet and see $8.5 billion, this is not a healthy company.

You have nonproductive fixed assets that are not producing anything in terms of a profit.

Their debt-to-equity ratio is somewhat over 50 percent.

So, I think we should establish the fact that this industry is in deep trouble, that one out of six people in this country is employed by the industry, and that what we are really talking about is not trying to bail out the management and shareholders of these major corporations, but rather we are talking in terms of people.

The estimates in our Department are that somewhere between 700,000 and 1,000,000 people are unemployed in this industry.

So, I think we should try to keep our discussion in that context.

The second point I would like to make is that it is obvious that the general level of the economy is the overwhelming source of all problems in the economic sector, the business sector of our economy.

However, to reemphasize Senator Riegle's point: As recently as 1979 there were 100 days of Japanese imports on wharfs, all over this country. At that point, Ford was rationing V-8 engines. The subsequent crunch on gasoline and gasoline alone caused the collapse of this industry. Yet despite the economy, as we hit the lowest point in domestic automobile sales in 19 years, Japanese imports are increasing.

The third point I would like to make has to do with restraints themselves. As you are probably aware, it is fairly clear that there are differences of opinion on the President's Task Force as they relate to restraints on imports.

Assuming there will be recommendations to the President that restraints be used—and I am one of five members of this committee, with two comembers' support—we will be pushing in the area of voluntary restraints.

It is clear to me that the Japanese do understand the problem. They have voiced views to the three of us indicating that they would like to work something out. Regardless of where you set the level of Japanese imports, if you eliminate the overtime car production alone, which would not have a significant impact on their economy, you would have more than enough reduction in imports to greatly aid our industry.

Three points are essential in discussing the area of import restraints and underlie the reason that I will be one member of the committee supporting a voluntary or jawboning effort, whatever you want to call it:

There is no purely "free trade." That has been recognized, not just in Japan, but the entire world.

It is very important, as Senator Chafee pointed out, that we have some kind of a compromise with the UAW in terms of wages. I don't think there is a prayer that there will be any rollback of UAW wages unless they see some effort to reduce the present high flow of Japanese cars into our market. The point being, and it seems oversimplified but nonetheless the fact, that they would rather go broke at high wages, as Ford and others displace their capital into foreign markets, than go out of business at a lower salary.

Further, I feel very comfortable with some kind of reduction in Japanese imports, because I do feel, as Senator Riegle pointed out, that the Government is a very important part of this problem. Had it not been for the gasoline price supports, had it not been for the regulatory problems we have imposed on this industry, they would have been in the marketplace with a small car at an earlier date.

That is really all I have to say. I will turn it over to Secretary Baldrige.

Mr. BALDRIGE. Mr. Chairman, I appreciate the opportunity to testify here today. I would like to make a brief statement and submit a longer one for the record.

The U.S. automobile industry lost $4.2 billion last year, the most any industry in history has lost. It now looks like it is going to lose pretty close to a half billion dollars in 1981.

I think even more important than annual losses is the cash-flow picture, because that is what produces the machinery and tools to keep the people employed in the future. The cash-flow picture is even worse. It imperils the industry's ability to finance a vitally needed program of retooling and modernization.

The auto industry suffered a $9 billion cash-flow deficit last year. Current estimates indicate further cash-flow deficits of $5 billion this year, 1981, and $3 billion next year, 1982.

Import sales in the middle of this have remained strong.

I think this is important to note. Japanese penetratiom of the U.S. market rose to almost 24 percent in February, and total imports were at a near record 28.7 percent.

Japanese car sales may increase even more in the near future, because there were 204,000 Japanese cars imported in January.

Now, that is 40 percent, approximately, more than were imported in December. If the January import rate were to continue througout 1971, total U.S. imports of Japanese cars would be 20 percent more than this year. The Japanese are clearly trying to fill up the pipeline.

If that percentage was maintained, we would probably import 2.4 million Japanese cars this year, 25 percent of the expected total U.S. market.

I think it is important to note that the low level of U.S. car sales is hurting small businesses and their employees, not just big business. Close to half the components in a car are provided to the automakers by supplier firms, most of which are small and medium size.

In addition, some 1,600 U.S. car dealers went out of work last year.

Chrysler lost 1 out of 8.

Ford lost 1 out of 12.

The industry is responding by a massive retooling program costing some $80 billion. This would put a real strain on the balance sheets of the industry even if sales were strong. But with the weak sales and the huge losses being suffered, it makes this situation extremely precarious.

Certainly the industry should have started this transition to small cars earlier. Certainly the industry's management is not without its fault.

It has been noted here that the Government has to take a large part of the blame. The U.S. Government held down gasoline prices and led consumers to keep on buying large cars and excessive Government regulations have raised automobile costs significantly.

The administration's economic recovery plan is certainly going to help the industry by providing the return of a more robust economy and by lowering inflation and improving financing conditions. But, we need more help than that, in my opinion, in the short-term so that the automobile industry can take advantage of this condition.

The President has not decided yet whether restraint on Japanese auto exports is a necessary part of a comprehensive package to assist the automobile industry, but if the administration does decide that restraint is needed, we believe we should first attempt to get a voluntary commitment from the Japanese Government.

A legislative quota is inflexible and presents many problems. It could be contrary to our GATT obligations and Japan could seek compensation in the form of other trade concessions or by withdrawing trade concessions from us.

Successful implementation of a voluntary restraint on Japanese automobile exports would obviate the need for a bill imposing a quota on imports of Japanese automobiles.

On the other hand, if the administration decides to pursue such a course and it proves unsuccessful, it may then become necessary to pursue alternative measures.

A decision to seek restraint of Japanese auto exports would be difficult for the costs as well as the benefits. We all know the benefits. Import restraints wouldn't solve the problems the U.S. automobile industry has. Restraints should be part of a package that would endeavor to assist the U.S. industry to solve its problems by itself. They are not going to do the whole job, obviously.

But, the reemployed automobile workers would immediately stop requiring unemployment benefits, and instead become taxpayers.

On the cost side, a good many seem to fear that restraint on Japanese cars would drive car prices up sharply. I do not agree. I believe existing market forces would minimize any price increases.

I don't believe, in the first place, the Japanese auto firms would try and soak the market for all they could during a period of temporary restraint. I think that would be foolish on their part. They would be concerned about the effect this would have on their market position once restraint was ended.

On the U.S. side, a powerful market force that we must look at is a million units of unutilized capacity to produce fuel-efficient, small cars that now exists which would hold down price increases. We have the capacity now in the industry to produce about 3 million of these cars. We are only producing about 2 million.

This means that even if Japanese exports were restrained, there would be stiff competition among U.S. car companies to get the added sales. It is a fact of business life, in a capital-intensive industry, you do better by increasing your production, not raising your prices.

Mr. Chairman, considerations such as these are still being discussed in the Auto Task Force. We are close to making our recommendations to the President. I believe the administration will shortly be able to announce an integrated package of actions to assist the auto industry.

I believe an effort to help the industry by imposing a legislative quota would be counterproductive at this time.

May I add, Mr. Chairman, that on this overall issue we have been subject to a barrage of editorials and comments that any kind of action, even one taken voluntarily, is anti-free trade.

May I say, free trade is very important to this administration. The President supports it fully. You have heard him say many times he is for free trade and fair trade. Free trade is something that the world is working toward. We do not have it now. We certainly do not have it in our relations with Japan.

I just simply, as a businessman, would note the fact that it has been well-publicized that Secretary Lewis and I are on the same side on this. I would say we are probably the only two who have been dealing with the Japanese for the last 15 years, in the private sector. Perhaps that is why we are so strong on these kind of voluntary agreements.

You cannot argue this question in academia. I do not believe in unilateral disarmament in our defense posture, and I do not believe in unilateral disarmament in our trading picture either.

Thank you.

Senator DANFORTH. Ambassador Brock.

Mr. BROCK. Thank you, Mr. Chairman. I wish to make a few points very briefly. As I have stated before, the current crisis in the American automotive industry cannot be explained solely in terms of imports.

It is a fact that the import share of U.S. auto market rose from 17.7 percent, 2 years ago, to 26.7 percent, in 1980, and was 28.8 percent last month, despite some recent recovery in domestic car sales.

It is a fact the Japanese market share rose from 12 to 21 percent over this same period and was 23.8 percent last month, an all-time high.

But it is also a fact that of the 2.6 million unit sales decline in U.S. built cars from 1978 to 1980, import substitution accounted for just 400,000 units. This is but one reason why I have stated that import restraints cannot be the sole solution to this industry's problem.

Reforms in capital formation, tax, and regulatory policies, as well as those steps which must be taken by the U.S. companies and labor themselves, are at the heart to the solution to the industry's problems and require primary and urgent attention.

As a first step, the President's economic program must be enacted to foster additional capital for industrial expansion, to lower interest rates, and to put money back in the pockets of our citizens so that they can effectively purchase new cars, other durable goods and homes, the demand for which has suffered so much under previous economic policies.

Many in the auto industry believe that some form of import relief could contribute to the industry's recovery by aiding and generating additional cash flow in employment and by reducing dealership losses.

They argue that the current depressed situation in the industry and related industries is costing our economy billions of dollars in lost gross national product, tax revenues and transfer payments to unemployed workers.

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Further, they argue that the U.S. market is the only major auto market not protected by substantial tariffs or other barriers from Japanese exports.

Therefore, some have come to the conclusion that the U.S. market will be used to absorb increasing quantities of Japanese exports as their manufacturers continue to increase their capacity for parts, knockdown kits and finished, fully assembled vehicles, particularly as the Japanese home market demand remains sluggish.

There is also concern about increased taxes on domestic Japanese auto consumption which have been proposed, and in some cases recently enacted, and their effect on trade.

The auto industry and labor leaders with whom I have talked have agreed that a cutback in imports alone is not the major solution to the long-term problem.

However, they do feel that something must be done quickly to reverse the financial erosion in industry and give them time to accomplish major investment plans that will lead to greater labor productivity, to higher mileage and higher quality automobiles in the future.

Others who also want the U.S. industry to become more competitive argue that moderate import restrictions will not accomplish that goal, and will instead, penalize other groups in the economy, and possibly the industry itself.

Members of our committee, the Trade Policy Committee, which I chair, have been and continue to consider seriously whether some kind of import relief should be a necessary component in the recovery package.

We have made no definitive suggestion or recommendation to the President. We do hope, as a part of this process with Secretary Lewis' committee, to reach an early decision and to make that decision public.

I wish to make one reference to the chairman's bill, S. 396, and similar legislation which would impose unilateral export quotas on Japan. In that regard, this administration is opposed to this particular method of relieving import pressure.

I should say, parenthetically, as I said when this legislation was introduced, that I welcome the initiative that the bill represents, because it has raised the level of discussion, and has brought the urgent problem to our attention, and I think to the Nation's attention so that we can deal with it more correctly.

But this legislation as currently drafted does raise serious problems both with our commitments contained in the General Agreement on Tariffs and Trade and with domestic law which provide a mechanism for import relief.

It may be possible to draft legislation that is more consistent with our GATT obligations and the thrust of the domestic import relief statutes and removes these decisions from the political arena.

However, if import relief is necessary, negotiations still remain preferable to legislative quotas. I think the chairman has indicated his own willingness to pursue that route. I appreciate that willingness very much.

In stating that this administration prefers the negotiation route, I want to make two points plainly.

First, this administration firmly believes that the President clearly has constitutionally based authority to negotiate government-to-government restraint agreements on exports to the United States.

Furthermore, special legislation providing antitrust immunity to parties involved in this agreement is not needed if such a restraint agreement is implemented properly by the foreign government.

The Attorney General concurs with my views on this matter.

Second, while no decision has been made on the question of relief, it does follow that the administration will reach a decision with in a clear understanding of the law and on the basis of what is in the best interests of the United States. That is precisely what our task force is presently attempting to do.

Thank you.

Senator DANFORTH. Thank you very much.

Senator Chafee.

Senator CHAFEE. Ambassador Brock, Mr. Baldrige a member of the administration has made a pretty strong statement saying that we certainly don't have free trade with Japan. That is a pretty strong indictment of your office and what your predecessor has done. Is that an accurate statement?

Mr. BROCK. It is very difficult to argue with the Secretary. Until fairly recent times there were very severe limitations on American sales of automobiles to Japan.

Senator CHAFEE. Yes, Mr. Brock, but it goes way beyond automobiles, We have heard testimony and statements from various Senators saying it applies to beef and to a host of other exports to Japan.

I thought we had a GATT trade agreement with the Japanese. Are we now hearing evidence from this administration, as Mr. Baldrige stated, that we don't have free trade with Japan?

Mr. BROCK. Senator, It is important to note that perceptions lag well behind reality. The Tokyo round in which this Nation and Japan participated, did result in removal of significant trade barriers, particularly tariffs. When those duty reductions are completed, the average Japanese tariff on dutiable imports will be 4.3 percent while the U.S. average tariff will be 4.6 percent.

The ultimate product of those negotiations was very constructive. I think it is fair to say that the Japanese, in that particular round of negotiations, agreed to more duty reductions than did we—some 50 percent more reductions, as a matter of fact.

Senator CHAFEE. I don't want to spend too much time on this, but I do suggest some school be conducted within the administration on the subject.

Mr. BROCK. Let me complete the thought because I think it is important that we understand precisely where we are in this regard.

First, it is true, that there were huge and almost insurmountable barriers to U.S. automobile sales in Japan until about 2 years ago. The first reduction of those barriers occurred early in the 1970's. The last removal was in 1978.

Second, there remain today very significant barriers primarily in such agricultural areas as beef, citrus, tobacco, and so on.

Third, I think it is fair to say that while the legal barriers to most manufactured products have been reduced, I imagine what one might call social barriers remain. It is difficult for American investors to buy into the Japanese distribution system. It is very difficult for our manufacturers to sell in those markets because of internal decisions made by the Japanese business community. That does remain a problem.

Senator CHAFEE. Thank you.

Mr. Baldrige, you talked about short term limitations. What do you mean by short term?

Mr. BALDRIGE. I would say in the neighborhood of 3 to 5 years, Senator. I think it would be unwise to go any further out than that and it would not do much good to go less than that. So, that is the general area we are talking about.

Senator CHAFEE. You also stated that there is a million units of unused capacity in the United States for the fuel efficient cars, K cars, et certera. Did I understand that correctly?

Mr. BALDRIGE. Yes.

Senator CHAFEE. So what is the problem? Why aren't we selling them? Is it price or is it quality?

Mr. BALDRIGE. Well, we just built the capacity in the very recent past, and at a time when Japanese were very strong in the U.S. market and the retooling effort.

We now have come up with the amount of capacity that we need. What we have to do is have the U.S. public understand that we can make small cars as efficiently and as inexpensively and with as good mileage as the Japanese do.

Senator CHAFEE. Is there a suggestion that this Nation, which considers itself the premier advertising nation in the world, is unable to advertise like the Japanese and sell a car?

Mr. BALDRIGE. Not if we can get off the present base and get started, Senator. This capacity has come on so recently that we have not had a chance to market the small cars for more than a year. And not all of the big three have been able to do it even for a year. I think that is why they need this short-term period that I am talking about in order to be able to demonstrate that they can do that.

Senator CHAFEE. Did you say 3 to 5 years?

Mr. BALDRIGE. Well, that is an estimate, Senator, yes.

Mr. LEWIS. The 3 to 5 years, if I could just elaborate, is based on the time for the companies to finish tooling up over this whole product line. As you look at their product lines through 1987, it is not going to be until 1984 and 1985 that their conversion will be completed. Each year you will see more small cars coming on stream.

Senator CHAFEE. This is where I have a problem with the testimony. You say that they have to tool up to come on stream. Secretary Baldrige says we have a million car unused capacity. Which is it?

Mr. LEWIS. First, I would like to finish my point. We do have to tool up.

The second point is, to break even we need additional volume for U.S. manufacturers of somewhere around 2 million units.

The million units Mr. Baldrige is speaking of is just coming on stream. That can be absorbed in the market of 1982, and partially this year. This is one of the reasons why I feel these restraints, whether they end up being negotiated or jawboning, will end up not having much inflationary impact on our economy. It is very much to the advantage of the U.S. manufacturers to use the volume route to absorb this 750,000 to 1 million units and have an additional 1 million or 2 million units coming on in 1982, 1983, and 1984.

So it is a combination of the two.

Mr. BROCK. May I add a final comment on this matter before we move on to the next set of questions?

Senator DANFORTH. Yes.

Mr. BROCK. I do not want to leave you with the wrong impression in one area.

The fact is that with this increased capacity, U.S. manufacturers will still have exorbitantly high costs. Those costs can't be assuaged until large numbers of cars are sold. What we have is a situation where an unprofitable industry, for whatever reasons, has tried to modernize, and now, as a result does have the capacity for smaller cars. But those smaller cars are very high priced in relative terms due to the costs associated with modernization.

Unless we improve the overall economic circumstances in this country, those cars are not going to be sold. The capacity to produce such automobiles will not be utilized fully.

That is the fundamental problem. That is why the total economic recovery is essential in any solution to this industry's problems.

Senator DANFORTH. At the outset I would just like to underscore what you have said so far.

First, that the American automobile industry is now in very bad condition; 1980 was a bad year in the American automobile industry. The losses were about $4 billion.

Now, there were some widely publicized statistics coming out of the Treasury Department which indicated that the automobile industry was now turning the corner and that 1981 would be a profitable year.

In your judgment, is 1981 going to be a profitable year or not a profitable year for the American automobile industry?

Mr. LEWIS. Let's look at it manufacturer-by-manufacturer.

First of all, the figures that originally came from the Treasury Department have been modified. They started out, I think, at $4 billion and it is down to a range of somewhere between a half-billion and a billion dollars.

Of the major manufacturers, the only one that will make money in my judgment, in 1981, is General Motors. Their profits will have to offset the losses of AMC, Volkswagen, Chrysler, and Ford.

Mr. BALDRIGE. They will not be able to do this. I think Secretary Lewis and I both agree.

Mr. LEWIS. I think we have a better chance of break-even-to-a-loss than we do of any profit in this automotive industry. This increases the gap which has to be filled in terms of future tooling for small cars.

Senator DANFORTH. Now it is said that the U.S. automobile industry has got to come up with some $70 to $80 billion over the next 5 years for plant modernization and new equipment. Would it not be difficult for the American automobile industry to find the available resources to retool if it is going to have yet another unprofitable year?

Mr. BALDRIGE. Yes, that's the whole point, Senator. The profits are one thing. But in financing for retooling, cash flow is much more important. The fact is that the 1981 and 1982 cash flows for the automotive industry as a whole are going to be significantly in the red.

That means that they have to finance on the outside. Getting financing on the outside depends a great deal on the confidence that the people who are lending the money have on the future of the automotive industry. All this ties together.

Senator DANFORTH. Second, it is my understanding from your testimony is that the tremendous improvements needed over the next few years in the American car industry are at least in part the responsibility of Government, and that governmental policy created or helped to create this situation; is that a correct statement?

Mr. LEWIS. That is correct. I think that we have all testified to that effect, as have most of your other witnesses.

Senator DANFORTH. Third, Secretary Baldrige, it was my understanding that your view is that negotiated restraints with the Japanese would not necessarily be inflationary.

One of the arguments made against restraints is that it has a great inflationary effect. Your view is that that is not necessarily the case and that the effect of restraints would not necessarily be felt in increased prices for automobiles.

Mr. BALDRIGE. I think we are talking about two different cases, Senator. I indicated that in my opinion, voluntary restraints, simply because they are voluntary and short lived, will not have a large inflationary effect. It is impossible to guess exactly how much, but it would be from neutral to a very small one.

I believe legislative restraint would put a ceiling or floor of indeterminate length that would tend to create an inflationary bias. I think there is a difference between the two.

And, in spite of Senator Chafee's first question about free trade, the definition is a very narrow one when you just talk about the GATT restriction.

We have negotiated those tariff barriers down. That is absolutely true. It is the nontariff barriers I was talking about that have effectively blocked trading. That is why I said we didn't have free trade.

Now if we go to the legislative quota, all of a sudden we are putting up our own nontariff barriers which would invite retribution.

So, what I was testifying in favor of, in effect, was a voluntary restraint.

Senator DANFORTH. Then, Ambassador Brock, it is my understanding that you said that without additional legislation the administration does have the legal authority to negotiate restraints with the Japanese.

Mr. BROCK. Absolutely.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Gentlemen, I want to welcome all of you here to the committee this morning. I have five questions I would like to ask, and under the 5-minute rule, I would appreciate it if you could try to keep your answers brief. I think you can answer them in a very short order.

First off, Ambassador Brock, with the GATT safeguard provisions, under article XIX are the provisions under article XIX, of the GATT, antifree trade or are they necessary pressure release mechanisms, in your opinion?

Senator DANFORTH. Senator Symms, if you could just withhold a second.

Secretary Lewis, what is your present situation with respect to leaving or staying?

Mr. LEWIS. Twenty minutes late for my last appointment, and I have 10 minutes to the next one. If there are questions I can answer, you do have three of us here.

Senator DANFORTH. It may be that we could direct our attention to Secretary Lewis.

Mr. LEWIS. Just don't ask me that one, will you? [Laughter.]

Senator SYMMS. I will ask you this question. Does the Transportation Department intend to work with the American automobile industry in an effort to establish realistic and attainable standards so that the American automobile manufacturers may be competitive?

Mr. LEWIS. There is no question about that. We don't plan to impose more restrictions on them, but we do plan to work with them, mainly in the area of safety, of environmental protection controls, regulatory problems. Also, we would like to encourage them, if we have a reduction in Japanese imports, to have a responsible pricing policy.

Senator SYMMS. Does the Department intend to work with the auto industry on also revising the standards on light trucks?

Mr. LEWIS. Yes, we do. We will be working on the standards. I should point out in this whole area that a large measure of this program will be implemented by the Department of Transportation and the Department of Commerce.

In point of fact, this study probably should have been in the Department of Commerce. We will be working very closely with them.

Senator SYMMS. I don't have any further questions for Mr. Lewis. Those are my questions of him. Thank you very much.

Mr. LEWIS. Thank you, Senator Symms.

Senator DANFORTH. Senator Boren.

Senator BOREN. Thank you, Mr. Chairman.

Very briefly, Mr. Secretary. One of the proposed savings in the current budget that has been proposed by the administration is savings in the area of unemployment compensation, trade adjustment assistance and the rest of some $2.5 billion proposed by Mr. Stockman and others in the administration. Certainly this is a goal which I strongly support, having served as chairman of that subcommittee, last year, and pushed some of these changes myself.

But, as a practical matter, don't you think we have a much greater chance of achieving these savings in these areas if it is obvious that the administration is going to work toward a fair trade policy that will not subject us, as Secretary Baldrige has said, to a unilateral disarmament in the area of trade negotiations.

Mr. LEWIS. I don't think there is any question that that is correct. If we expect to get concessions out of the United Auto Workers, it is only going to be on the basis that, for some of the things they are giving up, they see more jobs for their people.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Secretary, most people today feel that accelerated depreciation is going to help basic American industry get out of some of its doldrums. The administration is supporting the 10-5-3 plan, as you know. This committee, last year, passed out a depreciation schedule called 2-4-7-10.

I am wondering, in the transportation field generally, to what degree actually, practically, candidly, will 10-5-3 and other similar depreciation bills help industry, that is, the transportation industry, particularly where they aren't earning a profit? If you are going to accelerate depreciation you have to have a profit.

Mr. LEWIS. As Ambassador Brock has pointed out, the President's economic package, long term, will be of great help to this industry.

In point of fact, probably through 1986, Chrysler will get no benefit whatsoever from these tax measures.

Ford, at least through 1985.

It is questionable that in either 1982 or 1983, Volkswagen or American Motors will get any benefit.

The only company that will receive any benefit from these tax accelerated depreciations, and other tax measures, will be General Motors, which really puts them at a competitive advantage over the four that are already in trouble.

Senator BAUCUS. So, don't we have to think through more clearly what kind of tax program we should pass in order to help industries that need the help?

Mr. LEWIS. That is correct, however, if we do something on imports and there is a rollback of the wages of the United Auto Workers, we can reduce the price of cars $150 to $300 and reducing regulatory burdens will probably add another $50 or $100.

There are ways we can reduce the price of automobiles without having some kind of direct tax benefit that is highly inflationary.

Senator BAUCUS. Thank you.

Senator DANFORTH. Senator Boren.

Senator BOREN. Mr. Lewis, I heard you make reference to overtime cars, I believe, in your statement. You mention that the cars being produced eliminate the overtime cars, overtime workers being produced in Japan that would solve the problem or go a long way toward meeting the kinds of restrictions on sales in this country that we think would be helpful.

Could you spell out what you mean by that, because I think it is very important when we talk about equity in trading relationships between our two countries, and when we think of the massive unemployment in this country and the problem we now have, do I understand you correctly to mean that without throwing people out of work in Japan, by simply eliminating some of those cars produced by overtime workers——

Mr. LEWIS. That is correct. In the Japanese production, it is estimated that somewhere between 400,000 and 800,000 cars per year are produced on overtime. If we eliminate that there would be no impact in terms of unemployment.

In addition to that, they are now planning about a 20-percent increase in their capacity. You combine that with the overtime, and we have a real problem, not only now but 1, 2, 3 years out.

Senator BOREN. That comment astounds me. Let me just say I think it points out we are not here arguing about free trade. We are here very much talking about trade equity and trade policies between the two countries. When we think about the fact that their restrictions cause our cars to cost three times as much sold in their domestic market, when we think about the restrictions on our agricultural goods, and then to consider that there has not been movement toward some self-restraint in this area, voluntarily negotiated with us, I think it makes it clear to all of us it is not a matter here of free trade, it is a matter of trading equity within the bounds that we are now working.

I appreciate your bringing that out.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Yes.

Senator DANFORTH. We will have you out in 5 minutes. I guarantee that.

Mr. LEWIS. No, no, no problem.

Senator CHAFEE. Mr. Lewis, you said in your testimony that 1 out of 6 people are employed in this industry. You weren't meaning to give the impression that if Ford, General Motors, and Chrysler went broke, that 1 out of every 6 people in the country would be out of a job. Many of these people are involved in service, repairs, gasoline, spare parts—a host of activity associated with the automobile industry; am I correct?

Mr. LEWIS. You are correct, but I am not just talking in my comments about Ford, General Motors, and Chrysler. There are 40,000 suppliers at a minimum, to the automotive industry. The suppliers, which we haven't even discussed here today, in large part, are in worse shape than the automotive manufacturers themselves.

So, a combination of the two, plus some peripheral industries, means we are talking about 1 out of 6.

Senator CHAFEE. In your testimony, you said one of the problems giving the U.S. automobile industry difficulties has been the "excessive and costly regulations imposed on the industry by the Government have also contributed to the present problems of the industry."

Are there any regulations imposed on American manufacturers as far as gas mileage, and emissions, that are not imposed on imports?

Mr. LEWIS. No, there are not.

Senator CHAFEE. In other words, the importers meet all the regulations that the domestic manufacturers do?

Mr. LEWIS. That is correct.

Senator CHAFEE. What do you mean by this statement?

Mr. LEWIS. The added cost to a car, whether it is our car or a Japanese car is somewhere between $600 and $800, due to regulations. Actually, some of those regulations have been very productive. Others are at the point where they are counterproductive.

Senator CHAFEE. But are they imposed equally across the board, and not solely on U.S. manufactured vehicles?

Mr. LEWIS. That is correct.

Senator CHAFEE. Did you say that Volkswagen was losing money or would lose money in 1981 or was that Mr. Baldrige?

Mr. LEWIS. Volkswagen, in America, lost money in 1980. It is anticipated they would either break even or lose a small amount in 1981.

Senator CHAFEE. Why is that? This car gets long mileage and does everything that we say a car should do.

Mr. LEWIS. Well, a large portion of Volkswagens are manufactured in Germany and their manufacturing rates are approximately the same as ours. Therefore, they don't have the landed cost advantage of somewhere between $1,500 and $1,800 that the Japanese have.

There are cars that are produced in America, fundamentally, in western Pennsylvania, and are highly competitive. And, of course Volkswagen is affected by the generally depressed market, as is everyone else.

Senator CHAFEE. You have been listening to the testimony today, and as you know, one of my deep concerns is that the wage workers, the employees of the automobile industry, are among the highest paid production workers. I suppose they are the highest paid production workers in the United States.

But you indicated that there is no reason they should or would take a cut without some guarantees on the part of the U.S. Government.

I find that a little difficult to accept. You are saying to us that the U.S. Government has to contradict long-established policy in order for these people to do something to preserve their own jobs.

Would you explain that a little further?

Mr. LEWIS. Yes, I will try to. If you look at the automotive manufacturers in America and with their competitive disadvantage, it is very much to Ford's advantage to not invest in U.S. jobs and plants. If there is not some kind of improvement in this industry, you can see a fleeing of the Ford investments to Mexico, to Europe, and wherever they can find a place where they can get a labor advantage.

So there is a feeling in the industry, on the part of the industry, of moving out. If the United Auto Workers recognize that there is going to be no support from the U.S. Government for this industry, in my judgment, their inclination will be they might as well sit there with a high paid job than take a reduction and be out of work under either case.

This is not something that I am saying is going to be imposed by the Government. I am saying that this is a practical matter of labor-management negotiations, has been and will continue to be in the future.

Senator CHAFEE. Thank you, Mr. Lewis.

Senator SYMMS. Thank you very much. Mr. Secretary, I will just ask you one question, and then I will be through. If this gentleman you mentioned or person does get the agency to sell American cars in Japan this coming year, will they be able to advertise those same automobiles by Japanese advertising?

Mr. LEWIS. That point was brought up by somebody else, not me. Wasn't that brought up by Senator Riegle?

Senator SYMMS. They won't be?

Mr. LEWIS. Excuse me. You are talking about somebody going to Japan to open up a car dealership?

Senator SYMMS. My question to you is, if your friend does get the dealership in Japan, will he be able to advertise the American cars in Japan?

Mr. LEWIS. I do not know. That is not my friend that was being discussed.

Senator SYMMS. OK. Thank you very much. I appreciate your being here.

Senator DANFORTH. Secretary Lewis, one comment and one last question. The comment is this: With respect to Senator Boren's point on the administration's program to try to reduce the budget deficit, particularly in connection with unemployment compensation and trade adjustment assistance, I would think that the administration is going to have substantially more difficulty saving money in that part of the budget if it does not negotiate restraints with the Japanese.

I don't think it will be easy for the administration to have it both ways.

Mr. LEWIS. I think that is right.

Furthermore, the inflationary impact that Secretary Baldrige was talking about is largely offset by a combination of accelerated investment, because of improved cash flow, the reduction in unemployment compensation and a reduction in trade adjustment assistance, in addition to more people being employed productively in the economy.

So, a large part of the inflationary impact is blunted by these factors.

Senator DANFORTH. Now, let me just ask you this final question: I know the President has not made his decision as yet, but do you believe that import restraints are a necessary part of any recovery program for the U.S. auto industry?

Mr. LEWIS. I feel it would be very much to the advantage of the automotive industry and the American economy if we had some kind of negotiated import restraints. It would be my position in the report.

Senator DANFORTH. Thank you very much.

Senator CHAFEE. Mr. Lewis and Mr. Baldrige, do you believe that the employment in the automobile industry will ever reach the peaks that it has in the past?

There has been a good deal of suggestion that those days are gone forever due to a whole series of steps such as increased automation and the need for recognition in the UAW of greater productivity on the part of the individual.

Mr. LEWIS. There is no question that we are now entering a period of a small car, no growth market. We anticipate that 3 or 4 years from now, there will still be probably 200,000 to 400,000 less people employed in this industry than at its peak, in 1978.

We do see a significant improvement, however, over the next 4 years, under the conditions we are proposing here today.

Senator CHAFEE. But, with or without legislation or Executive order, as Mr. Brock suggests, there is still going to be a drain on the trade adjustment assistance fund. There is still going to be a substantial drain in the unemployment compensation fund and the matters you talked about before. Is that not correct?

Mr. BALDRIGE. Yes, there will be Senator. But the main point here is that we should recognize what you said first, we will never, probably never, return to the heights of employment that we had in the past.

The problem we are facing now is not to lose our automobile industry to offshore production.

It is very possible if things do not improve, that it would make more economic sense for Ford to go to the Far East, for General Motors to disperse some more of their plants abroad.

We see Chrysler presently in trouble. If the situation doesn't improve, they could be out of business or bought up by somebody outside our shores.

Now we can say that is well and good and water should seek its own level. But there have been too many jobs lost, too many reasons for this situation. It could be cured if we had some kind of—I emphasize, voluntary restraint.

I think it is too large an issue to just dismiss with a cavalier statement that a voluntary restraint, for example, is a free trade problem and so forth.

Senator CHAFEE. Well, I don't think anybody is being cavalier around here. I think we see a lot of difficult problems.

Thank you, Mr. Chairman.

Senator DANFORTH. Secretary Lewis, you are free to leave. I very much appreciate your presence.

Mr. LEWIS. Thank you.

Senator DANFORTH. I would like to ask a few questions of you, Ambassador Brock and Secretary Baldrige.

Thank you very much.

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

Senator DANFORTH. Ambassador Brock, I would like to ask you, if I might, a few questions. First of all, it is my understanding that major European countries have had discussions with the Japanese, or are in the process of discussions with the Japanese in connection with restraining Japanese automobile imports into Europe.

Is that correct? If it is correct, could you elaborate?

Mr. BROCK. It is correct. Today there are severe restraints on the importation of Japanese automobiles to some European countries. As I said in my testimony, we are the only country in the world that does not have some barrier to the importation of Japanese automobile products.

Even Germany, which is cited as the greatest exponent of free markets in Europe, has a tariff rate of 11 percent which is well in excess of three times our own tariff rate of 2.9 percent.

In France, the limit on imports of Japanese cars is at about 3 percent market penetration.

In England, the limit is about 10 percent.

In Italy, Japanese auto imports are limited to approximately 2,000 cars per year, which is one-tenth of 1 percent market penetration.

There are serious constraints on Japanese production for these markets, as a result.

Senator DANFORTH. Have the Japanese been parties to negotiations or discussions with the European countries?

Mr. BROCK. Japan and the European nations have had quite a few discussions. Most of these barriers are unilateral, but some are by mutual consent.

Senator DANFORTH. Has Japan retaliated against Europe because of these restrictions?

Mr. BROCK. No, not to my knowledge.

Senator DANFORTH. Have they sought to take any European countries to GATT to seek compensation?

Mr. BROCK. No, not as far as I know. The possibility has been raised on the part of one or more European countries that they would suggest going to GATT under the injury test. But, as far as I know, there has been no——

Senator DANFORTH. But the Japanese have not gone to GATT to seek compensation from Europe as a result of European restraints on exports of cars from Japan into Europe?

Mr. BROCK. No.

Senator DANFORTH. Has Japan increased, or is it in the process of increasing, its production capacity?

Mr. BROCK. Japan is in the process of increasing its capacity. We have had discussions with the Japanese officials. They suggest that most of the present investments are being made in order to go to a front-wheel drive car. They suggest that most of the production which will come from that will go to nations other than the United States.

But there is an increase in capacity coming in the next 2 to 3 years.

Senator DANFORTH. Have the Japanese signaled to the U.S. Government a willingness to at least consider or to discuss limitations on exports of automobiles from Japan to the United States?

Mr. BROCK. Today, Senator, I have, as has Secretary Baldrige and others, simply told them that we have a very serious problem. We have not suggested specific negotiations nor have we suggested any numerical target.

The Japanese have indicated a willingness to discuss the matter, if and when we reach our own decisions. But my position has been that the most important step is to see what we can do at home first.

As I have told you on other occasions, we first must determine what Government tax and regulatory changes must take place and what steps management and labor will take within this country, and then we will be in a position to discuss what else might need to be done.

Senator DANFORTH. Secretary Baldrige, I have raised the question with a number of people in the administration as to a specific tax program for the automobile industry. Now, since the automobile industry is not profitable, it doesn't pay taxes.

So, any kind of tax relief for the automobile industry would have to take the form of refundable tax credits or an investment credit carryback of some sort.

It is my understanding that the chances of that kind of program being agreed to by the administration is very slim; is that correct?

Mr. BALDRIGE. I would agree with that, Senator. It would set the kind of precedent that could make the followup very difficult.

Senator DANFORTH. It would seem to me that if the chances of specific tax relief for this industry are remote or nonexistent on the part of the administration, then the other portions of what we are going to do for the automobile industry seem to be fairly thin.

I happen to agree that import restraints are not the be-all and end-all. They cannot stand alone as the answer to the automobile industry's problem. It seems to me there are all kinds of things that Government could do by way of specifically directed tax relief. But I don't think the administration is going to agree to that.

There are some possibilities with respect to regulatory relief that might be possible. In my own view, that would be just a fraction, a small fraction, of the total answer.

Then, it would seem to me that import restraints—and I would rather have them voluntary and negotiated too—while only a part of the answer, are an absolutely essential part of the answer if we are to save this industry.

Would either of you have any comments on this?

Mr. BALDRIGE. Senator, I think the biggest help the automobile industry in the United States could get by far is the early success of the President's economic recovery program. If inflation is reduced and if interest rates are reduced, that will help the United States automobile industry more than any kind of directed tax credits, import restraints, or anything else.

What we are talking about here is some temporary running room until those programs can take effect. Because, when we see the day that interest rates are back down to some reasonable figure again, we will see automobile sales, as well as housing sales, go up.

Senator DANFORTH. That running room is important.

Mr. BALDRIGE. Yes, sir, I think so.

Mr. BROCK. I am reluctant to forgo the possibility of additional tax action, Senator. I know the difficulty involved, but were one to calculate the costs and benefits of very severe rollback in imports as opposed to a significant form of tax relief, it is quite possible that the net cost to the American people would be less by domestic action than it would be as a result of import restrictions.

It is also possible that an effecitve and cost efficient combination of merging the two, together with other actions, could be accomplished.

I do want to make one additional point, and that is that the regulatory relief is not a small item. The Ford Motor Co. estimate that I reviewed this week showed that cost-effective, fundamental regulatory reforms could infuse into the industry, $5 billion a year by 1985.

That is an enormous sum of additional cash flow that would become available to the automobile industry. It would present a great opportunity for changing the mix of this industry.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Ambassador Brock, I want to pursue the question that I brought up with Secretary Lewis. Let us say if you, or I, or any other American gets a General Motors, Chrysler, Ford, or AMC dealership in Tokyo, are we allowed to go in and advertise and compete with the Japanese auto industry, in Japan?

Mr. BROCK. As far as I know, we are. The problem has been in obtaining that Japanese dealership. But, once we get it, I understand we can advertise.

Senator SYMMS. I had been led to believe that you couldn't even advertise an American automobile in Japan.

Mr. BROCK. I am not aware of that problem.

Senator SYMMS. Secretary Baldrige, would you—do you know about that?

Mr. BALDRIGE. I heard of it second or third hand. I really don't know enough about it to call it a fact. I know the process of getting a dealership gets into the earlier statement I made about there is no complete free trade in the world. When we are talking about these nontariff barriers I am including that.

Senator SYMMS. In light of this, then, do you think what you are telling me, and what I have stated earlier that in order to have free trade it has to be fair trade, and, are the Japanese free traders with us?

Mr. BALDRIGE. Yes. We have to be sophisticated enough as a country to understand that once the tariff barriers are down, and that problem is on its way to relief now with the GATT action, then other kinds of barriers, nontariff barriers remain. In the next 10 years, I think we will be negotiating subsidies down, because other barriers will be lower, and individual countries will be using different forms of subsidies to help their industries against ours.

So that will present us with another kind of nontariff barrier.

Mr. BROCK. I wish to add a few remarks to Secretary Baldrige's last statement. There is one clear area of discrimination that does now exist and it is in the form of the Japanese commodities tax.

Presently, Japan levies a tax of 15 percent on cars with less than a 2,000 cc. engine, and 20 percent on cars with more than a 2,000 cc. engine.

We have remarkably competent engineering in the domestic automobile industry that has produced some impressive results. It is irrational to suggest that to go from 1,999 cc. to 2,000 cc; in other words, one cubic centimeter of additional size, is going to make a difference in consumption.

As a matter of fact, some of our automobile engines are more fuel efficient although they are larger than the Japanese. They are more powerful and larger, but they are still more efficient than the Japanese engines.

Yet, the Japanese commodity tax clearly is a discriminatory tax because of its effect upon our product mix.

Senator SYMMS. Well, Mr. Ambassador, let me just pursue right on in that where you say it is a clear case of discrimination.

Mr. BROCK. Yes.

Senator SYMMS. Under article XIX of the GATT agreement, isn't that what that is about, we are supposed to use pressure release mechanisms to try to make corrections? If that is so, why does the press and those who support free trade in the United States label that as protectionist?

I thought when we passed the GATT agreement, in the Congress, and got it agreed to, that it was supposed to be a mark toward a better trading relationship with our partners.

Now, we have the same people saying if you try to invoke what is in article XIX, if I understand the GATT agreement correctly, that you are being protectionist, or do these people just want to have selective compliance with the GATT?

Mr. BROCK. No. A distinction must be made between the present product mix that we have and the product mix that exists in the Japanese manufacturing group. That is a very different question from the content of the GATT statement, which says that one nation's laws or rules can't discriminate against a particular country.

In this particular case, we don't have relief opportunity available under the GATT.

As a matter of fact, if the United States were to impose legislative quotas as the present Danforth bill proposes, I frankly believe that the United States would have some trouble answering the questions which would arise from our obligations under GATT.

Senator SYMMS. What is their policy though on lumber, tobacco, beef, citrus, aluminum; don't they restrict those commodities?

Mr. BROCK. Yes; they do. We are engaged in fairly constant negotiations to improve those circumstances. Most of the effort has been on a bilateral basis, and that approach will continue, because that is where we think we can be most successful.

Senator SYMMS. Is section 201 of the Trade Act of 1974 adequate to handle matters such as the auto problem?

Mr. BROCK. Generally, yes. I discussed this in my confirmation before this committee, and in talks with Senator Moynihan, we do need more case law developed in the application of the GATT agreement, in order to develop a set of precedents and rules within which we can operate.

But, with the exception of the safeguards area, I think we are in good shape under the GATT agreement. Now it is a matter of implementation.

Senator SYMMS. Some of you ITC members have been discussing this?

Mr. BROCK. Yes.

Senator SYMMS. Mr. Chairman, I know my time is up. But I would just like to say that it was my understanding that under article XIX of GATT, provides that in the event an industry of one particular nation is being hurt by exports of another, that they have the right to negotiate some type of agreement.

Mr. BROCK. The Senator is absolutely correct.

Senator SYMMS. We agree on that; don't we?

Mr. BROCK. Yes; but you remember that last year, Ford and the UAW did file for relief to GATT, and the ITC ruled that the greater injury came from the domestic circumstances of our overall economy, from interest rates and the recession rather than from imports.

As I said in my statement, we have been unable to identify more than 400,000 units of sales which have been displaced by imports.

So, again, my position has been that those steps necessary to correct economic and productivity problems here at home must be taken first, and then the question of imports can be viewed from a more rational context.

Senator SYMMS. Thank you very much.

Thank you, Mr. Chairman.

Thank you both for being here.

Mr. BROCK. Thank you.

Mr. BALDRIGE. Thank you, Senator.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador Brock, do you know what effect this bill would have on our auto pact with Canada?

Mr. BROCK. It is difficult to foresee all of the effects. The Canadians would be very concerned about any action that was taken unilaterally by the United States because of the agreement we have on automobiles.

Senator BAUCUS. Have you heard yet from Canada on this?

Mr. BROCK. Yes; I have had some discussions with the Canadians on the matter. They would like very much to be included in any consideration of import restraint.

Senator BAUCUS. But as the bill now stands, is it fair to say they are opposed to this kind of action on our part?

Mr. BROCK. They have not specifically referenced this bill. They have expressed a strong concern that the U.S. Government stay in close consultation with them. They would like for us to treat this problem as a North American problem rather than simply a United States problem.

Senator BAUCUS. What efforts is your office undertaking to try to lower Japanese tariff and nontariff trade barriers to our products?

Mr. BROCK. The United States completed a tobacco agreement last fall, under the previous administration.

In December, we completed a procurement agreement known as the NTT agreement, which will allow us access to Japanese Government procurement, most notably in the area of telecommunications and the related fields.

Senator BAUCUS. Are we doing anything in grain or beef?

Mr. BROCK. Japan imports a good deal of U.S. grain, soybeans, and similar base crops. Yet, there still exist some very severe restraints upon imports of beef, leather, citrus products, and the like.

Senator BAUCUS. Yes, but as you know, with their subsidy program, a bushel of American wheat might sell in America for about $3.50, close to $4 a bushel. By the time it is shipped to Japan and bought by the miller, processed and sold as flour to the baker, and so forth, with all of the tariffs they impose on it, it is more than twice the cost to the Japanese consumer of that bushel of wheat, than it is to the American consumer. That is a kind of barrier to trade.

Mr. BROCK. It is not only a barrier to trade, it seems to me that those types of tariffs are of enormous inflationary consequences to the Japanese economy itself. It appears to me that it would be in Japan's interest to reduce some of those barriers.

There is a general agreement under the Tokyo Round to gradually reduce these barriers during the next few years, as you know.

Such a reduction or elimination of barriers will be in our interest, but I believe that it will also prove to be in Japan's interest as well.

Senator BAUCUS. I strongly encourage you. I am sure I speak for other Western Senators in being a little more aggressive, frankly, in encouraging Japan and the European countries in lowering their barriers.

That is one of the reasons I am on this bill, as a cosponsor. I have problems with the bill. I think we have to do something to encourage American production. I do not know if import restrictions are the best way. Frankly, I think there are severe problems with restrictions. I, along with the chairman, hope we can negotiate a resolution with the Japanese Government.

Second, I want to encourage you and others to encourage Japan and European countries to lower their barriers because, as Secretary Baldrige said earlier, we don't have free trade with Japan, particularly because of the nontariff trade barriers that that country imposes on our products.

I don't care whether they call them tariff barriers or nontariff barriers, they are still barriers to trade.

Japanese like to jokingly pass it off as a language barrier. Well, it is much, much more difficult than that; in fact, that is not the problem at all. It is not the language, it is the other internal problems Japan imposes upon us.

So, I encourage you to work even more strongly than you have in the past to get Japan and other countries to lower their barriers to our products.

Mr. BROCK. We will do precisely that.

Senator BAUCUS. Thank you.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Baldrige, I would like to call your attention to an article that Senator Stevenson, who gave a good deal of thought to this whole matter wrote, in which he said as follows:

> If imports are not the problem, can trade protection be the solution? Not according to the President's Council of Economic Advisers and the Congressional Budget Office. They calculate that even a 20 percent cut in imports would add $400 billion to new car prices and bring only 16,000 of some 190,000 laid-off auto workers back to the production line.
>
> These figures translate into a cost to consumers of $245,000 for every auto job regained.

Could you comment on that? Do you know whether this is accurate? I might point out that that is a 50-percent cut.

Senator Levin has asked for what would amount to a 100-percent cut in imports. It is not a 100-percent cut. Excuse me. It is a 50-percent cut.

Mr. BALDRIGE. Senator, we are, seeing opinions from the groves of academe that are, let us say, somewhat opposed to what I believe the facts will end up as. I do not agree with those figures on inflation. That study was made in a static situation, just assuming one set of base line facts.

In the real world, there are concurrent actions going on that will have an effect one way or another on every such study of inflation.

It is true, of course, that voluntary restraints on imports by themselves will not solve the problem. It is true, of course, that having a major ban on imports of some kind, voluntary or legal, will not bring the automobile industry back to health.

But, at the same time, it is like correcting any situation, there is no one thing that is going to solve any problem. This is part of an overall package that we have to put together and it has to be done voluntarily on all sides. An overall solution depends on this as one of the several things.

I think it is unfair to argue against this, simply because it will not accomplish the job by itself.

I think Ambassador Brock might have a thought on that, too.

Mr. BROCK. Yes. Let me just add one point. I studied the CEA analysis carefully. What is cited in the Stevenson article is their worst case scenario were we to impose a rollback on imports of approximately 20 percent and the U.S. automobile manufacturers do not act then to increase volume, but rather simply to increase price.

At the manufacturers' maximum cash flow option, the case you cite is the most destructive in terms of overall economic impact. It is the most destructive in terms of not relieving us of the unemployment problem, and on the job side, but it is also the most destructive in terms of creating new, additional inflationary pressures.

The Council of Economic Advisers study also has higher estimates for employment if U.S. manufacturers respond by increasing the volume rather than price.

Mr. BALDRIGE. I do not think it is a likely case, either.

Senator CHAFEE. There has been some suggestion that a major contributing factor to the problems of the U.S. auto industry is the fact that we can't sell automobiles in Japan.

I personally feel that is a diversionary discussion. What is the entire U.S. automobile sales market in Japan? If we sold every automobile that was sold in Japan, would that make a significant difference?

How many automobiles are sold in a year in Japan? Do you know, Mr. Brock?

Mr. BROCK. Yes. There are about 5 million automobiles sold in Japan annually. It is a very healthy market. U.S. manufacturers sell about 20,000 units in the Japaneses market each year. There are many problems presently. We don't have a distributorship network established there as yet and we are having difficulty acquiring such a network.

I have received an illustrative letter from an individual, who as a U.S. citizen in Japan tried to buy a U.S. car. He did buy one in New York, when Japan removed their import tax and proceeded to ship it to Japan. He paid, approximately, $7,500 for a new Pontiac, about 3 or 4 years ago. When he wrote the letter, it was 6 months after he had brought the car to Japan and it was still in the warehouse because the car had not met their changed requirements on safety standards, and on pollution standards, and he already paid $20,000.

Senator CHAFEE. Doesn't that go right back to your job, Mr. Brock?

Mr. BROCK. Yes, it does.

Senator CHAFEE. If there are problems here, who else do we turn to, but you?

Mr. BROCK. I am looking at you, Senator. I am right here. [Laughter.]

Senator CHAFEE. I know you are looking at me. In other words, we are hearing a flow of criticism directed right at your office.

I am not joining in it. I am just saying that Mr. Baldrige is throwing harpoons at you. [Laughter.]

Senator CHAFEE. So are a host of others up here. You are responsible for no beef going there, for not enough soybeans, for not enough wheat.

I just want to make that point.

Now, Secretary Baldrige, I need some help. You say that there is a 1 million unit unused capacity in the United States, for producing the small, economic, gas efficient automobile that would take up the slack.

Mr. BALDRIGE. It is just coming on stream this year.

Senator CHAFEE. It must be there, because the automobile manufacturers offered rebates in order to encourage purchasing of cars.

These rebates, as I understand, apply to the K cars as well as to the bigger fuel-inefficient cars; is that not so?

Mr. BALDRIGE. Yes, sir, but one of the main reasons they went into rebate is that our sales in the U.S. automotive industry, in January and February, were significantly lower than they were a year ago.

Never mind talking about taking up the new capacity that was built last year, they didn't sell enough in January and February to equal what they sold last year, which was really a disastrous car year.

Senator CHAFEE. Well now, tell me what's the problem? Is the problem that we don't have quality or we don't have price? What is the matter with the U.S. automobiles? If we have the market, if we have the productive capacity, why are they not selling?

Mr. BALDRIGE. Well, Senator, if you want to look at the whole picture, obviously the matter with the market right now is that people are not buying automobiles almost of any kind. When they are, they have been used to buying Japanese cars, small cars and their increase has shown up in the percentage figures.

But, the major thing wrong with the U.S. automobile market has been high interest rates, inflation, inability of people to buy cars, and particularly, the interest rates. It just costs too much now.

Senator CHAFEE. But the interest rates apply to a foreign car. They don't come interest free; do they?

Mr. BALDRIGE. Oh, yes. I am saying that that is the major problem, more so than imports. But in order to——

Senator CHAFEE. Then why are we here today? Why are we discussing this piece of legislation, which you are supporting, if, in fact, you've really downgrading the importance of this legislation.

Mr. BALDRIGE. Senator, we are not supporting the legislation. We came up here to testify against it. I thought I made that clear. We are not supporting import quotas by legislative fiat.

Our opinion was asked about what else do you do then, and we would much rather see voluntary restraint. And, I underline voluntary.

Senator CHAFEE. So you are against this legislation?

Mr. BALDRIGE. Yes, sir.

Senator CHAFEE. That wasn't apparent to me.

Mr. BALDRIGE. Well, I have to recognize the problem that the legislation is trying to address. I would just suggest that we should have a better solution first, to try, than legislative fiat.

Mr. BROCK. It is a matter of price. In addition to the market circumstances, the biggest problem, as the Secretary said, is the market itself. We simply are not selling enough cars in this country—across the board, large or small.

But when the market is soft, the normal temptation of people who can't afford 18-percent interest rates on the mid-price-range car, is to go to the lower-price-range car. It is this market for lower priced vehicles that is primarily satisfied by Japanese cars.

Thus, the Japanese have been able to hold and slightly increase their sales, while our sales have gone way down.

Consequently, their share of the U.S. market has gone up. The reason is that they do have a price advantage, and it is a very real one. Fifteen hundred dollars is what Secretary Lewis said—it is somewhere in that range—across the product line.

Senator CHAFEE. Well, I don't see the price difference as a very great concern to the workers involved here. But, I will save that up for the next panel.

Thank you, Mr. Chairman.

Senator DANFORTH. You have been very generous with your time. I very much appreciate it. I just want to make two concluding comments, in your presence.

Do you want to ask a question?

Senator BAUCUS. Yes, Mr. Chairman.

Senator DANFORTH. Go ahead.

Senator BAUCUS. Thank you, Mr. Chairman.

Gentlemen, I wonder if you could just generally advise us as to the best course to take here, particularly you, Ambassador Brock. That is, the Japanese aren't dumb. They know what is going on here. They know that they are trying to make as much money as they can, and they are trying to feel us out how far are we going to go as a country in trying to remedy the problem from our point of view.

Now, Senator Danforth has introduced a bill to try to get the ball rolling here. You come up and say, "No, the bill is too strong." You prefer a negotiated settlement. I think we do, too.

Now, obviously, if that is our task, they are going to call our bluff, wait it out a little bit, perhaps negotiate some kind of an agreement.

So, what is the best tack we can take to get the results here, which is to help the American automobile industry, and to some degree, in the short term, get a little protection from Japanese imports.

I mean, you come up here and say, "Don't support the bill." You say, "Talk it out." Well, if we just talk, that is what it is going to be, just talk. That is not going to help matters very much.

So, how are we going to get the ball rolling here to get something done?

Mr. Brock. I think it is important to note that the ball is rolling, that the matter is under very intensive discussion and some debate within the administration.

But, Senator, it is impossible for me to suggest to you or anyone in this body, that I have a magic wand that I can wave and say that I know precisely the level of imports that is necessary to have a healthy U.S. auto industry, until I have a very strong assurance as to what else we will do domestically.

That is the reason I suggested I was reluctant to forgo tax changes that might be productive. Certainly the regulatory changes are on stream, but they are going to require, in many cases, congressional action.

We need to develop a package of answers, because it is not a simple problem and it won't respond to a simple answer. It is going to take a whole mix of actions, on the part of labor, management, Congress, and the administration. Then perhaps, we can determine the costs of the inflation aspect of import restraints and other costs that would be imposed upon the American public and see what is a workable level.

Senator Baucus. I thank you. I just encourage you, again, to be decisive and to move quickly. I have been in this body now, 2 years, and I have become a little less patient with packages and negotiated settlements than I was 2 years ago.

I know the administration is beginning its program. But, I urge you to move with dispatch.

Mr. Brock. Our next meeting is scheduled to start 7 minutes ago, Senator.

Senator Baucus. Thank you.

I will ask no more questions so you can begin.

Senator Danforth. I would just like to make a couple of comments very briefly. The first is this: If the Japanese were in our shoes; that is, if their automobile industry lost $4 billion last year, and if some 200,000 people were out of work, and if 22 percent of their market was controlled by one country, and 28 percent of their market was supplied from abroad, it is absolutely inconceivable to me that the Japanese would have a free trade policy on automobiles.

Would you agree with that?

Mr. Brock. The fact is that they did not.

Senator Danforth. They did not. And, they would not.

Mr. Brock. For 30 years they had no free trade policy at all.

Senator Danforth. Absolutely. Do you agree with that, Secretary Baldrige?

Mr. Baldrige. Yes, sir. They would not be sitting around talking about it.

Senator Danforth. They would be acting, that is right.

Second, you know, there is a certain Quixotic appeal in philosophical purity. I admire it. I admire those editorial writers who write about the wonders of free trade. But it is bizarre, in my opinion, to think in terms of free trade, and to define free trade as the freedom of European countries to keep out Japanese automobiles.

The freedom of the Japanese to impose restraints on citrus, leather, fishery products, cigarettes, rice, semiconductors, computers, beef, you name it. I mean, that is their view of free trade.

Frankly, some have the notion that in the quest of some philosophical purity, suddenly the United States should stand alone and allow a major industry to just go down the drain because we are going to be very philosophical about it, professorial about it. To me, that is bizarre.

Mr. BROCK. I don't think any of us have a desire to participate in a bizarre experience. [Laughter.]

Senator DANFORTH. Good. Well, I am glad to hear it.

Senator CHAFEE. I presume there is equal time here, Mr. Chairman. [Laughter.]

Senator DANFORTH. I had my inning.

Senator CHAFEE. May I?

Senator DANFORTH. Yes.

Senator CHAFEE. Mr. Chairman, we have heard all kinds of testimony indicating that passage of this legislation is not going to solve the U.S. automobile problem. Each of the witnesses carefully said that at the most this legislation would be helpful. There are a host of other things we should be doing.

Unquestionably this industry has been seized by greed, and it is coming home to roost. There has been greed on the part of the workers whose wages have been boosted much higher than anywhere else in the United States. One of the witnesses mentioned that they are not getting as much as airline pilots. Well, I suggest they will press for that too. [Laughter.]

And, greed on the part of the manufacturers, as well as incapability on their part to anticipate what was coming.

Suddenly, this great free enterprise industry which has said in past years "Roll the dice and let them come out where they may," is now rushing to this committee and saying, "Protect us. We've made mistakes. We've been stupid. We've signed contracts that never should have been signed. We didn't anticipate anything, and now rescue us, and force Americans not to make a free choice."

Americans are making a free choice now. They are buying Japanese cars. Because they are better in quality and better in price.

Senator DANFORTH. That is not the case.

Senator CHAFEE. Why are they selling then? Let me know why they are selling if they are not better in quality and better in price. That is why Americans are rushing out to buy them. That is why we have 1 million units unused capacity, as Secretary Baldrige testified. That is why we are having rebates. We can't compete.

Now I say to this industry, get on with it. Get on with it and show what America can do. I refer not only to the industry, but also the workers.

Thank you.

Senator DANFORTH. I would just add that I think it is fair to say that while the witnesses have said import restraints can't stand alone, that they are a necessary ingredient. The heart is an organ which cannot stand alone. Just having a heart materialize before you would make for a pretty funny looking person, but it is a necessary organ in the body. I think the same is true with respect to voluntary restraints.

The second is that, as was pointed out by our witnesses, the Government has had its share of complicity in this problem. I think we can't just walk away from it.

Gentlemen, thank you very much.

Mr. BROCK. Thank you, Senator.

Mr. BALDRIGE. Thank you, Senator Danforth.

[The prepared statements of Ambassador Brock and Secretary of Commerce Malcolm Baldrige follow:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

I welcome this opportunity to appear before the Subcommittee to discuss the auto trade issue and to present the Administration's position on S. 396 and similar quota legislation. I will be pleased to respond to your questions along with my colleagues following my oral statement and that of Secretary Baldrige.

Secretary Lewis has already described the work of the President's Auto Task Force and Secretary Baldrige will discuss the general problems facing the American auto industry. I will expand on the trade policy issues raised by the automotive problem and specifically discuss the question of legislated import restraints.

As I have stated before, the current crisis in the American automotive industry cannot be explained solely in terms of imports. It is a fact that the import share of the U.S. auto market rose from 17.7 percent in 1978 to 26.7 percent in 1980 and was 28.8 percent last month despite some recent recovery in domestic car sales. It is a fact that Japanese market share rose from 12 to 21 percent over this same period and was 23.8 percent last month, an all time high. But it is also a fact that of the 2.6 million unit sales decline in U.S. built cars from 1978 to 1980, import substitution accounted for just 400,000 units. This is one reason why I have also stated that import restraints cannot be the sole solution to the industry's problems.

Capital formation, tax and regulatory policy, as well as those steps which must be taken by the companies and labor themselves, are at the heart of the solution to the industry's problems and require primary and urgent attention. As a first step, the President's economic program must be enacted to foster additional capital for industrial expansion, to lower interest rates and to put money back in the pockets of our citizens, so that they can effectively purchase new cars, other durable goods, and homes—the demand for which has suffered so much under the previous economic policies.

Many in the auto industry believe that some form of import relief could contribute to the industry's recovery by aiding the industry in generating additional cash flow and employment and by reducing dealership losses. They argue that the current depressed situation in the auto industry and related industries is costing the U.S. economy billions of dollars in lost Gross National Product, tax revenues, and transfer payments to unemployed workers (over $2 billion in Trade Adjustment Assistance payments could go to auto workers in fiscal year 1981). Further, they argue that the U.S. market is the only major auto market not protected by substantial tariffs or other barriers from Japanese exports.

Therefore, they conclude that the U.S. market will be used to absorb increasing quantities of Japanese exports as Japanese manufacturers continue to increase their capacity for parts, knocked down kits and finished, fully-assembled vehicles—particularly as Japanese home market demand remains sluggish. There is also concern about increased taxes on domestic Japanese auto consumption which have been proposed and their effect on trade.

Auto industry and labor leaders that I have talked to have agreed that a cutback in imports alone is not the major solution to their long term problems. However, they feel that something must be done quickly to reverse the financial erosion in the industry and give the industry time to accomplish major investment plans—costing more than $80 billion over 5 years—that will lead to greater labor productivity and to higher mileage and higher quality automobiles in the future.

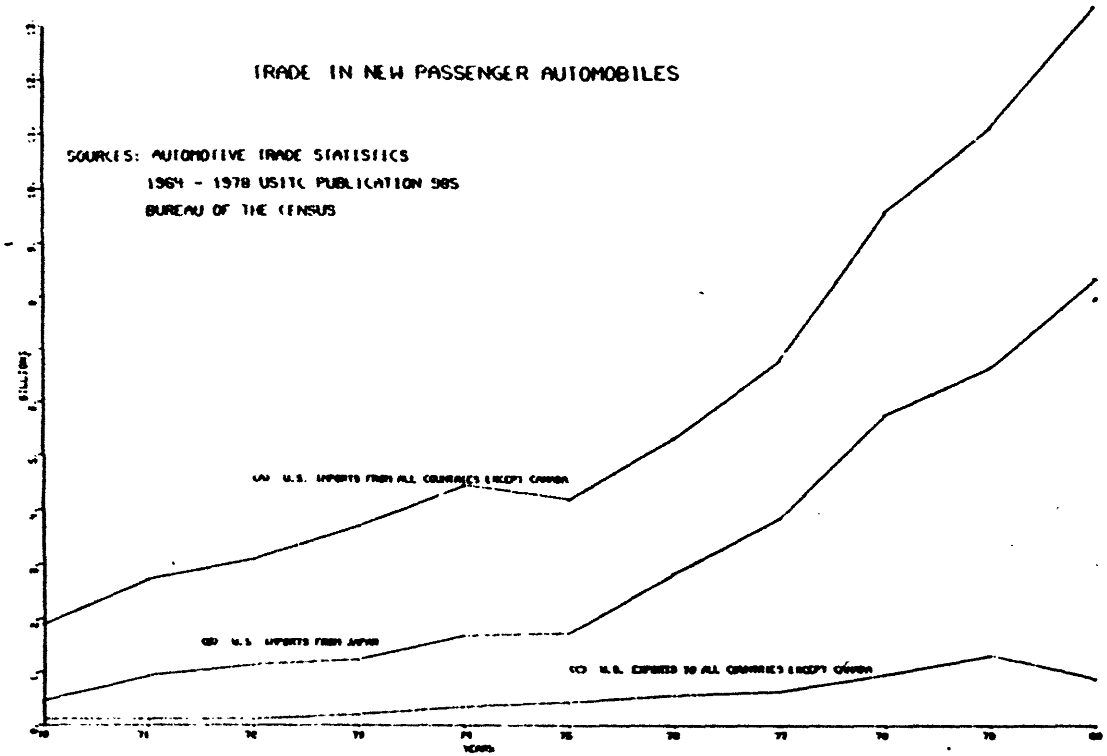
Others who also want the U.S auto industry to become more competitive argue that moderate import restrictions will not accomplish that goal and will instead penalize other groups in the economy, and possibly the industry itself. They say that import restrictions are an inefficient way of transferring financial capital to the U.S. auto manufacturers as restrictions will also likely raise import car prices, sending more dollars abroad, and increase consumer costs.

They also argue that import restrictions endanger the free trade policies this Government has maintained over the last 40 years and run directly counter to the private free enterprise spirit being espoused by the present Administration.

Members of the Trade Policy Committee, under my chairmanship, have been and continue to consider seriously whether some kind of import relief should be a necessary component in the auto recovery package. At this time, however, no definitive advice has been sent to the President. We would hope to announce a decision on this issue at the time other Administration auto policy is made public.

In reference to S. 396 and similar legislation which would impose unilateral export quotas on Japan, this Administration is opposed to this particular method of relieving import pressure. This legislation, as currently drafted, raises some serious problems both with our commitments contained in the General Agreement on Tariffs and Trade, and with domestic law which provides a mechanism for import relief. It may be possible to draft legislation that is more consistent with our GATT obligations and the thrust of the domestic import relief statutes of removing these decisions from the political arena. However if import relief is necessary, negotiations still remain preferable to legislated quotas.

In stating that this Administration prefers the negotiation route, I want to make two points plainly: First, this Administration firmly believes that the President clearly has Constitutionally based authority to negotiate government to government restraint agreements on exports to the United States. Furthermore, special legislation providing antitrust immunity to parties involved in this agreement is not needed if such a restraint agreement is implemented properly by a foreign government. The Attorney General concurs with my views on this matter. Secondly, while no decision has yet been made on the question of import relief, it follows that the Administration will reach a decision with a clear understanding of the law and on the basis of what is in the best interests of the United States.



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(B)	.456	.929	1.198	1.244	1.686	1.742	2.855	3.860	5.771	6.665	8.962
(C)	.115	.124	.129	.215	.347	.495	.567	.641	.958	1.929	.884
TRADE BALANCE	-1.799	-2.613	-2.998	-3.501	-4.108	-3.769	-4.760	-6.151	-8.627	-9.012	-12.519

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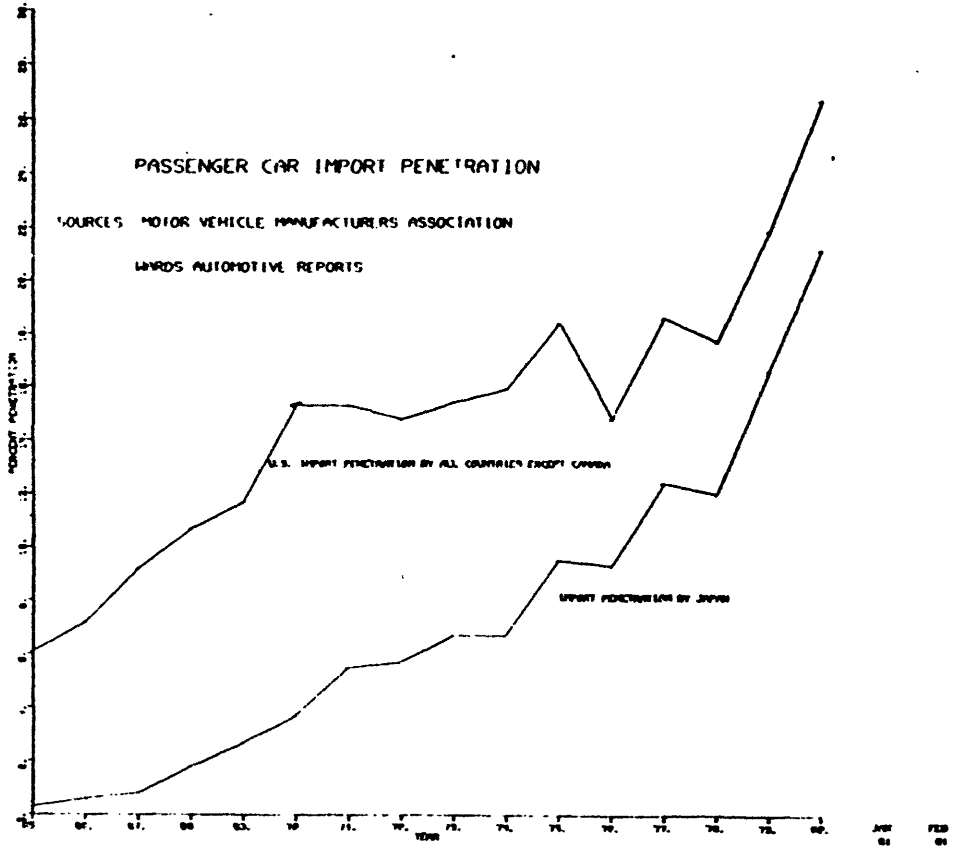

DOMESTIC AND IMPORTED PASSENGER CAR SALES (IN THOUSANDS)

DOMESTIC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
IMPORTED	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
JAPAN IMP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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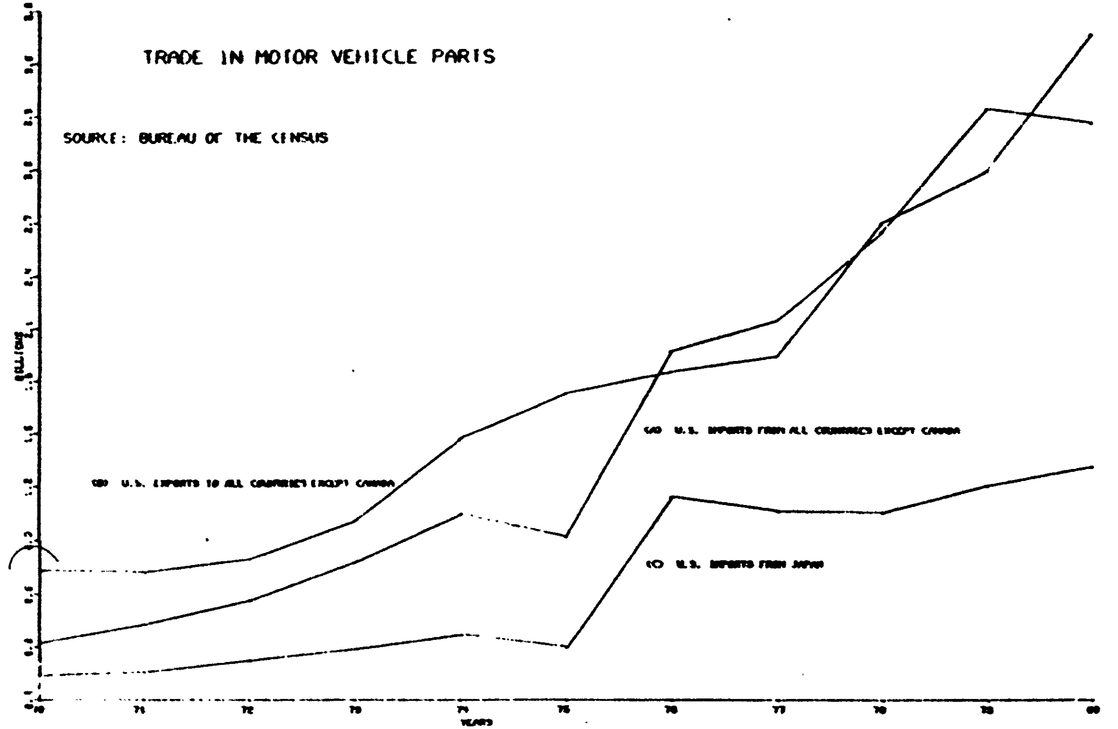

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(B)	.731	.722	.797	1.014	1.472	1.732	1.852	1.939	2.702	2.991	3.764
(C)	.135	.156	.225	.290	.371	.300	1.146	1.066	1.060	1.210	1.314
TRADE BALANCE	+.408	+.291	+.227	+.230	+.422	+.810	-.115	-.207	+.049	-.353	+.501

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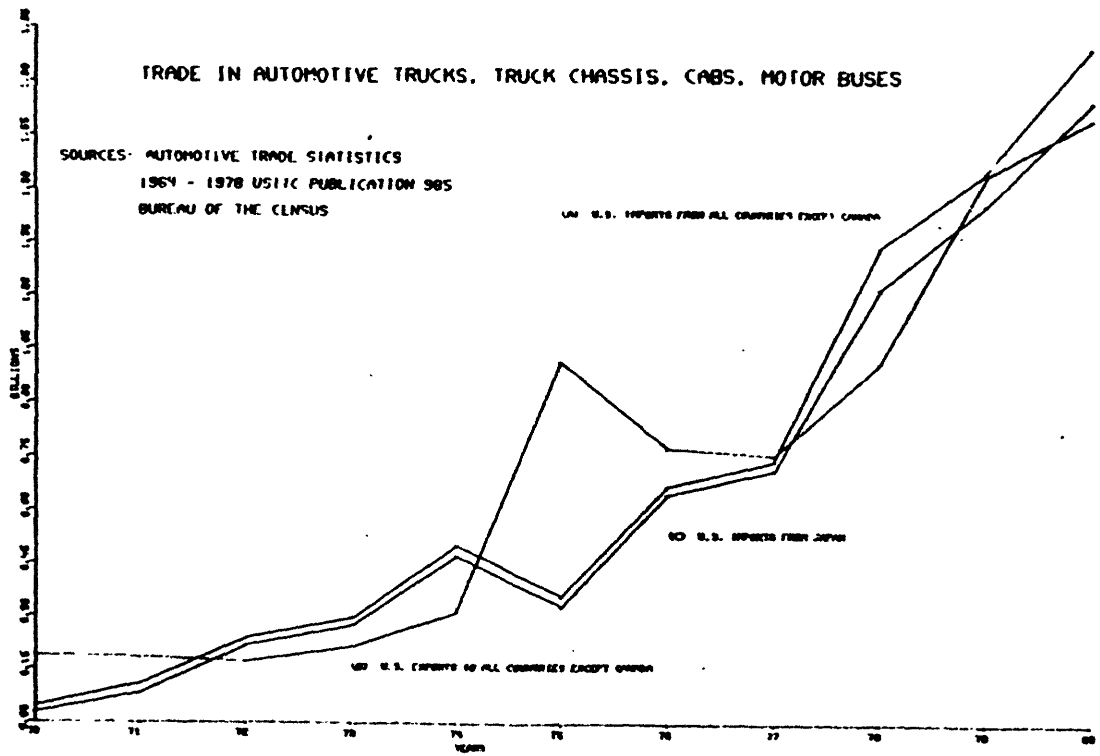

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(C)	.027	.089	.217	.274	.472	.331	.647	.712	1.224	1.448	1.750
TRADE BALANCE	+.141	+.072	-.084	-.087	-.191	+.652	+.103	+.016	-.328	-.009	-.199

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EMPLOYMENT

MOTOR VEHICLES AND EQUIPMENT INDUSTRY

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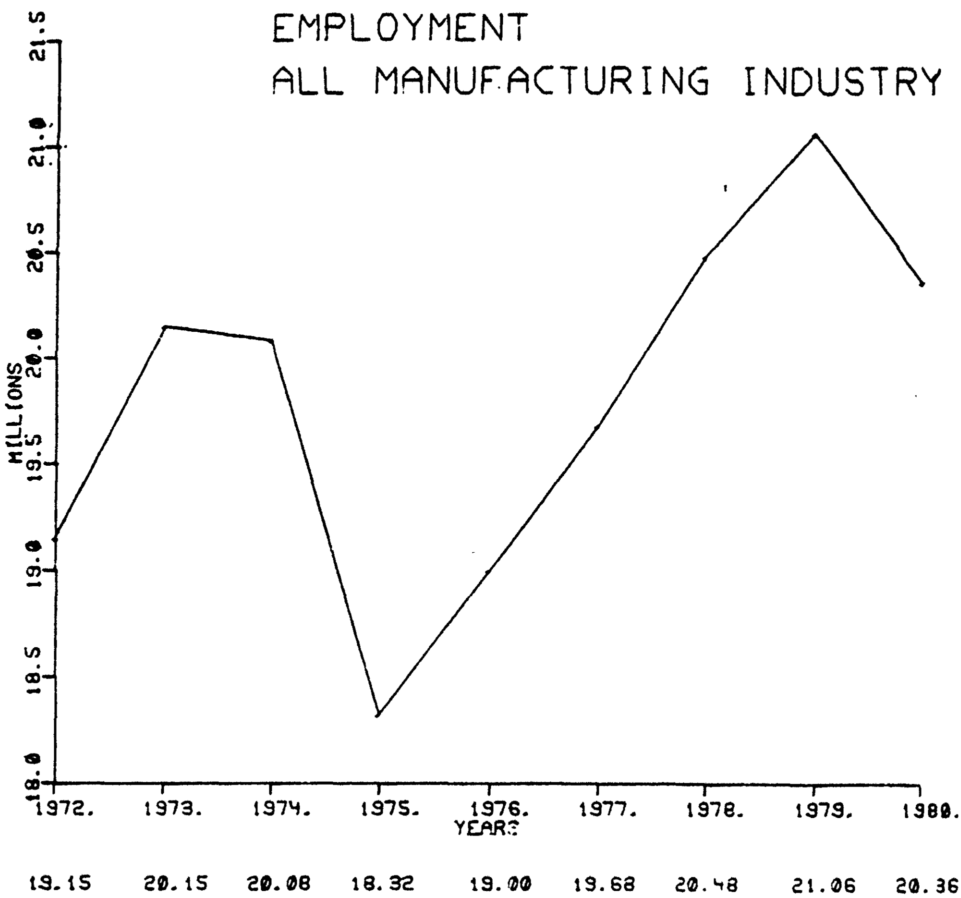

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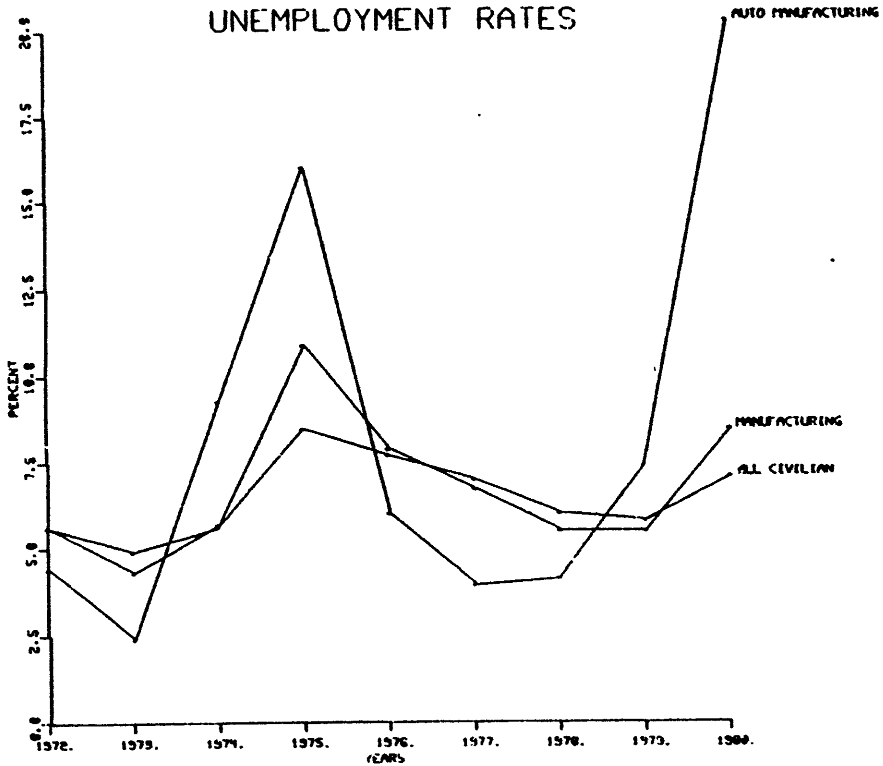

ALL CIVILIAN	5.6	4.9	5.6	8.5	7.7	7.0	6.0	5.8	7.1
MANUFACTURING	5.6	4.3	5.7	10.9	7.9	6.7	5.5	5.5	8.5
AUTO MANUFACTURING	4.4	2.4	9.3	16.0	6.0	3.9	4.1	7.4	20.3

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UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE

[In millions of U.S dollars]

	Total U.S. exports	Total U.S. imports	Total trade balance
1966	$1,375	$819	+$556
1967	1,889	1,406	+483
1968	2,634	2,274	+360
1969	3,144	3,061	+83
1970	2,936	3,132	−196
1971	3,803	4,000	−197
1972	4,496	4,595	−99
1973	5,726	5,301	+426
1974	6,777	5,544	+1,233
1975	7,643	5,801	+1,842
1976	9,005	7,989	+1,016
1977	10,290	9,267	+1,023
1978	10,964	10,492	+472
1979	11,221	8,914	+2,307
1980	10,450	[1] 8,581	[1] +1,869

[1] Estimated.

UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS TRADE

[In millions of U.S. dollars]

	U.S. exports	U.S. imports
CARS		
1970	$631	$1,474
1971	985	1,924
1972	1,075	2,065
1973	1,439	2,272
1974	1,657	2,595
1975	2,142	2,809
1976	2,354	3,477
1977	2,655	3,795
1978	2,613	4,129
1979	2,853	3,424
1980	[1] 2,925	3,802
TRUCKS		
1970	263	564
1971	334	587
1972	504	713
1973	643	789
1974	916	887
1975	922	917
1976	985	1,363
1977	1,057	1,841
1978	1,158	2,036
1979	1,526	1,809
1980	[1] 1,050	1,891
PARTS		
1970	2,042	1,094
1971	2,484	1,489
1972	2,917	1,817
1973	3,644	2,240
1974	4,203	2,062
1975	4,579	2,075
1976	5,666	3,149
1977	6,578	3,631
1978	7,193	4,327
1979	6,842	3,681
1980	[1] 6,475	2,888

[1] Estimated.

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Summary of Comments by Secretary of Commerce Malcolm Baldrige

Secretary of Commerce Malcolm Baldrige today emphasized the serious condition of the U.S. automobile industry, noting that the 4.2 billion dollars in losses experienced by the industry last year was the most any industry in history has ever lost.

The Secretary said that it now appears likely that the industry will lose close to a half billion dollars more this year, imperiling the industry's ability to finance the vitally-needed program of retooling and modernization.

He noted that the 6.6 million U.S. made cars sold last year represented the lowest sales in 19 years, and though sales rose in February of this year to an annual rate of 7.4 million units, this amount was still lower than sales in all but three of the last 15 years.

The Secretary stressed that import sales remained strong, with Japanese import penetration of the U.S. market reaching a record high 23.8 percent in February. He cautioned that Japanese car sales may increase even more in the near future. If this January's level of imports were to continue we would import 2.4 million Japanese cars in 1981.

A point the Secretary emphasized was that, if the Administration decides that a restraint on Japanese auto exports is a necessary part of the package being developed to assist the auto industry, a voluntary restraint, agreed upon by the Japanese government, would be preferable to a legislated quota.

The Secretary indicated that the Administration was presently considering whether to seek such a restraint, but such a decision would be difficult, involving both costs and benefits. On the cost side many fear restraint would drive auto prices up sharply, but the Secretary said he did not agree. He noted that existing excess capacity in the United States and the long term marketing strategy typically preferred by the Japanese should minimize increases in prices.

The Secretary closed by noting that a decision would be made soon and will be announced in the context of an integrated package of actions to assist the auto industry.

Statement of Malcolm Baldrige, Secretary of Commerce

Mr. Chairman, I appreciate the opportunity to testify before you today on a matter that deeply concerns both the Administration and the members of this subcommittee. The serious condition of the U.S. automotive industry requires our immediate attention. The U.S. automobile industry lost $4.2 billion in 1980—the most any industry in history has ever lost. Moreover, it now looks like the industry will show another loss in 1981. Some current Wall Street estimates are for a loss of close to a half billion dollars.

The cash flow picture is even worse. Profits and depreciation are internally generating far less cash than is required to finance the industry's critically-needed $80 billion investment program. The U.S. auto industry had a $9 billion cash flow deficit last year, and some current Wall Street estimates now indicate the industry will have a further cash flow deficit of $5 billion in 1981 and $3 billion in 1982.

Financial and economic conditions in the industry have become critical, and some assistance is essential in order to help the industry through this extremely difficult period.

It was this need for action that led to the introduction of the bill now before this subcommittee. It was this same need that led President Reagan, as one of his first steps in office, to create a Cabinet-level task force to address the problems confronting our auto industry.

This task force was charged with the responsibility for preparing an integrated package of government measures that would help restore the industry's vitality. The package which we are developing will be a comprehensive one, encompassing actions in several areas which will, in conjunction with the Economic Recovery Program, foster the industry's return to competitiveness. The task force was given six weeks to accomplish its review and submit proposals to the President. As Secretary Lewis has indicated, the work of the task force is nearing completion. We will shortly be sending our report to the President for his review and decisions.

The current condition of the auto industry

The current situation in the auto industry is bleak. The 606 million domestic cars sold in 1980 represented the lowest sales in 19 years. Sales in February 1981 rose to a seasonally-adjusted annual rate of 7.4 million units, but even that sales rate was worse than the sales volume in all but 3 out of the last 15 years. Moreover, the February sales increase was due largely to a surge occurring during the latter part of the month in response to cash rebate programs introduced by Ford and General Motors. These programs will bolster sales figures in the coming weeks, but they expire in the third week of March. Thus, without some change in the underlying problems, it is likely that the sales figures for domestic cars will drop off again late in March.

Import sales, however, have continued to be strong. Japanese penetration of the U.S. car market in February rose to a new record level of 28.8 percent. Total import penetration was at a near-record 28.7 percent.

Japanese car sales may, in fact, increase even more in the near future. Census Bureau import data show that 204 thousand Japanese cars were imported in January. If that rate were to continue for the rest of the year, the Japanese would be sending us 2.4 million cars in 1981—up a full 20 percent from 1980. Viewed another way, 2.4 million Japanese cars would be about 25 percent of the 9.7 million total car market we see for 1981.

The damage done to small business and their employees by the low level of auto sales is sometimes overlooked. Only 50–60 percent of the value of the components going into a car are typically produced by the auto companies themselves. The rest of the components are purchased from supplier companies—most of whom are small or medium-sized firms. Additionally, 1600 U.S. car dealerships went out of business or stopped handling U.S.-made cars in 1980, and virtually all these firms were considered small businesses. Chrysler lost one out of every 8 dealers in 1980, and Ford lost one of every 12. The loss of these dealerships has placed U.S. auto companies in a weakened marketing position, and will make it more difficult for them to maintain or expand their share of sales when the market recovers. The loss of any more will further weaken them.

The auto industry is not waiting idly for someone else to address its problems. In response to changing competitive conditions in the world marketplace, the domestic auto industry had already begun to retool itself to produce a greater quantity of fuel-efficient cars before the abrupt shift in consumer demand toward such kars in 1979. You can argue that the industry should have started its transition earlier, and that auto industry management misread the signals of the marketplace. Certainly, the management of the U.S. auto industry is not without its faults, but the U.S. government has to take a large share of the blame. The government held down the price of gasoline and gave strong signals that it would continue to hold down the price of gasoline in the future. This led consumers to keep buying large cars long after they otherwise would have switched, and gave the industry confused signals. As late as 1979, for example, there were waiting lists for large, V-8 autos. The excessive and costly regulations imposed on the industry by the government have also contributed to the present problems of the industry.

The automobile companies are now in the midst of their transition—the most massive revitalization effort in industrial history. This retooling effort will cost an estimated $80 billion, with $65 billion in investment scheduled to take place in the next five years. In contrast, the U.S. auto industry spent only $50 billion on worldwide capital improvements during the entire decade of the seventies.

Making such a tremendous investment puts an enormous strain on their capital structure. This would be true even if sales were strong and the industry were very profitable. But the huge losses the auto manufacturers incurred last year, the added losses now expected for this year, the decline in the number of dealerships, and very importantly the increasing difficulty in obtaining external financing, magnify the dangerous situation the industry faces.

With this in mind I believe that the interests of our nation would best be served by taking steps which would ensure that the auto industry has the ability to generate the cash flow needed to complete these investments and become fully competitive.

Effects of the economic recovery program

Since a good part of the domestic auto industry's current difficulties can be attributed to unfavorable general economic conditions, a return to a more robust economy should provide some relief to domestic auto producers. The President's Economic Recovery Plan is aimed at achieving a stronger rate of economic growth, along with a gradual but sustained reduction in inflation. Interest rates and financing conditions in general can be expected to improve steadily under this performance. According to our forecasts these turnabouts will be sufficient to restore the U.S. auto market to about 11 million units per year by 1983.

However, even with an improvement in general economic conditions, the industry's underlying problems will still remain until modernization is completed. Further steps may have to be taken to ensure lasting success for domestic producers. We are exploring additional measures which might also serve as a source of some relief. And, no matter what government does, the major responsibility for revitalization will rest with the industry itself.

Comment on the Danforth/Bentsen bill

The President has not yet decided whether a restraint on Japanese auto exports should be negotiated. However, if the Administration does determine that restraint is needed by the industry, we believe that we should first attempt to obtain a commitment for restraint from the Japanese Government through a government-to-government negotiation—and not through legislated quotas.

A voluntary restraint of Japanese auto exports imposed by the Japanese Government would have certain advantages over a quota. A legislated quota is too inflexible and presents many additional problems. The imposition of a quota could be contrary to our obligations under the GATT. Japan could therefore seek compensation in the form of other trade concessions, or could withdraw concessions on products of interest to the United States.

Successful implementation of a voluntary restraint on Japanese auto exports would obviate the need for a bill imposing a quota on imports of Japanese autos. If we decide to pursue such a course of action in our auto package and it proves unsuccessful, it may be necessary to pursue alternative measures.

Any decision to seek restraint of auto exports from Japan would be a difficult one requiring careful evaluation of both the costs and benefits. There would certainly be gains to the industry in terms of added sales, employment, and cash flow. There would also be economic gains to the nation in terms of reduced unemployment payments as workers were re-hired. Such reduced payments together with the added taxes re-employed auto workers would pay, are estimated at $16,000 per worker.

There would also be costs. The most significant concern on the cost side is the degree to which restraint on Japanese car exports would cause car prices to rise. Some feel that large price increases would be inevitable. I do not agree. I see strong market forces which would serve to minimize any price increases.

In the first place, Japanese auto makers have always planned their marketing strategies for the long run. I do not believe they would adopt a short-run pricing strategy of soaking the market for all they could charge during a period of temporary restraint. They would be too concerned for the effect this would have on their market positions once any temporary restraints ended. Moreover, part of the effort to seek voluntary restraint could encompass a negotiated restraint on price increases.

Of equal significance is the fact that U.S. car markets have considerable unutilized capacity for making fuel efficient small cars. U.S. car companies can now make around 3 million new design small cars (almost all of which are front wheel drive) at an annual rate. So far this model year, however, those cars have been selling at an annual rate of only 2 million—leaving excess capacity of 1 million units per year. This excess capacity means that there would be stiff competition for sales among the U.S. car companies even if Japanese exports were restrained. Large price increases are unlikely in that situation.

Conclusion

Mr. Chairman, we have devoted many hours of our time since the President established the auto task force in January to examine meaningful ways to assist our auto industry, which would at the same time be compatible with our other policies, both domestic and international.

The auto industry faces a critical challenge during the next several years, and most of the industry's difficulties were not of its own making. Competition from the Japanese, increasing integration of the industry worldwide, and other developments in the international arena require our domestic industry to revitalize itself on an urgent basis. The investments required cannot be delayed. Ensuring the industry's ability to make those investments is the objective at which the auto task force's efforts are aimed.

I believe an effort to help the indsutry by imposing a legislated quota would be counterproductive. We should be, and are, exploring the possibility of voluntary restraint on the part of the Japanese as part of an overall set of steps to aid the industry.

Senator DANFORTH. Now here is what I would like to do, because it is now about 12:15; if we could hear from Senator Fannin now, and then Messrs. McElwaine and Connelly, I wonder if Mr. Young, Mr. Koplan, and Mr. McCammon could come back so we can start again at about 1:45.

Does anybody have any problems with that?

[No response.]

Senator DANFORTH. No problems. Very well.

Senator Fannin, a distinguished former member of this committee, and if you could give the room just a little while to clear out, because some people are leaving now, and then you will have our undivided attention.

Mr. FANNIN. Very well.

STATEMENT OF HON. PAUL J. FANNIN, FORMER U.S. SENATOR

Senator DANFORTH. Let us proceed.

Senator Dole has had a meeting with Ambassador Okawara, from Japan, and has handed the Ambassador a letter. He has asked that the letter be included in the record, which it will be. And also, that a copy of it be available at the press table, and it will be available.

[Senator Dole's letter follows:]

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 9, 1981.

His Excellency YOSHIO OKAWARA,
Ambassador of Japan,
Embassy of Japan, Washington, D.C.

DEAR MR. AMBASSADOR: As you know, Senator Danforth is holding hearings today on the legislation which he has introduced to restrict the importation into the United States of automobiles manufactured in Japan. In introducing this legislation, Senator Danforth stated that he did so "reluctantly" and had taken this action only because of the critical state of this vital industry.

As President Reagan stated at his news conference on Friday, an administration task force is presently completing work on an automotive industry report and will be presenting its recommendations to the President in the near future. While no final decisions have been made, it is clear that reductions in imports are an option under consideration. Among others, eight Governors have urged the President to negotiate voluntary import restrictions. Senator Danforth and several administration spokesmen have also indicated their preference that such restrictions be mutually agreed to by the U.S. and Japan rather than imposed by legislated quotas. This is also my preference.

Should the United States and Japan be unable to resolve this problem in a mutually acceptable manner, the distinct possibility exists that legislation imposing mandatory quotas will proceed in either or both Houses of Congress. I believe this could have unfortunate consequences including increasing pressures on other aspects of our trading relationship. Such a development could impede efforts being made to ensure that both Japan and the United States gain the greatest possible benefits from the multilateral trading system. Our countries are the cornerstone of this system and the failure to mutually resolve the automobile import problem can only detract from its strength and ability to maintain and enhance the open world trading system.

It is my hope, and I know it is the hope of Senator Danforth, that this issue will be quickly resolved in order that we may move on to a discussion and resolution of other issues under consideration between our countries.

Sincerely yours,

BOB DOLE, *Chairman.*

Senator DANFORTH. Senator Fannin, you are a former and very distinguished Member of not only the Senate, but of this committee. You spent a number of years on this committee, working on the problems of international trade. It is an honor to have you back with us again.

Mr. FANNIN. Thank you, Mr. Chairman, and members of the committee.

This committee is to be commended for holding these hearings to determine what can be done to assist in maintaining a healthy automotive industry in our Nation, and still be fair with other nations that are importing cars to this country.

Mr. Chairman, I did work on this problem from the mid-1960's to 1977, when I left the Senate.

Since presently about 80 percent of our car imports are from Japan, they are creating our most immediate problem, as has been brought out today.

Part of the time, while I was in the Senate, the shoe was on the other foot. The Japanese were fighting to keep any American car from being shipped into their country.

At that time, I observed the hopelessness of getting American products into Japan, if the Japanese Government did not want them to compete with their manufactured products.

Just an illustration. In the early 1970's I was a member of a congressional delegation meeting in Tokyo with the Japanese Government and business leaders to discuss trade and tariff regulations. As one of the spokesmen for the Senate Members, I asked if Japan would assist the United States in correcting the inequities in the GATT schedules on United States export of cars into Japan. Their answer was a firm no. They stated they were satisfied with the provisions.

Why wouldn't they like the stipulations which gave them full access to our markets, for a 4½-percent tariff, going down one-half of 1 percent a year, with their tariffs at that time being 17.5-percent base, with an additional charge on each American car for weight, wheelbase, motor size, and so forth, bringing the total import fee to 100 percent or more, usually doubling the price of even the medium-size car.

Mr. Chairman, although I do favor having negotiations to see what can be done, I feel it is far more equitable for the United States to take the action you are advocating on their exports into our country today, than it was for them to practically eliminate our cars when they could not compete.

Now, Mr. Chairman, I feel there is another factor of tremendous importance—in fact, more important—than what we are talking about at this time or have talked about so far this morning. This has direct relationship to trade. And that is the factor of importance to our Nation of defense responsibilities of the other nations of the free world, and particularly the Japanese.

Now, I would just like to discuss regarding the Japanese responsibility to share in the defense of the free world and their nation, I quote excerpts from a speech I made in the Senate on May 15, 1975, when I said:

> Japan was a devastated nation, but one with great determination. They have made an industrial comeback that has been the envy of the world.
>
> We have participated in that endeavor, being the greatest foreign contributor to their efforts in making this remarkable recovery. But, we have a responsibility to the American people to recognize the responsibility the Japanese have to our nation. This relationship of complete dependence must cease and the Japanese must accept the burden of defense which their productive economy can sustain.

That is a quote from what I said on the floor of the Senate.

I made many other speeches, both on the Senate floor and here in the committee room, regarding this subject.

When Japan was getting their exports moving, they were spending less than one half of 1 percent of their gross national product on defense, whereas the United States was spending from 5 to 10 percent of our gross national product.

I believe the United States will subsidize the Japanese Government in the next year by $50 billion or more.

Back over the years, while their country was becoming a worldwide leader, it is my opinion that the United States subsidized Japan with several hundred billion dollars. That has been done by the United States assuming most of what should have been Japan's fair share of defense expenditures for the maintenance and increased building of a military complex for the protection of the countries of the free world.

Japan has one-half the population of the United States, approximately, a gross national product of approximately 40 percent the size of the United States, and growing.

I feel that Japan has an obligation to have a defense budget of at least one-third the size of that of the United States.

On that basis, they should have a defense expenditure next year of not $11 or $12 billion, but over $50 billion.

Many leaders in Japan recognize this need for greater defense spending. This was brought out at a meeting in Tokyo in the last part of September, last year, when recently former defense chief Asao Mihara stated, "Under the security-treaty system"—and I am just quoting excerpts from his speech—"the Japanese people were able to fully exercise their national energy, concentrating their efforts, first on recovery from World War II, and then on the development of our economic strength and to attain the status of a great economic power, becoming the country with the second highest industrial production in the free world."

He gave the United States credit for making that possible, by our taking over their defense obligations.

Mihara said that there was no mutualness in the current security treaty since, although the United States was obligated to defend Japan, Japan was not required to do the same.

And, he continued, "This may have been permissible when Japan's economy was only one-tenth that of the United States, but today, when the ratio is 1 to 2, the treaty needs to be revised."

Another former defense minister, Shin Kanemaru, said, "Japan's defense posture is so weak it cannot be considered a fighting force and urge the nation to improve drastically its defense forces."

Now, that was said just last year, just a few months ago. Japan should heed the words of its own defense ministers.

One of the leaders of Japan's economy, Heigo Fujii, a vice president of Nippon Steel Corp., has this to say back in the early seventies, when he wrote an article in a book titled, "Japan and Current World Affairs." I quote:

> Until some years ago, there was almost no defense spending by Japan. It was because Japan was able to divert the greater part of its capital accumulation to both public and private investment that it was able to achieve such a rapid economic growth.

We continue treating Japan as a devastated nation, long after they were stronger economically than our Nation.

Now, no longer can we accept excuses of the Japanese Constitution or obsolete treaties prohibiting a defense buildup. The freedom of all Western countries is at stake with Japan one of the most vulnerable to Russia's powerful navy and air forces.

Whatever needs to be done, Mr. Chairman, to enable Japan to meet their fair share of the free world's defense must be rapidly accomplished.

If we had subsidized Chrysler to the extent of the 15 or 20 percent or more of their budget, as we have subsidized Japan and its industries, Chrysler would be prosperous today.

Now, what are my conclusions as to the actions that should be taken?

No. 1, immediately Japan and the United States should negotiate an orderly marketing agreement as a temporary measure. If the Japanese refuse to act with fairness in this regard, we must at once cut back on their imports and certainly your legislation would accomplish that objective, Mr. Chairman.

No. 2, within 3 years of the defense expenditures of the United States—of the Japanese—within 3 years the defense expenditures of the Japanese should equal the average of the NATO countries on a gross national product basis.

The NATO countries and Japan should equal the United States in defense spending on an equitable formula basis within 5 years.

No. 3, the failure of Japan to increase their defense expenditures on a fair and equitable basis comparable to the NATO nations will result in a continuance of the United States subsidy to their economy.

Therefore, if the Japanese insist their industries have the unfair advantage over our industries, we must follow the lead of other nations in drastically reducing their imports that are flooding our markets.

Mr. Chairman, I worked on this for many months; in fact, years. I have a more elaborate statement for the record. I do feel very keenly about this. I think it is something that should be recognized.

Senator DANFORTH. Senator Fannin, your entire statement will be printed in the record, in full.

Your testimony has been most helpful in putting this problem in perspective.

You know, I think it is easy in this country to adopt a defeatist attitude when no defeatist attitude is called for. This problem with the American automobile industry has been short-lived. It has come about in the last few years, and has in large part been due to governmental policy.

In addition to that, as you pointed out, the Japanese have had the luxury that we have not had, of investing very few of their resources in providing for defense requirements where we have undertaken a tremendous defense effort that is to continue as the leader of the free world.

I don't think that it is true that Japan produces a better product than we do. As a matter of fact, according to the figures of the National Highway Traffic Safety Administration, the six most dangerous automobiles that are sold in this country are all made in Japan. That is not a better product. That is a worse product.

I think that the American automobile industry will be able to recover, provided that we give it some breathing room. But we don't have, as you pointed out, a relationship of parity, of equity, between the United States and Japan. Free trade in this case is a one-way street. It does not go the other way. We do not have ready access to the Japanese market, as they have to ours.

In addition to that, they are able to invest a substantial portion of their gross national product in industrial development, where we have this tremendous defense requirement.

Mr. FANNIN. Mr. Chairman, one of the last television companies to go offshore was Zenith Corp. I worked with their chairman of the board, for quite a number of months, trying to assist them in getting their product into Japan.

They could compete in Japan, from the standpoint of price and quality of product, but they could not get the product into Japan. They finally gave up and had to go offshore to do their manufacturing.

But, I witnessed that in one industry after another, the industries that I have been involved with in private business, so I knew just what was happening and how serious it was to this country.

I tried, and the testimony is in the Congressional Record. I can give you reference to it, where I had discussion on the Senate floor with other Senators, but we did not have the support that would bring the legislation through. So, we were unsuccessful.

Senator DANFORTH. Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator Fannin, you obviously feel the Japanese ought to spend a greater share of their GNP on defense, as a responsible partner in the preservation of peace.

The only thing that I misunderstood, if I did, is whether or not you feel that this course of action is a substitute for any restriction on imports?

Mr. FANNIN. Well, naturally I feel that if we had burdened the companies in Japan and the taxpayers in Japan with the defensive expenditures that have been involved percentagewise in the United States, our gross national product from theirs, they wouldn't be in that enviable position of having the edge over us in the manufacture of cars.

You can subsidize any company, 15 or 20 percent or more, they are going to be eminently successful in their operations, unless they have very poor management. That is what we did with Japan. We adopted them, and then when they became of age, we didn't drop them. We just kept carrying them through as if they were still forlorn. So, we are still doing it today. This absolutely has to stop.

We face a far greater threat in the future than we have faced in the past if we don't do something about this.

Senator GRASSLEY. Very well. Senator, that explains the situation in 1981. Now, if we were to convince them to spend a larger percentage of the GNP on military, is that your answer today for the problems of too many imports into the country?

Or do you still think we ought to restrict the imports as well?

Mr. FANNIN. I feel both ways. I feel that cannot come about overnight. So, it is disastrous to our companies. We cannot afford to have Chrysler go under, when here they are one of our companies that is building military equipment. We are dependent upon the automotive companies for a tremendous percentage of our defense equipment, if we became involved in any problems as far as the military is concerned.

So, we can't afford to let those companies go under.

I am a free trader, if you ever had free trade. But, you can't have free trade with GATT. They talk about GATT. Well, I worked on GATT for a long, long time. GATT is not always the answer. We never had the votes in GATT to get what I felt was fair and equitable.

It is just like we were in the United Nations, and of course, it came out of the United Nations. So, I don't think GATT is going to be the answer.

I think we must have something adopted, at once, if they are not willing to work on the problem, that will accomplish the objective we are talking about.

Senator GRASSLEY. Senator, do you feel that Congress should enact this restriction or it should be negotiated bilaterally?

Mr. FANNIN. We have attempted to negotiate with them and failed.

I can remember back when I asked the Japanese if they wouldn't assist us in trying to make these changes that we are talking about and they said no, they like it as it is. They had a tremendous advantage.

So, they are not willing, evidently, they are not willing to do that today. So we have to get tough with them. We have to get just as tough as they have been in the way they handled us. They have pushed us around long enough.

Senator GRASSLEY. Would you vote for Senator Danforth's bill, if you were still a Member of the Senate?

Mr. FANNIN. After the Trade Representative, Ambassador Brock, had made his attempt and was not proceeding with success immediately, then I would support the bill.

Senator GRASSLEY. Thank you, Mr. Chairman.

Thank you, Senator Fannin.

Senator DANFORTH. Senator Fannin, just one other question, based on your experience. Some people say, well, if we impose restrictions on the Japanese, they will retaliate.

Given the fact that the Japanese now have $10 billion trade surplus with the United States and would have much more to lose in a trade war than we would, given the fact that they did not retaliate against the Europeans when the Europeans imposed import restrictions on automobiles, given the fact that as far as I know, the Japanese have never retaliated against the United States and the United States has never retaliated against Japan, what, based on your experience and your judgment, would be the possibility of Japanese retaliation against American restrictions on automobile imports?

Mr. FANNIN. You don't retaliate with your best customer. If they were cut into half, there would still be more than what they are being able to get into other countries of the world. So, why would they retaliate? What do they have to retaliate about? They are just happy to stay as it is, stay like they are, but I wouldn't worry about them retaliating.

I know, I take some Japanese periodicals, and I receive information through that source. There is a real change in attitude in

Japan. I think they are really concerned about it because they have a right to be.

Their country, of course, when they start talking about what they want to do, they look back and see what we did for them, in the early 1970's, when we were working trying to get our cars in Japan, and were unable to do so, we were taking 30 percent of their exports, total exports.

The European Eeconomic Community was taking 5 percent, and they have double our population.

We tried to assist the Japanese into getting more of their exports into the European countries.

So, we have been the friend of the Japanese all the way through; in fact, we adopted them, as I say, and we carried them too long.

Senator DANFORTH. Senator, thank you very much.

Mr. FANNIN. Thank you very much for permitting me to appear before the committee.

[The prepared statement of Senator Fannin follows:]

PREPARED STATEMENT OF HON. PAUL J. FANNIN, FORMER U.S. SENATOR

Mr. Chairman, members of the Finance Committee, as I will illustrate later in my remarks, I believe the United States will subsidize the Japanese Government in the next year by fifty billion dollars or more.

Back over the years, while their country was becoming a world-wide leader in the electronic industry, the steel industry, and becoming the largest ship-builders in the world as well as builders of more cars than any other nation, it is my opinion that the United States subsidized Japan with several hundred billion dollars.

This has been done by the United States assuming most of what should have been Japan's fair share of defense expenditures for the maintenance and increased building of a military complex for the protection of the countries of the free world. Since the early sixties, Japan's economy has been in a position to allocate a larger share of their GNP than have most of the NATO nations, including the United States, but as you know, has only devoted a small percentage of their GNP compared with the NATO countries.

Japan, being relieved of the principal part of their fair share of defense obligations, has been able to have lower taxes for individuals, business and industry, and to give special concessions on interest rates, along with many other inducements for the promotion of manufacturing, especially on items to be exported. This savings has been a great factor in their steel, ship-building and other industries, having such a rapid and successful growth.

For about ten years of my tenure in the US Senate, I was involved with our Japanese trade relationship. In that connection, my work outside the Senate was with American corporation executives who were promoting exports, with our State Department, the Japanese Embassy officials in Washington; and in Japan as a Congressional Delegate where we were trying to get Japanese cooperation for more equitable trade and tariff regulations.

Although I devoted considerable time on this subject before becoming a member of the Finance Committee, most of my work on this problem was in connection with the Finance Committee which was responsible for Tariff and import quota, reciprocal trade agreements and revenue matters generally. I quote from a speech made by me on the floor of the Senate on January 26, 1973.

"In the years just after World War II the United States was so dominant in world trade that we could virtually ignore foreign economic relations. Political relations were foremost in the minds of our government leaders and we could afford to be generous in trade agreements.

"The situation began to change by the mid-1950's, and it should have been evident by the 1960's that trouble was ahead. The Kennedy Round of Trade Negotiations was supposed to ease trade problems, but it only compounded them as far as the United States was concerned. We demolished our barriers to imports, but got nothing in return.

"In 1971, we had our first trade deficit of the century. In 1972 our trade deficit plunged even deeper and continued downward." I made many other statements on this subject on the Senate floor, in Finance Committee meetings and to various groups in Arizona and other states.

As a result of this lack of awareness and concern, our government did not seriously challenge discrimination against U.S. goods in Foreign Markets. We tolerated the closed economy of Japan, and at the same time, we maintained a substantial open-market policy on imports of goods into America.

I'm not taking away from the greatness of Japanese industries or their workers. Again, I am saying, we have, and are still subsidizing Japan, Inc., by relieving them of financing their fair share of the free world defense including their own defense.

Auto manufacturing is the bloodstream of our nation's economy, creating one out of every twelve manufacturing jobs in addition to being one of the largest purchasers of basic materials.

As our automobile factories decrease in production capabilities so does our potential defense effort in time of war.

Chrysler is a large producer of tanks and other defense materials, as are the other automotive companies.

A good percentage of our war production during World War II came from these companies and the conversion to war-time production of these plants would be only a fraction of the time it would take to build new factories.

This committee is to be commended for holding these hearings to determine what can be done to assist in maintaining a healthy automotive industry in our nation and still be fair with other nations that are importing cars into this country.

Since presently about 80 percent of our car imports are from Japan, they are creating our most immediate problem. Part of the time while I was in the Senate, the shoe was on the other foot. The Japanese were fighting to keep American cars from being shipped into their country. At that time I observed the hopelessness of getting American products into Japan if the Japanese government did not want them to compete with their manufactured products and I understand that circumstance still prevails today, even in the automotive industry.

Now they say, "We do not have any tariff on American cars shipped into Japan" but I know your committee has determined all the other requirements on car imports including modifications, so realize we pay a tremendous penalty in exporting cars to Japan.

In the early seventies I was a member of a Congressional delegation meeting in Tokyo with the Japanese government and business leaders to discuss trade and tariff regulations. As one of the spokesmen for the Senate members, I asked if the Japanese would assist the United States in correcting the inequities in the General Agreement on Tariff and Trade Schedules on United States exports of cars into Japan. Their answer was a firm "No." They stated that they were satisfied with the provisions.

Why wouldn't they like the stipulations which gave them full access to our markets for a 4½ percent tariff going down ½ percent a year with their tariff at that time being 17½ percent base with an additional charge on each American car for weight, wheel base, motor size, etc., bringing the total import fee to 100 percent or more usually doubling the price of even a medium size car.

The world situation has changed dramatically since we negotiated agreements with Japan. Thirty years of varying degrees of prosperity have changed the world order. The commitments made and responsibilities assumed by the United States for an overwhelming share of the defense of the free world is no longer a viable solution to actual defense requirements. Events in recent years and more pointedly in recent months clearly illustrate the necessity of the other free nations of the world to carry heavier commitments.

In regard to Japanese responsibility to share in the defense of the free world and their own nation, I quote excerpts from a speech I made in the Senate on May 15, 1975, speaking on defense commitments of the free world nations. "We've had a relationship with Japan that has been in effect since World War II. This relationship has proved the ability of the victor to assist a nation that has gone down in defeat in making an almost unbelievable comeback. Japan was a devastated nation, but one with great determination; and they have made an industrial comeback that has been the envy of the world. We have participated in that endeavor, being the greatest foreign contributor to their efforts in making this remarkable recovery."

"But we have a responsibility to the American people to recognize the responsibility that the Japanese have to our nation."

"This relationship of complete dependence must cease, and the Japanese must accept the burden of defense which their productive economy can sustain." End of quote.

When Japan was getting their exports booming, they were spending less than ½ of 1 percent of their Gross National Product on defense, whereas the United States was spending from 5 to 9.3 percent of our GNP. In the seventies we averaged about

5.5 percent while Japan was still spending only around ½ of 1 percent until late in the decade when they claimed they worked up to 9/10 of 1 percent of GNP in 1979.

As I understand—in the United States 1981 budget ending September 30, 1981, we will spend 5.5 percent or more of our GNP on defense. The total budget amount for 1981 will be about $650 billion with over $170 billion for defense if present projections hold. This does not include the US billions spent in the Middle East and other areas of the world that affect the oil lanes on which the Japanese are even more dependent than the United States.

The 1980 reported Japanese budget ending April 1, 1981, provided for total expenditures of $202.8 billion with defense expenditures at $10 billion, including $1 billion for supporting U.S forces in Japan.

The Carter budget submitted for 1982 is approximately $740 billion with defense spending listed at approximately $180 billion. In the new Reagan budget, reported defense expenditure will be near $200 billion, or about 7 percent of our GNP. That is, of course, dependent on Congressional approval.

The reported contemplated Japanese budget for their fiscal year ending April 1, 1982, will be $223.8 billion with defense expenditures as reported, being around $12 billion, or about 1 percent of Japan's GNP.

This indicates that just our increases in defense spending will amount to over four times their total defense budget.

Japan has one-half the population of the United States, a GNP of approximately 40 percent the size of the United States with a budget that was running about one-third the size of the United States. I feel that Japan has an obligation to have a defense budget of at least one-third the size of that of the United States.

On that basis they should have a defense expenditure next year of not $12 billion but over $60 billion.

This year if Japan equaled economically troubled Great Britain's 5 percent defense expenditures as a percentage of GNP, the free world's defense budget would increase by 20 percent.

Following is a comparison of some of the free world nations in regard to the percentage of their defense expenditures as to their GNP:

For the year 1979:	*Percent*
United States	5.0
Great Britain	4.7
Turkey	4.5
Belgium	3.5
West Germany	3.4
France	3.3
Canada	1.8
Japan	0.9

Russia's defense expenditures are estimated to be averaging about 15 percent of their GNP.

Senator Orrin Hatch, shortly after coming back from participating in the October 1980 Tokyo Conference to Commemorate the 20th anniversary of the United States-Japan Mutual Security Treaty, reported the following from speeches of two former Japanese Defense Chiefs. Former Defense Chief Asao Mihara stated, "The Japan-United States security system actually has played a decisively important role as a pillar of freedom, peace, security and prosperity for Japan for nearly thirty years. Under the security-treaty system, the Japanese people were able to fully exercise their national energy concentrating their efforts, first on recovery from World War II and then on the development of our economic strength and attaining the status of a great economic power, becoming the country with the second highest industrial production in the free world."

Mihara said there was no mutualness in the current security treaty since although the United States was obligated to defend Japan, Japan was not required to do the same. "This may have been permissible when Japan's economy was only one-tenth that of the United States," said Mihara, "but today, when the ratio is one to two the treaty needs to be revised."

Another former Defense Agency Chief, Shin Kanemaru, said, "Japan's defense capabilities should not be determined by arbitrarily mathematical formulas such as the current government policy restricting defense expenditures to 1 percent of the GNP."

Kanemaru also said that the "Japanese defense posture is so weak it can not be considered a fighting force," and urged the nation to improve drastically its defense forces.

Japan should heed the words of its own defense ministers.

American Ambassador to Japan, Mike Mansfield, had some success in getting Japan to build up their defense budget and I praise him for that effort. But still it's just a start, and we must insist that more be done . . . many times as much.

One of the leaders of Japan, Heigo Fujii, a Vice President of Nippon Steel Corporation had this to say in the early seventies, when he wrote an article in a book titled "Japan and Current World Affairs." I quote: "Defense spending now requires only 8 to 9 percent of Japan's national budget and until some years ago there was almost no defense spending by Japan at all. It was because Japan was able to divert the greater part of its capital accumulation to both public and private investment that it was able to achieve such a rapid economic growth."

"To the best of our knowledge it was, unfortunately, Japan that started the Pacific War, and, as a result paid a great price . . . and lost. If the United States, which had paid the greatest sacrifices since Pearl Harbor had demanded half of Japan's territory or even the island of Kyushu; Japan, under the conditions existing at the time the war ended was in no position to say "No." However, the United States did not seek any territory whatever. Instead, America provided 3½ billion worth of economic aid to Japan, and earnestly cooperated in Japan's economic reconstruction. At the same time the United States abetted Japan in setting up the new system called Democracy in Japan. All this made possible the economic growth Japan has achieved today." End of quote.

No longer can we accept excuses of the Japanese Constitution or obsolete treaties prohibiting a defense buildup. The freedom of all Western countries is at stake with Japan one of the most vulnerable to Russia's powerful navy and air forces.

Whatever needs to be done to enable Japan to meet their fair share of the free world's defense must be rapidly accomplished.

If we had subsidized Chrysler to the extent of 15 to 20 percent of their budget, as we have subsidized Japan and its industries, Chrysler would be prosperous today.

What are my conclusions as to the actions that should be taken to keep many of the leading manufacturers of our nation from bankruptcy and to give equitable treatment to the Japanese during these troubled times when the very survival of the free world is threatened?

Number One: Immediately Japan and the United States should negotiate an orderly marketing agreement as a temporary measure. If the Japanese refuse to act with fairness in this regard, we must at once cut back on their imports and insist on changes in GATT to protect our interests.

Number Two: Within three years the defense expenditures of the Japanese should equal the average of the NATO countries on a GNP basis. The NATO countries and Japan should equal the United States in defense spending on an equitable formula basis within five years.

Number Three: The failure of Japan to increase their defense expenditures on a fair and equitable basis comparable to the NATO nations will result in a continuance of the United States subsidy to their economy. Therefore, if the Japanese insist their industries have the unfair advantage over our industries, we must follow the lead of other nations in drastically reducing their imports that are flooding our markets.

Senator DANFORTH. The next witnesses are Robert McElwaine and Edward G. Connelly, representing the American International Automobile Dealers Association.

STATEMENTS OF ROBERT McELWAINE, EDWARD G. CONNELLY, AND DR. BART S. FISHER, COUNSEL, AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

Mr. McELWAINE. Mr. Chairman, with regard to the time limitations, Dr. Fisher has prepared a very brief statement and it will only take a few minutes, on the legal and economic impacts of S. 396. I wonder if at the conclusion of my statement, Dr. Fisher might have a few extra minutes to present that?

Senator DANFORTH. Certainly.

Mr. McELWAINE. Thank you, sir.

Well, here we are again, Mr. Chairman. We seem to come down to just thee and me in these hearings, almost inevitably.

We have submitted a detailed statement to the committee on S. 396. I will not try to expand on that or even to comment on it, really. We think it is a very complete statement. It offers our proposal for a realistic and practical remedy to the problems of the domestic automobile industry. We commend it to your attention, sir.

On S. 396, where we would like to focus our comments, with all due respect, Mr. Chairman, to your own legislative authoring of this particular bill, we regard it as Neanderthal legislation.

In its flat, unequivocal establishment of numerical limit on importations of automobiles from Japan, it makes no allowance for changes in the marketplace, in international currency exchange, in the state of the economy, or the needs of the consumers.

It violates nearly every international trade agreement to which the United States is a party. It shatters all these carefully crafted procedures for dealing with trade disputes that the Congress has so laboriously created over the years, and procedures which I might add, we are trying very hard to enforce on all our trading partners.

S. 396 would create severe problems for the American chemical, machine tool, computer, aircraft, and agricultural industries. It would, in effect, ask these industries to sacrifice their export sales in order to subsidize the domestic automobile industry.

I think to fully appreciate the impact that S. 396 would have on the economy and on the automobile industry in particular, we have to look very carefully at that industry. This industry has just survived the most difficult year in its history, a year when the requirements for massive infusions of new capital investment coincided with one of the poorest sales years in recent history.

But it now stands poised for the greatest resurgence in the history of the automobile industry.

I think to get the true picture, we have to look at General Motors, which in effect accounts for two-thirds of all domestic automobile sales.

General Motors announced loss of $763 million for 1980. It caused a great deal of astonishment, the first loss in the history of this corporation, in the United States.

But I think a closer examination of those figures is a little revealing. Only 9 percent of that loss was incurred in the United States; 91 percent of General Motor's loss in 1980 took place in their overseas operation.

In this country, their losses were $71.9 million, on sales of nearly $47 billion. That was less than a fraction of 1 percent of their total sales.

Their losses in the United States were only 3 percent of the profits they made in the immediate preceding year.

It seems a virtual certainty that GM's operations in 1981 are going to be on a profitable basis.

The Ford Motor Co. is also projecting a profitable 1981. Philip Caldwell, the chairman of Ford, has stated that between 1982, which is only next year, and 1985, car sales in the United States will run at an annual rate of 12.5 million units a year. That is 10 percent higher than the previous record year for this industry.

Now, it is possible to challenge the forecasts of the automobile industry executives on the grounds that they have to win shareholder confidence in their organization, and to build up their executives' employee morale.

Senator DANFORTH. You haven't been speaking to the bankers.

Mr. MCELWAINE. We have, indeed, sir, and I think the bankers and the investment analysts who have to appeal only to the hard-minded investors have to be looked at.

Such a respected analyst as Clarence Lee, of Old Kent State Bank, in Michigan, forecasts that U.S. passenger car sales will approach 10 million in 1981, 12 million in 1982, and even more in 1983, and that is his lowside prediction.

On the high side, he says we may sell 14 million cars in 1983, and 15.5 million cars in the United States before 1987, a 5-year span during which we are talking about holding restrictions on cars in some of the testimony given here.

The same kind of statements are being made by David Eisenberg, of Sanford Bernstein, and others.

Small wonder then, that the domestic manufacturers are licking their chops at the prospect of limiting Japanese imports to 1.6 million cars, in a 15-million-car market, cutting them from 21 percent of the market to only 11 percent of the market.

We are poised for a huge takeoff. The pent-up demand for automobiles in this country is so great today that all that is required to trigger this demand is a return of consumer confidence in the economy and reasonable interest rates.

Mr. Chairman, I have run out of time. I would like to ask Dr. Fisher to make his statement, at this point.

Senator DANFORTH. Dr. Fisher.

Dr. FISHER. Thank you, Mr. Chairman.

My comments will be directed to the legal implications of your bill, Senator. I think it is important that they be taken into account.

Essentially, there are three legal concerns that your bill raises.

The first is, as has been mentioned already, the section 201 process. To enact your bill would undermine the purposes and the functions of a section 201 process which this committee has carefully crafted since the Trade Act of 1974.

It would constitute a clear signal to American industries in competitive difficulty that their salvation lies here in the Congress instead of with the administrative procedures that you have carefully crafted over the years.

You would virtually destroy the independence of the U.S. International Trade Commission by announcing, in effect, that the Congress will override the Commission's decisions if you don't like them, agree with them, or if they turn out to be unpopular.

Your bill would substantially undermine one of the major achievements of our trade negotiators in the Tokyo Round of trade negotiations, the winning of commitments by other governments to employ the same type of fair, open, and careful administrative procedures that we employ, before imposing limitations on imports.

I must submit I have a parochial interest in this case, since we thought we had won this case in the International Trade Commission, and now we find that defeat was about to be taken out of the jaws of victory.

Congress would in effect be telling other nations that this country will itself ignore the determinations arrived at through such procedures when it is expedient to do so.

I have no doubt that other industries who lose at the International Trade Commission will tromp right up here to the Hill, if they lose, and hope to get relief, if your bill passes, following the negative determination of the International Trade Commission.

The second concern we have is that your bill would totally undermine the GATT articles that we have agreed to. There are six areas of concern.

First of all, your bill contravenes the very heart of GATT, the most-favored-nation principle, enunciated in article I of the GATT.

This provision has been in our trade agreements since the 14 points announced by Woodrow Wilson. The theory behind it is that it avoids retaliation when we go and bilaterally retaliate against other countries.

The second problem raised under the GATT is that it violates GATT's article 11, flat prohibition against quotas, except in certain very carefully defined situations of which this is not one.

Third, article XIII of GATT provides that if pursuant to some exception provided for in the GATT, such as a waiver from its provisions, quantitative restraints are to be imposed, they must be imposed on a most-favored-nation basis, and your bill, of course, does precisely the opposite.

Fourth, under article 19 of the GATT, import limitations may be imposed only where imports cause or threaten serious injury to domestic producers.

Now, as you well know, we just went through that process in the International Trade Commission. Under our own procedures there was a lack of sufficient finding of such injury.

Now, to then go ahead after this negative finding would, I think, raise serious questions in the minds of our trading partners.

The fifth problem under the GATT is that of compensation. Senator, you are dealing with a product that values $6.4 billion in imports. You are obligated under the GATT article 19, to provide compensation to our trading partners should this bill pass. That is an important factor to take into account.

Sixth, the question of retaliation. Under GATT article 19(3)(b), if this bill is passed, our trading parnters will be entitled to retaliate against us.

Finally, I might raise the question of our Treaty of Friendship, Commerce and Navigation with Japan. We have more than 100 FCN treaties. We have negotiated 14 FCN treaties since 1946.

Article 14 of the United States-Japan FCN Treaty prohibits the United States from imposing any restrictions on imports of Japanese products unless similar restrictions are placed on the imports of products from every other country.

Unlike the GATT, there is no waiver provision from this treaty.

Finally, I would just add, under the United States-Canadian Automotive Parts Agreement, there is a serious question. We have that agreement pursuant to a waiver. Why would the Japanese continue to endorse that VO waiver if they are going to be discriminated against by legislation such as you have proposed?

So, we do have serious questions of a legal nature that I think are not Quixotic, that we do not just raise for questions of philosophical purity. They go to the very heart of our international trading system.

If your bill passes, sir, I am afraid we will unravel the whole fine fabric of our commercial obligations. It concerns me greatly.

Thank you.

Senator DANFORTH. Did you have a comment?

Mr. CONNELLY. Could I express one thought?

Senator DANFORTH. Of course.

Mr. CONNELLY. As I have told you before, I am an automobile dealer. I am from Cincinnati, Ohio. The thought that comes into my mind this morning, Senator, as I listened to the testimony that has been given is, first of all, I do realize that it is your desire to protect the American car industry.

But, it appears to me that perhaps the real problem is the American people themselves. They are the ones that are buying these cars. Maybe they are trying to tell us something. Maybe they are trying to tell us that they don't want the Government to take away their free choice, that they don't believe protectionism will make the American industry more competitive, that protectionism won't help the inflation battle.

Government witnesses this morning have indicated that the Government may very well have caused the American car problem.

I suggest that further Government interference, vis-a-vis protectionism, will only cause further problems.

Thank you, Senator.

Senator DANFORTH. Gentlemen, thank you very much.

Mr. MCELWAINE. Thank you, Mr. Chairman.

Mr. FISHER. Thank you.

Mr. CONNELLY. Thank you, Mr. Chairman.

Senator DANFORTH. We will stand in recess until 1:45 p.m.

[Whereupon, at 12:45 p.m., the hearing was adjourned, to reconvene at 1:45 p.m. the same day.]

[Prepared statement of Mr. Robert M. McElwaine, president, American International Automobile Dealers Association follows:]

SUMMARY

Submission of American International Automobile Dealers Association

I. S. 396 would be unfair to American consumers and would have extremely adverse effects on imported automobile dealers. It would disable imported automobile dealers from sharing in the benefits of the upsurge in automobile demand that is expected to begin in late 1981.

II. The recent DOT Report confirms AIADA's earlier testimony to this Subcommittee that the current problems of the automobile industry are due to the shift in demand to small cars, the inability of domestic producers to satisfy that demand, the decline in overall economic activity and the high cost and tight availability of credit. The Report further confirms that the biggest problem confronting American automobile producers is that of financing the conversion of their facilities to the production of small, fuel-efficient cars.

III. S. 396 would not address this problem. It will do nothing to improve the competitive position of American-based producers vis-a-vis foreign producers.

IV. DOT's Report, properly interpreted, does not support restrictions on imports. Any support for import limitations in the Report is based on pure speculation.

V. S. 396 would have serious international trade implications:

A. It would undermine the authority of the USITC and the entire Section 201 process.

B. It would contravene Articles I, XI, XIII and IX of the GATT.

C. It would violate our Treaty of Friendship with Japan.

VI. This Subcommittee should concentrate on relief measures that would directly address the industry's problems and needs. AIADA proposes:

A. A special refundable investment tax credit of 10 percent for investments by automotive manufacturers in new plant and equipment, and in research and development, within the United States, or, alternatively, extension of the 10 percent energy tax credit, made refundable, to investments by automotive manufacturers in energy-related capital equipment.

B. Faster depreciation for investments in new plant and equipment.

C. A temporary moratorium on Federal income taxation on foreign earnings repatriated by U.S. automobile manufacturers.

D. Reduction of regulatory burdens on U.S. automobile manufacturers.

E. Expanded assistance to unemployed automotive workers.

SUBMISSION OF THE

AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

TO THE

SENATE COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

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March 9, 1981

March 9, 1981

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

UNITED STATES SENATE

STATEMENT OF ROBERT M. McELWAINE, PRESIDENT

AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

INTRODUCTION

Mr. Chairman:

My name is Robert M. McElwaine. I am President of the American International Automobile Dealers Association ("AIADA"). With me is Edward G. Connelly, AIADA's Chairman of the Board, and a dealer of imported cars in Cincinnati, Ohio; and our counsel, Bart S. Fisher of the law firm of Patton, Boggs & Blow.

We appreciate the opportunity to present our views to this Subcommittee once again on the question of restricting imports of foreign made cars into the United States. We previously addressed this Subcommittee on January 15, 1981 on essentially the same subject as part of our testimony on the problems facing our automobile industry in general. Today, our testimony will focus more specifically on the issue of import restraints, the issue raised by S. 396.

As we informed this Subcommittee in our January 15 testimony, AIADA represents 4,500 American small businessmen who, with their 140,000 employees, sell and service imported automobiles.

Our annual payroll of well over $2 billion is exceeded only by those of the ten largest industrial corporations in the United States. Our assets in this country total more than $8.6 billion. We pay more than $607 million in taxes annually. In short, we constitute an integral part of the American automobile industry, a part that contributes importantly to the economy of our nation.

In our January 15 statement, we explained why import restrictions would provide little, if any, tangible relief to our domestic automobile industry. We observed that the industry's present depressed state is due to a combination of factors: the abrupt shift in demand to small cars, the inability of domestic producers to satisfy that demand and the overall decline in demand for new cars brought about by the recession of 1980. Moreover, the industry has had problems recovering from the shocks of 1979-80 because of the current high cost and reduced availability of credit and higher car prices. As we observed in our statement, restraining imports would have absolutely no positive effect on these factors.

In addition, we stated that the major problem confronting domestic automobile manufacturers today is that of financing their effort to increase production of small fuel-efficient cars. Again, we showed that import restraints would do nothing to help our automakers solve this problem. At the same time, import controls would result in a net loss of American jobs, would cost close to $250,000 for each job produced and would drive up the price of all cars, further worsening the decline in overall automobile demand.

S. 396 had not yet been introduced at the time we testified in January. Thus, we did not discuss the effects of any particular form of import limitation. Since today's hearing is specifically on S. 396, the issue of import quotas is before this Subcommittee.

Mr. Chairman, the adverse consequences that inhere in all forms of import restrictions are far worse with respect to numerical quotas. They are the most unfair form of import restraint. The quotas proposed in S. 396 would have particularly serious effects on the American consumer and on the American businessmen, and their employees, in the imported car sector of the domestic automobile industry.

Those industry analysts with the best track records are virtually unanimous in predicting boom years ahead for the American automobile industry. The pent-up demand for automobiles, after nearly two years of lagging sales, is so great, they insist, that a stabilized economy and lower interest rates will result in record-breaking sales years during the 1980s. They also predict that this boom may start to materialize as early as the second half of 1981.

Such a respected analyst as Clarence Lee of Old Kent State Bank in Michigan says that auto sales by 1984 will surpass 12.6 million units and could reach <u>15.7 million units</u>. Seen in this light, numerical restrictions on imports would impose an intolerable burden on the American consumer, as well as on the imported automobile dealer. Limited to 1.6 million units per year, for example, in a 15-million car sales year, imports would constitute less than 11 percent of the total market, down from about 26.7 percent in 1980.

The result will be a serious shortage of small fuel-efficient cars, the cars that will be in greatest demand at that time. The American consumer will be denied the freedom to choose the type of vehicle that he or she will need and want. Moreover, the American imported automobile dealer will be unfairly precluded from sharing in the benefits of the upsurge in demand.

Mr. Chairman, the quota contained in S. 396 is unjustified by the realities of the American automobile market. Like all forms of import restraints, S. 396 would be ineffective, inefficient and unfair.

"THE U.S. AUTOMOBILE INDUSTRY, 1980"

On January 11, 1981, shortly before we testified before this Subcommittee, then-Secretary of Transportation Neil Goldschmidt transmitted to former President Carter a report entitled "The U.S. Automobile Industry, 1980." That Report was prepared by the Department of Transportation ("DOT") pursuant to both a Presidential directive and a Congressional mandate. It is an extensive study of the present and future prospects of the American automobile industry. It contains a number of very thoughtful and perceptive insights into the problems that confront our industry.

Unfortunately, the Report's more significant and meaningful observations and conclusions were overshadowed in the public mind by the suggestion, made by Mr. Goldschmidt in his letter of transmittal, that the United States Government "should negotiate an import restraint agreement with the Japanese." That suggestion was not contained in the Report itself. Nor do the information and observations made in the Report readily support such a suggestion. Nonetheless, that one statement, made in one sentence of the transmittal letter, has come to be identified with the Report.

Because the Report is extensive and represents a considerable amount of DOT's time and effort, we recognize that this Subcommittee may give it very careful consideration. Indeed, there is much in the Report that deserves such treatment. However, if the Report is to be so regarded, it is essential that it be interpreted accurately and that the misconceptions that have thus far characterized the public discussion of the Report be dispelled.

The Report has been cited in numerous quarters as providing support for measures, such as S. 396, to restrict imports. Mr. Chairman, that view is mistaken. In fact, the DOT Report establishes that imports have <u>not</u> caused our industry's problems, nor are they likely to hinder its recovery. Thus, the Report substantiates what we told this Subcommittee on January 15: import restraints would provide the domestic automobile industry with little, if any, relief.

IMPORTS AND THE INDUSTRY'S CURRENT PROBLEMS

Like the United States International Trade Commission ("USITC"), whose findings we cited in our earlier testimony, DOT did not attribute the current difficulties of the American automobile industry to increased imports. Instead, it confirmed our position that American producers' problems have been brought about primarily by the shift in demand from large cars to small, fuel-efficient cars in the wake of the fuel disruptions of 1979-80. It observed that domestic manufacturers "were not ready for the unexpected and rapid change in consumer tastes" and could not, therefore, supply the small cars that came to be in great demand. As a result, the market share of small imported cars increased. Thus, DOT, like the USITC, viewed the recent increase in imports as a concurrent consequence of the same factors that have caused our industry's distress, not as an independent cause of that distress.

DOT also observed, as did the USITC, that the 1980 economic downturn, high interest rates and tight credit have markedly reduced sales volumes, thereby hindering the industry's recovery. These problems, DOT stated, have been "compounded by the increased loss of sales to imports." However, the Report leaves no doubt that the major cause of Detroit's problems has been the sharp increase in small car demand and the inability of American automakers to satisfy that demand.

That the "increased loss of sales to imports" has not been a significant part of the domestic automakers' problems is borne out by the sales figures for 1980. Sales of American-made automobiles decreased by 1.74 million units from 1979 to 1980. However, sales of imported cars increased by less than 69,000 units. Increased imports thus accounted for less than 4% of the decline in sales of domestic cars in 1980. Moreover, in January 1981, sales of imports were actually 18.5% lower than in January 1980, while sales of domestics continued to drop. It is clear that the other factors cited by DOT and the USITC, particularly the decline in economic activity and high interest rates, are responsible for our industry's present condition.

IMPORTS AND THE INDUSTRY'S FUTURE PROSPECTS

1. DOT's View Of The Future

Mr. Chairman, it is significant that DOT's Report does not concentrate on the past. Nor does it attempt to assign blame for Detroit's current state. Rather, it concentrates on the future, looking ahead to what the worldwide automobile market will be like and what American manufacturers' place in that market will be. In so doing, DOT has performed an extremely useful service for everyone involved in the automobile industry. Equally as important, it has provided this Subcommittee with a reference point from which to analyze the efficacy of S. 396.

The essence of DOT's analysis of the future can be summarized as follows:

The worldwide automobile market is becoming more intensely competitive. That competition will occur in markets all over the world, particularly in open markets such as ours. Because of uncertain fuel supplies and rising fuel prices, the cars of the future will be small and fuel-efficient. All automobile producers, including American producers, will be concentrating on, and increasing their output of, such cars. Consequently, the products offered by the various world manufacturers will be more homogeneous. This relative lack of product differentiation, at least with respect to size and fuel-efficiency, means that future competition will be based largely on price and, to some extent, on quality.

In addition, worldwide capacity for the production of small cars will expand considerably. At the same time, future automobile demand, both in the United States and worldwide, is uncertain. Hence, there exists a threat of considerable small car overcapacity. Such overcapacity would further intensify the price competition that is already expected to occur. Since price will be the basis upon which consumption decisions will be made, and success will depend, only those manufacturers who can produce cars at the lowest cost will be able to survive the competitive challenge.

2. <u>The Challenges Facing American Automakers</u>

Based on this view of the future, DOT sees the challenge facing American automobile producers as essentially two-fold. First, they must increase their capacity to produce the "cars of the future," <u>i.e.</u>, small, fuel-efficient cars. They have already begun to do so, and have committed substantial amounts of capital to that effort. It is expected that by 1985, two-thirds of all American-built cars will be small, compared to only one-third in 1978. The average fuel economy of domestically-built cars will increase to 31 miles/gallon from less than 19 miles/gallon in 1978. However, it is taking a massive reconversion effort to meet these goals. As we pointed out in our January 15 statement to this Subcommittee, capital requirements have skyrocketed at the very time that the cost of capital has increased to record high levels. Sales, and thus profits, are slumping at the very time that domestic producers are most in need of funds. Although domestic producers are expected to attain their objectives, it will not be easy. Moreover, DOT expects foreign producers to develop new products as well, requiring a double effort on the part of American producers to catch up.

The second challenge relates closely to the first. According to DOT, foreign manufacturers, particularly the Japanese, purportedly have a considerable cost advantage over American producers. DOT estimated that cost advantage to be $1000 - 1500 per car, although that figure appears to be greatly exaggerated. In order for American manufacturers to compete effectively, they must substantially reduce this cost advantage. Thus, they must improve productivity, reduce labor and material costs and operate more efficiently. At the same time, their current capital requirements will impose on them additional costs, in the form of debt servicing, making it even more difficult for them to close the cost gap.

The major adverse consequence that DOT foresees from these challenges is that American producers, in an effort to reduce costs, will turn increasingly to foreign sources of parts and components and/or will relocate production facilities abroad. As a result, automobile industry employment will decrease substantially, while our industrial base will be further eroded.

3. Imports And The Industry's Challenges

Given DOT's view of the task facing America's automobile producers and the problems they confront, it is difficult to see how import restraints would help. With respect to the first challenge, import restraints would not enable American producers to increase their output of small fuel-efficient cars. As the USITC concluded: "The transformation of the industry will take place in the absence of any import relief and would not be speeded by relief . . . . The record shows that all investment plans for domestic production are independent of import relief." (emphasis added).

Moreover, import relief would provide American automakers with little, if any, additional capital with which to finance reconversion. Only a very small proportion of the recent decline in sales of domestic automobiles is attributable to imports. Curtailing imports would not increase domestic sales volume sufficiently to contribute in any meaningful way to American producers' capital requirements. The sales figures for January 1981 confirm this fact. Even though, as mentioned earlier, import sales dropped by 18.5%, sales of domestics dropped by 20%. Hence, reducing imports, by quotas or otherwise, will not induce an increase in the sales of American-made cars.

Nor could import restraints prevent foreign manufacturers from proceeding with the development of new products of their own. In any event, such new product development by foreign producers is not so certain a prospect, nor will it be so easy a task, as DOT has suggested. Few Japanese cars are "state-of-the-art" vehicles. For example, most have rear-wheel drive rather than front-wheel drive. Both Toyota and Nissan (Datsun) will have to undertake large-scale reconversion efforts of their own in the near future in order to modernize their product lines.

As for the second challenge, restraining imports into the United States would not serve to reduce any "cost advantage" that Japanese cars supposedly have over American-made products. Obviously, any such cost advantage derives from production costs that occur in Japan and in this country. To restrain imports will neither raise Japanese producers' production costs nor reduce those of American manufacturers. Thus, any cost gap would subsist whether imports were reduced or not.

Furthermore, there is no proof, nor did DOT state, that Japanese producers have used any such "cost advantage" to undercut American prices in order to cut into domestic car sales. DOT spoke of a <u>cost</u> advantage, not a <u>price</u> advantage. Indeed, prices of Japanese cars are virtually the same as those of comparable American-made cars. Moreover, with the recent strenthening of the yen, Japanese car prices are increasing faster than are

American car prices. As USITC Commissioner Paula Stern found, "the success of imported automobiles has not been based on any competitive price advantage." Sales of imported cars increased in 1979-80 simply because such cars are fuel-efficient and were available at a time when fuel-efficient American-made cars were not.

In fact, it is questionable whether any such "cost advantage" as that suggested by DOT exists. DOT cited only one study to support its figure. It attributed the supposed cost advantage to lower Japanese labor costs and better productivity. Yet even the DOT observed that Japanese automotive labor compensation levels are fully two-thirds those of the United States. Furthermore, according to testimony of the United Automobile Workers union ("UAW") at the USITC hearing conducted in November, Japanese labor costs are increasing at a faster rate than are those in the United States. As for productivity, the UAW testified that American autoworkers are at least as productive as are Japanese workers. In addition, both the DOT and the USITC staff noted that American automobile industry productivity will increase considerably in the near future. Hence, the two linchpins of the purported Japanese "cost advantage," i.e., lower labor costs and better productivity, are less significant than DOT acknowledged. More importantly, the gap is rapidly closing.

4. Imports As A Perceived Threat

Thus, Mr. Chairman, import restraints would not assist the domestic industry in meeting its challenges for the future. We wish to emphasize that even DOT did not contend that such restraints would aid the industry's recovery. Instead, it suggested that imports could, under certain circumstances, threaten that recovery. Although the Report does not go on to recommend that imports be restrained, Mr. Goldschmidt did. However, he, too, based his recommendation entirely on his belief that imports may threaten recovery. In essence, then, his recommendation to curtail imports was based solely on speculation.

The Report mentions three ways in which foreign cars could conceivably derail our industry's recovery efforts. First, because of the cost advantage that Japanese cars supposedly have, Japanese manufacturers are purportedly in a position to manipulate their cars' prices in order to maintain their share of the American market. In addition, they can lower their cars' prices in order to keep domestic producers from raising American small car prices sufficiently to attain needed profits. Second, customers who have purchased foreign cars because of the recent fuel crisis may remain loyal to imports, thus reducing forever the market share available to domestic producers. And third, foreign manufacturers supposedly have cars available that are even more fuel-efficient than those that they currently sell in the United States. In the event of a future "energy shock," they may begin to send those cars here in increasing numbers. Mr. Goldschmidt seemed to summarize the cumulative effect of these threats when he alleged that if imports are not restrained, domestic automakers may face the "permanent loss of additional market share to Japanese producers."

Mr. Chairman, all of these concerns are highly speculative. None is grounded in fact or experience. Neither singly nor in combination do they make a compelling case for import quotas.

a. Price manipulation. As mentioned earlier, the supposed "cost advantage" that Japanese cars possess is greatly exaggerated. Even if it were not, there is absolutely no evidence that foreign automobile producers have ever tried, or will ever try, to increase their market penetration by undercutting American car prices. Domestic producers apparently had little fear that the Japanese would do so when they set their prices for their new, small fuel-efficient 1981 models. They raised their prices on small cars considerably and geared their small car prices not to import prices, but to each other's.

More importantly, DOT's Report itself states that the major price constraint on domestic car producers is the fact that consumers have traditionally allocated a constant share of their income to automobile ownership and operation. Domestic producers could not, therefore, raise their prices beyond the limits set by this constraint in any case. Indeed, their recent pricing behavior suggests that they may have reached these limits already.

b. Customer loyalty. The USITC found there to be "little support for the view that consumers, having chosen imports in growing numbers, will not return to domestic cars for their next purchase." Testimony at the USITC hearings indicated that there is far too little evidence upon which to draw any definite conclusions concerning consumer loyalty to imports. To the extent that evidence does exist, it supports DOT's own finding that repurchase loyalty is higher for American-made cars than it is for imports.

c. More fuel-efficient foreign cars. None of the major Japanese automobile manufacturers sells a car abroad that is smaller or more fuel-efficient than the cars it already sells in this country. This statement is true for Toyota, Nissan, Toyo Kogyo (Mazda), Honda, Mitsubishi (Colt, Arrow) and Isuzu. Some other Japanese producers make very small, very fuel-efficient "mini-cars." However, these cars are unsuitable for export to this country because they would not meet Federal safety standards and could not economically be modified to do so.

d. Loss of additional market share. American automobile manufacturers are turning out more small fuel-efficient cars than ever before. These cars sold extremely well until very recently, when tight credit and high interest rates severely dampened sales of all cars. Even during these depressed times, Chrysler's new "K-cars" have continued to sell well. At the same time, import sales have decreased markedly from their early summer high.

Since the increase in imports was due largely to the unavailability of domestic small cars, and since such cars are now, and will continue increasingly to be, available, it is unlikely that import penetration will increase again. Only if another "energy shock" like that of 1979-80 occurs, and the supply of domestic small cars is inadequate, may imports' market share grow again.

Three other factors mentioned in the Report may have led Mr. Goldschmidt to recommend import restraints. The first is the belief that Japanese producers plan to expand production by 20% by 1983, with much of that growth targeted for the American market. However, as DOT noted, the Japanese Government has assured our Government that Japanese producers have no plans to increase production for export to the United States. Japanese investment plans are intended primarily to modernize present facilities, increase production efficiency and increase production of components for which the American Big Three have already contracted. The widespread notion that Japanese producers are gearing up for an all-out sales offensive against the United States is an illusion.

Another factor mentioned in the Report is that increased imports will reduce American automobile industry employment by 8,500 jobs per 100,000 imports. Even if this fact were true, it does not support import restraints. Import penetration may increase only in the event of another "energy shock." In such an event, even if imports were curtailed, consumers would not buy American cars, for, by hypothesis, such cars would not be sufficiently fuel-efficient. Thus, whether imports increased or not, sales of domestic cars would decline and American auto jobs would be lost.

Furthermore, the accuracy of the potential job loss figure cited by DOT is questionable. An economic analysis performed by Dr. Charles Pearson of the Johns Hopkins School of Advanced International Studies concluded that a 700,000 unit decrease in imports would add at most 14,000 auto sector jobs, or 2,000 jobs per 100,000 imports. Significantly, each such job would cost consumers and taxpayers at least $245,000 per year in higher automobile prices and other economic and social costs. At the same time, over 40,000 American jobs in the imported automobile segment would be lost.

Perhaps the primary impetus behind the import restraint recommendation is DOT's view that "increased foreign competition . . . has suddenly made North American production less competitive." DOT fears that so long as American-based multinational producers must reduce their production costs, they will be tempted to relocate their facilities overseas, where costs are lower. However, if foreign competition in the American market is reduced, the pressure to reduce production costs will ease. American-based multinationals will then continue production in this country. In short, in DOT's view, domestic automobile producers will continue to invest in the United States only if they can pass on the added cost of their production inefficiencies to their captive American consumers. That, of course, is the classic case of protectionism.

Simply put, DOT's analysis suggests that the actual present threat to the American automobile industry is not that foreign manufacturers will displace American producers. It is that American producers will leave of their own accord. The future threat is not from cars produced abroad by foreign producers. It is from cars produced abroad by American-based multinationals.

If DOT's analysis is correct, the case for import restraints is a case for permanent controls on imports. American-based producers will always lag behind foreign manufacturers in competitiveness if foreign competition is eliminated from the American market. If American manufacturers' lack of competitiveness justifies import controls today, it will continue to justify such controls ten years from today. Mr. Goldschmidt as much as admitted this fact when, in calling for import restraints, he declined to set a specific time limit on such controls.

Mr. Chairman, S. 396 is not the answer to our industry's current problems. It will not result in increased sales volume. It will not increase the capital available to domestic automakers. It will not reduce production costs or make our industry more competitive. As USITC Commissioner Stern observed, an import quota would merely be "[r]elief directed at one of the symptoms rather than at the cause of [our industry's] problems." (emphasis added).

EFFECTS OF S. 396 ON UNITED STATES INTERNATIONAL TRADE POLICY

Mr. Chairman, in our January 15 statement, we explained that the imposition of controls on automobile imports would have adverse effects on our country's international trade policy. In particular, we noted that the USITC found, pursuant to Section 201 of the Trade Act of 1974, that imports are not a substantial cause of injury, or even of the threat of injury, to our domestic automobile industry. We stated that for Congress to limit imports in the face of such a negative injury determination by the USITC would have serious implications.

First, to enact S. 396 would undermine the purposes and functions of the Section 201 process. It would constitute a clear signal to American industries in competitive difficulty that their salvation lies with the Congress instead of with the administrative procedures that the Congress has carefully crafted over the years. S. 396 would virtually destroy the autho·ity and the independence of the USITC by announcing, in effect, that the Congress will override the Commission's decisions whenever those decisions--which are based upon criteria established by the Congress--turn out to be unpopular.

Second, S. 396 would substantially undermine one of the major achievements of our trade negotiators in the Tokyo Round trade negotiations: the winning of commitments by other governments to employ the same type of open, careful and fair administrative procedures that we employ before imposing limitations upon imports. Congress would in effect be telling other nations that this country will itself ignore the determinations arrived at through such procedures when it is expedient to do so.

Third, S. 396 would violate our nation's obligations under the General Agreement on Tariffs and Trade ("GATT"). It would contravene the very heart of the GATT, the most-favored-nation principle enunciated in GATT Article I.*/ In addition, it would clearly violate GATT Article XI's flat prohibition against the imposition of quantitative restrictions except in certain enumerated circumstances that do not apply here.**/ Furthermore,

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*/ Article I, ¶ 1 of the GATT provides:

> 1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

**/ Article XI, ¶ 1 of the GATT provides:

> 1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses, or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Article XIII of the GATT provides that if, pursuant to some exception provided for in GATT, including a waiver from its provisions, quantitative restrictions on imports are imposed, they may not be applied against imports from any one nation unless they are similarly applied to such imports from all nations.*/ S. 396, by restricting imports from Japan alone, would contravene this provision.

Moreover, under Article XIX of the GATT, import limitations may be imposed only where imports "cause or threaten serious injury to domestic producers." The United States has implemented this principle by requiring that those who would restrict imports first obtain an affirmative injury determination from the USITC. Here, the USITC has, of course, made a <u>negative</u> injury determination. An international dispute-settlement panel asked to rule on the issue would very likely regard the quota imposed by S. 396 as lacking a sufficient finding, <u>under our own procedures</u>, of serious injury or threat thereof. Such a determination would come precisely when the United States is trying to <u>strengthen</u> the provisions of Article XIX of the GATT with respect to open and public justification of trade restrictive actions by other nations.

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*/ Article XIII, ¶ 1 of the GATT provides:

> 1. No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

If, despite the clear terms of the GATT, S. 396 is enacted, the United States must obtain a waiver, under Article XXV, ¶ 5 of the GATT, from its obligations. Absent such a waiver, action taken pursuant to S. 396 would violate our international legal obligations.

Fourth, S. 396 would violate our Treaty of Friendship, Commerce and Navigation with Japan, 4 U.S.T. 2063. Article XIV of that Treaty forbids the United States from imposing any restrictions on imports of Japanese products unless similar restrictions are placed on imports of products from every other country. Unlike the GATT, the Treaty does not provide for a waiver from the obligations that it imposes, but rather provide only for consultation. See Article XXIV.

Mr. Chairman, we have shown that import restrictions will not help our domestic industry. Moreover, they are fraught with legal and foreign policy complications. We wish once again to remind you of the cogent observation of your former colleague, Senator Adlai Stevenson: "It would be wiser for the United States to help industry beat foreign competition than to protect it from such competition." There are other, more viable measures than import quotas that can help our industry finance its retooling costs, lower its costs of production and regain its competitive strength.

SUGGESTED RELIEF PROPOSALS

Mr. Chairman, we indicated earlier that DOT saw the two major problems to be addressed in providing relief to the domestic automobile industry are (i) to enable that industry both to finance its reconversion effort and, at the same time, to remain competitive, during a period of slack demand and (ii) to induce that industry not to source its products from, and export its production facilities to, other countries. Thus, as we stated in our January 15 testimony, proposals for relief should have a dual aim: (i) to provide domestic automobile manufacturers with additional investment capital and (ii) to give them incentives to invest that capital in the United States rather than abroad.

In our January statement, we submitted for this Subcommittee's consideration proposals for relief that would, unlike S. 396, address these objectives directly. We note with some satisfaction that both you, Mr. Chairman, and Senator Bentsen, your co-sponsor of S. 396, have emphasized that you intend to offer relief measures similar in nature to those we proposed in January. We wish to resubmit our proposals to you in the hope that you will realize that they should be enacted as alternatives, rather than merely as supplements, to S. 396.

1. Tax-Based Investment Incentives

a. Refundable tax credit. AIADA supports the provision of a refundable tax credit of 10 percent for new investments made within the United States by any automobile manufacturer in the following activities:

i. acquisition or construction of new plant and equipment, or modernization of existing plant and equipment, particularly plant and equipment aimed at increasing automobile fuel-efficiency and/or safety; and

ii. research and development activities, particularly research and development aimed at increasing automobile fuel-efficiency and/or safety.

This new tax credit would supplement the existing general investment tax credit of 10 percent. It would be refundable, i.e., payable in cash, to companies that make qualifying investments but do not have tax liability against which to set off the credit.

Such a tax credit would provide additional funds and incentives for profitable companies to invest here at home. More importantly, because it would be refundable, the credit would provide companies that are not currently earning profits with the funds and incentives to improve their productivity and competitiveness by maintaining an efficient capital base. Further relief could be provided by making this credit available, at least for machinery, when new equipment is ordered rather than when it is placed in service. This measure would reduce the heavy burden of financing the costly launch phase of a new product line.

b. Extension of energy tax credit. If such a sweeping investment credit is unacceptable, some relief can be provided by extending the 10 percent energy tax credit, which is now applicable only to investment in energy conservation and alternative energy equipment, to equipment used to produce fuel-efficient automobiles. Such an energy tax credit -- which, again, would supplement the already-existing 10 percent investment tax credit -- would provide an additional incentive for the production of fuel-efficient vehicles. Like the broader proposed tax credit, this new energy investment tax credit should be refundable in order to help unprofitable manufacturers to make the necessary investments in retooling.

Both of our proposed tax credit programs could be limited in duration. In addition, they could be structured so that the Government could eventually recoup the credits, e.g., by reducing credits in profitable years, by reducing the ability to carry forward losses or by some other means.

c. Accelerated depreciation. We support the granting of accelerated depreciation allowances to automobile manufacturers for new plant and equipment installed within the United States. This proposal could be implemented in conjunction with the more general "10-5-3" proposals currently under discussion in other contexts. Alternatively, an accelerated depreciation program could be directed particularly at the automobile industry. On January 30, 1981, Representative James Dunn of Michigan introduced H.R. 1519, which would make such tax relief, as well as other tax-based benefits, available to automobile manufacturers. We hope that both houses of Congress will take up that measure without delay.

Such a tax revision would immeasurably improve the competitive position of our industry. Indeed, in a submission last year to the Subcommittee on Trade of the House Ways and Means

Committee, representatives of American automobile manufacturers commented on the importance of such tax assistance in the early period of an investment program. They noted the advantages that Japanese companies have in this area:

> The Japanese law continues to provide auto companies with an extraordinary additional first year write-off of 25 percent of the cost of machinery and equipment. When combined with normal depreciation, this allows companies such as Toyota to write off as much as 45 percent of the cost of machinery and equipment in the first year of use. Under the U.S. tax system, [U.S. automakers are] generally limited to writing off about 11 percent of the cost of such fixed assets in the first year, plus the investment tax credit of 10 percent.

Assistance similar to that available in Japan would aid American producers enormously in reducing whatever cost advantage Japanese producers may have over their American counterparts.

d. Moratorium on repatriated earnings. As the DOT Report recognizes, our multinational automobile producers need stronger incentives to invest in the United States rather than abroad. One way by which to encourage such investment is to induce them to invest some of their overseas earnings here at home. Thus, AIADA proposed a moratorium of at least one year on the imposition of Federal income taxes on repatriated earnings of overseas subsidiaries of automobile manufacturers located in the United States. This measure would create a direct incentive to bring home large pools of funds that, at present, are being used to create jobs abroad.

During the 1970s, American-based multinational automakers significantly increased their capital investment abroad. For example, General Motors' ("GM") overseas capital expenditures increased from 14 percent of its total capital expenditures in 1974 to over 36 percent in 1980. Ford's overseas capital spending constituted 26.5 percent of its total capital outlays in 1979, compared to 21 percent in 1977. It is expected that about 25 percent of American-based producers' capital outlays in the next five years will be spent outside of North America.

These overseas capital expenditures are coming largely out of the overseas earnings of our multinational automakers. In 1979, GM earned 13 percent of its total net income, or $376 million, overseas, while Ford netted earnings abroad of $1.35 billion. Although GM lost money overseas in 1980, Ford continued to earn substantial profits abroad. Both Ford and GM testified before the USITC that they believe in returning to a country in investment what they get out of it in income. Thus, as they lose money on their American operations, they can be expected to continue to invest a large part of their net earnings abroad. If the automobile industry in the United States is to recover, these companies must rechannel those investments to this country.

e. General considerations. We expect that if these proposals were implemented, automobile manufacturers would pass the benefits directly through to consumers in the form of lower prices. The success of automakers' recent rebate programs indicates that such a price reduction would help release the pent-up demand that has accumulated during this period of extremely high interest rates. More importantly, in the long run, such lower prices would enable American producers effectively to engage in the intense price competition that DOT foresees as characterizing the future worldwide automobile market.

Our proposals directly address the most pressing need of the American automobile industry: the need to generate sufficient capital to survive the current economic slump, to make the rapid transition to the production of more fuel-efficient automobiles and to maintain the capital base that the industry must have to be competitive.

All of our proposals are non-discriminatory. Their benefits would apply to foreign companies manufacturing automobiles or conducting research in the United States as well as to American manufacturers' operations in this country. As a result, the proposals would present no problems either under the GATT (which does not, in any event, directly address such investment incentives) or under United States commercial treaties. Moreover, the proposals would create incentives for foreign companies to invest in job-creating facilities in the United States.

Our proposals are addressed to the supply side. We have not made proposals on the demand side, i.e., proposals intended directly to stimulate consumer demand, for two reasons. First, rebate programs and other measures to stimulate demand are primarily matters for the automobile companies. Our proposals, by increasing funds available to the automobile companies, will make it easier for them to lower prices and to take other actions to stimulate automobile demand. We do not believe that it is appropriate for the Government to grant direct rebates or other incentives to automobile consumers.

Second, even if such action were appropriate, there is no feasible means by which the Government can stimulate new car demand directly. On the one hand, if rebates or consumer tax credits were granted for the purchase of American and foreign-made cars alike, the Government would, in effect, be subsidizing the purchase of foreign automobiles. We do not believe that such a proposal is politically realistic. On the other hand, to grant rebates or incentives exclusively for the purchase of American-made automobiles would constitute a clear violation of our nation's international obligations under the "national treatment" principles of the GATT and commercial treaties. For these reasons, we do not support that aspect of Rep. Dunn's bill, H.R. 1519, that would provide a tax credit to consumers primarily for the purchase of certain new, domestically-produced automobiles.

2. Regulatory Relief

The Federal Government can contribute to the automobile industry's recovery by changing its approach to regulation. Several recent studies show that there is considerable room for cutting back particular existing or planned rules without substantially retreating from the overall goals of regulation. For example, the report of President Reagan's Transition Task Force on Transportation suggests that the tremendous cost of many safety standards and recalls ordered by the National Highway Traffic Safety Administration ("NHTSA") may not be justified by their benefits.

Many questions have been raised about specific NHTSA rules, e.g., the five-miles-per-hour bumper standard and the requirement for air bags or other passive restraints. Secretary of Transportation Drew Lewis has already announced plans to delay implementation of the latter standard and to alter the method by which the program is to be effected. Perhaps more significantly, Rep. Dunn has introduced a second bill, H.R. 1518, which would require Federal agencies to revise or eliminate certain regulations in order to minimize the regulatory burden on our automobile industry. We support those regulatory reform measures that would save our industry money without undermining the environmental, safety and fuel-economy benefits that such regulations have already brought about.

Estimates vary as to the amounts that a reduction in regulations can save the American automobile industry. The Office of Management and Budget ("OMB") has estimated that the industry will have to spend about $1.9 billion over the next five years to comply with current and planned health and safety regulations. OMB Director David Stockman has compiled an informal list of specific rule changes that he estimates could save the industry over $2 billion in the coming years. We provided that list to you in our earlier testimony.

The EPA, to its credit, has already begun a review of rules that could lead to changes saving the industry $600 million over the next five years. We hope and expect that that agency, and all regulatory agencies, will do whatever they can to eliminate unnecessary and unduly costly regulations. Furthermore, we endorse the recommendation, contained in Mr. Goldschmidt's letter, that future relations between Government regulators and the industry be cooperative rather than adversarial.

3. Additional Assistance For Unemployed Autoworkers

The greatest misfortune of the current slump in the automobile market is the fact that so many autoworkers have been put out of work. AIADA sincerely sympathizes with these workers and fully supports any proposal that will alleviate their difficulties. The measures that we have proposed will enable some of these workers to regain their auto-related jobs by stimulating activity in that sector.

However, as DOT, the USITC and the Congressional Budget Office have all concluded, overall employment in the automobile industry will be substantially reduced in the future because of technological developments, American producers' investments abroad, improved productivity and other structural changes. We wholeheartedly support measures that would provide for retraining and alternate industry employment programs for these workers.

In addition, we support the expansion of current unemployment and adjustment assistance programs to aid unemployed autoworkers during this transitional period. Consequently, we disagree with the recommendation, contained in a recently-completed report prepared by OMB, that the adjustment assistance program be cut back. Such assistance is absolutely vital to ensure that unemployed autoworkers do not bear a disproportionate share of the entire industry's burden of adjusting to the new conditions of competition that will characterize the automobile market of the future.

CONCLUSION

There is no question that the American automobile industry needs assistance in completing its effort to once again become competitive. The assistance given it should be aimed at the problem that is hindering that effort: the industry's difficulties in generating sufficient capital to finance its investments while remaining competitive. The measures that we have proposed will provide our automakers both with capital and with incentives to invest that capital in the United States. The import quota contained in S. 396 would do neither. We urge this Subcommittee, as we did in January, to devote your time and efforts to fashioning relief measures, such as those that we have proposed, that will be of material, tangible benefit to our industry.

Thank you very much.

AFTERNOON SESSION

Senator DANFORTH. The committee will come to order.

The next witness will be Mr. Howard Young, special consultant to the president, United Auto Workers, and Mr. Stephen Koplan, legislative representative, AFL-CIO.

STATEMENTS OF HOWARD YOUNG, SPECIAL CONSULTANT TO THE PRESIDENT, UNITED AUTO WORKERS AND STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AFL-CIO

Mr. YOUNG. Mr. Chairman, I am Howard Young. I am special consultant to the president of the United Auto Workers.

Doug Fraser apologizes for not being here himself, but he had to be in Detroit. He asked that I express my appreciation to you and Senator Bentsen and others, for moving this effort forward to the greatest extent that we can.

We have submitted a written statement, which I would ask to be inserted in the record, but in view of the time schedule, with your permission, I will summarize it.

What we point out in our statement is that the situation in the auto industry is quite bad, as has been detailed several times today, but more important, that it is not improving significantly.

Just to cite one statistic that I think has been used less than others, if you look at the corporate income taxes paid or not paid by the three auto companies, there is roughly a $5 billion swing in collections by the Government in 1980 as compared with 1978. In 1978, the three companies paid roughly $2.5 billion in Federal income taxes. In 1980, they end up with a credit of roughly $2.5 billion. So, the Government is out roughly $5 billion, as a result of what is going on in the auto industry.

We point out in our statement that the auto industry has been and certainly can continue to be a vibrant and highly productive industry. The recent problems that have been experienced have been more product oriented than production oriented.

Also, as far as we can see, and looking at data that we and others have put together, the level of productivity in the U.S. auto industry continues to be as high as, and we believe higher than the Japanese.

We know that there are many conflicting reports on this, but a lot of the studies only look at part of the Japanese auto industry or otherwise don't adjust for changes in product mix that are going on.

In recent years, there is no question that their productivity increases have been higher than ours; in fact, we have had dropoffs in the U.S. industry's productivity, but they are clearly related to the low volume level that has been produced, rather than the manner in which cars are built.

We state, and this point has been made several times this morning, we have never suggested that controlling imports would fully solve the problem that we face.

But, as you said, Mr. Chairman, it is an essential aspect of getting the problem taken care of.

For the U.S. Government to demonstrate that it is prepared to adequately control the level of imports, and also to take some action through a content requirement on where automobiles will be built that are sold in this country, is essential; in order to indicate to both the domestic as well as the foreign companies, that we wish to have a healthy, dynamic industry in this country.

The proposed legislation to impose a 1.6-million-unit limit on imports would be a substantial help, a lower limit would help even more. The point was made this morning that the specific figure is one that could be open for discussion and a lower figure could be justified by experience.

But it is absolutely essential both that there be a limit and that movement be made rapidly in the near future to make it clear that an effective limit will be imposed.

Then we indicate in our statement, a range of other actions that have to be taken in order to deal with the situation.

The point was made earlier that interest rates are a very severe part of the problem. Something must be done about monetary policy.

We agree with the idea that a tax credit for people who buy more fuel-efficient cars would make sense. We proposed in the past that there be a scrappage bounty to get the worst performing old cars off the road, that would help both the fuel efficiency and the emission situation. Also, a refundable investment tax credit for this industry would make sense, in view of their profit situation.

The trade adjustment assistance program, instead of being scaled back, must in fact continue with greater emphasis on retraining and relocation.

No matter how effectively we deal with the problem, large numbers of workers will be dislocated and they must be helped.

As I said earlier, an essential long-term point is there must be a content requirement as to where cars are built.

Thank you very much.

Senator DANFORTH. Mr. Koplan.

Mr. KOPLAN. Thank you, Mr. Chairman.

My name is Stephen Koplan. I am a legislative representative for the American Federation of Labor and Congress of Industrial Organizations.

At the outset, if I may digress from my statement, Mr. Chairman, I would like to compliment you on the initiatives that you have taken to deal with this very serious problem.

While much attention is focused on the big three auto makers and the United Auto Workers as the union representing most of their employees, AFL-CIO unions represent the majority of workers in the broad automobile industry.

Two out of every three jobs in the industry have been held by workers who make machinery, steel, aluminum, glass, electronics, rubber, plastics, and other products which are assembled into automobiles.

In addition to these production jobs, AFL-CIO unions represent many thousands of workers employed in auto-related services.

The AFL-CIO believes that action is needed at once to curb imports of automobiles and parts because the massive dislocation of production in the auto industry is continuing to destroy production, jobs, and communities throughout the United States.

Nearly 1 million Americans have become jobless primarily because of the failure to act on imports. Unless action is forthcoming from the Congress, the world will continue to act as if this market now and forever is designed only for their exports, and U.S. producers will continue to lose their competitive position or move abroad.

This is not free trade, Mr. Chairman, it is a very expensive, one-way street that will continue to harm American workers.

Workers who need jobs have paid too much of the price for this failure to act. They need to work, Mr. Chairman.

In Toledo, Ohio, last week 5,000 workers lined up for 90 jobs, in an auto battery plant, according to the New York Times.

On February 16, the AFL-CIO executive council adopted the following statement on this subject: Immediate import relief and a requirement for domestic content is urgently needed for the auto industry and the parts suppliers.

The AFL-CIO supports S. 396, introduced by Senators Danforth and Bentsen, as an important step in this direction and urges swift enactment in the Congress.

Existing laws should be examined and improved to insure speedy relief to industries when the threat of injury from imports is evident.

These laws also should be adjusted to assure that the producers of major and essential components can receive appropriate relief from injury caused by imports.

We believe that S. 396 is a step in the right direction, but we would urge several improvements.

First, a reduction from the proposed 1.6 million limit to a limit of 1.2 million imports of Japanese autos per year.

We feel that the 1.6 million limit, in S. 396, will be too generous an amount, because it is based on a period 1978 to 1979, during which automobile imports from Japan had already surged to a substantially higher level. A more representative period, say the average of 5 years, 1975 to 1979 would result in a limitation at 1.2 million cars.

Second, we urge inclusion of a content requirement. If this is not done, the United States will lose the technological advantages of the modern auto industry and become merely an assembler of technology produced in other countries.

The U.S. imports of auto parts shot up 122 percent between 1975 and 1979; from $4 billion to over $10 billion.

The deficit moved from a $1.6-billion surplus in 1975, to a $1.3-billion deficit in 1979.

U.S. cars may include American technology in the future, but that technology will not be produced in America unless this country acts to make sure that we have a technological future.

The idea of domestic content is not new or unusual. The United States and virtually every other country of the world have adopted provisions, at various times, for various reasons to include requirements that certain amounts of a car or other products be made within their borders.

Most countries have much higher requirements in law and/or in practice than the United States.

The attached tables submitted to the International Trade Commission by the United Auto Workers, give a sense of the extent of this practice.

What the tables do not show, however, is that there has also been an effective de facto content requirement, in Western Europe, that creates an enormous advantage for producing there.

Between members of the European Community and members of the European Free Trade Association, that is in most of Western Europe, there has been a duty-free transfer privilege for production within their borders. But a tariff on parts and cars, from the outside, tariffs that are generally higher than those of the United States. The effect encourages production in Europe.

Many European countries also have quotas and gentlemen's agreements or other regulations to keep out a flood of car imports.

The United States is the most open large market. U.S. industry is the most injured; not from free trade, but from Government actions, worldwide.

Other countries are not only enlarging the content requirements, they are also demanding that foreign investors both produce a high percentage of the car in their countries and export from those countries.

The result, U.S. and foreign companies are encouraged to expand in those countries and export parts to the United States.

The fact that the United States has neither quotas nor high tariffs, nor high content requirements means that the pressure is to move the rest of the auto supply industries abroad. That can mean the death of a viable, U.S. auto industry.

An appropriate content requirement is essential to assure that we have a healthy auto industry and not one that merely assembles parts.

When they appeared before the International Trade Commission, the United Auto Workers asked for a content provision that set up a high tariff and quotas. Relief from quotas would be given if products contained a phased-in content requirement, up to 75 percent, by 1983.

The AFL-CIO supported that request. Such an amendment could assure that there would be more than an assembly unit available for autos in the United States in the year 2000.

But such a provision should contain a direction that is more than a mere percentage figure, a direction to include engines and other parts necessary for the production of a car.

Precedent for such content directions can be found in the orderly marketing agreement on color TV's where certain TV picture tubes and other parts necessary for the production of a TV set were included in the quota arrangement.

Third, immediate action is needed to limit the import of parts. We recognize that the parts of a car are many and complex and the data on imports of parts are not as complete as data on imports of cars. It will be necessary to obtain the necessary data on parts on an item-by-item basis in order to craft an effective limit.

In making this recommendation, we are not suggesting that any action be taken that would either disrupt immediate production plans or slow down passage of effective limits on the imports of cars or the inclusion of a content requirement. Action can no longer be postponed, Mr. Chairman. Congress must act to make sure that the United States has a viable automobile industry that produces modern technologically efficient automobiles.

We pledge to work with you in that regard.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Young, on page 5 of Mr. Fraser's testimony, it is indicated that you seek both short-term relief and permanent legislation which would require substantial North American content vehicles sold here; is that correct?

Mr. YOUNG. Yes, sir.

Senator CHAFEE. This then is more than just temporary relief from the imports?

Mr. YOUNG. That's correct, sir. We have been making this proposal for over a year now. We believe that action is needed now to make it clear that adequate domestic content will be required for automobiles sold here, because the investment decisions that will affect models down the road are being made now and over the next several years.

We think the situation is such, both in our own country and due to the practices of other countries, that it must be made clear that it will be required that there be adequate domestic content for automobiles that are sold here.

Senator CHAFEE. What is adequate?

Mr. YOUNG. We propose that certainly, where you reach the economically efficient level, such as a quarter of a million cars per year production, that it be 75-percent domestic content such as now contained in the fuel efficiency legislation.

For smaller model runs, the figure could be phased down. The figure could be phased in over a number of years. We don't propose that the 75 percent go into effect immediately.

Senator CHAFEE. What is the problem with the automobile industry in this country?

There are automobiles being sold. The Japanese seem to be doing all right. What is the matter with the American car?

Mr. YOUNG. I believe that the major problem is that they missed the boat. That whatever the reason, clearly the market took a very sharp turn. The auto companies were not adequately prepared for that sharp a turn. This is an industry that doesn't turn around very rapidly. It takes a fair amount of leadtime to get everything into place. I believe that while the auto companies are selling better cars now, or cars better adapted to the needs of the market than they were before, they are not there fully yet. They don't have the models fully developed that everyone wants. They don't have the ones that everyone wants in full supply. We are simply working toward that solution.

What we are highly concerned about is that if the importers continue to make the inroads they have been making, that when the U.S. companies are fully prepared, it will be that much more difficult, if possible, to recapture the market.

Senator CHAFEE. You heard the testimony from Mr. Baldrige, saying that there is capacity for a million units available to meet the increased production; was that accurate?

Mr. YOUNG. I understood Mr. Baldrige to say that that capacity was coming on line and would be there, that it is not there now. That is my impression, for those cars that are selling well, the companies do not have excess capacity, particularly when you look at the need for engines and transmissions and everything down the line, aside from just assembly.

I think that what is often looked at is what is the capability of assembling a large number of vehicles. However the constraint is often the engines and transmissions. Clearly, we don't have excess capacity in those areas.

Some of the best selling cars, unfortunately, contain engines, for example, that are imported.

Senator CHAFEE. What is the absenteeism rate of the United Automobile Workers?

Mr. YOUNG. I don't have figures currently. I am told that the rate is down from where it has been in past years, but I don't have a hard figure.

Senator CHAFEE. Is it fair to say that the rate has been shockingly high?

Mr. YOUNG. Absenteeism has been a problem. One of the problems, in looking at the figures, is that the companies often tend to publish figures as absenteeism that combine periods when people are away when it was known that they would be away from the job, when they are scheduled to be away or when they are sick or when there is a death in the family, along with all the other, if you will, unexcused absenteeism.

I think the area to focus on is the unexcused absenteeism. That is clearly too high. We have been working with the companies to bring it down.

Senator CHAFEE. The other absences are provided for by the contract?

Mr. YOUNG. That is right, but those are absences that can be planned for and shouldn't interfere with the productive efficiency of the plant.

Senator DANFORTH. Mr. Young, one of the points that was raised this morning is that some have alleged that the autoworkers are very handsomely paid, that the salary rates are substantially larger than they are in most other fields of employment, and that the autoworkers should themselves see that there is—that they have a stake in trying to improve the competitive position of the U.S. automobile industry.

I wonder how you would respond to that.

Mr. YOUNG. Well, as it was mentioned, Mr. Chairman, we don't think that our members are the best paid, but they are well paid. They also are highly productive. They have worked in an industry that is highly productive. They have turned out a product that sold well, at least until recent years.

We have never blocked the introduction of technological improvements. We have never tried to hamper the productivity of the industry; in fact, we have encouraged the companies to build on that.

We understand that when there are difficult times, that everybody has to sit down and work those out. We have just gone through that with the Chrysler Corp.

If I may, Senator Chafee mentioned, when I came in this morning, that as far as he knew, no one took a pay cut. That is incorrect.

Chrysler workers, this week, are earning $1.15 less per hour than they were earning last month. They took an absolute cut in their pay, not simply a forfeiture of future pay increases.

We recognize that those things have to happen and have to be worked out, and whatever has to be done in that area, there will have to be changes on the company side of the fence as well as the workers and the unions.

But, I think as the point was made here several times this morning, we also believe that no action of that type by itself can save the industry or can significantly improve the situation we are in.

It is essential that there be adequate action, and in view of the way the process takes place in the Government, and in view of the way this has been discussed for the last year and a half, it seems to us that we cannot come to grips with whatever may need to be done at the private level, until it is very clear what will be done in the public arena.

Senator DANFORTH. So, your view is that Government has a part to play, that the auto companies have a part to play, that the UAW has a part to play in trying to restore health to the automobile industry?

Mr. YOUNG. Yes, sir.

Senator DANFORTH. That is the position of the UAW?

Mr. YOUNG. That's our position. The precise manner in which that part gets played out, and what it is that is important, are the issues that have to get discussed.

I think some of the most important issues that relate to the industry are not what is going to happen next week, but what's going to happen 1, 2, and 3 years down the road; in terms of how the productive facilities will be made, in terms of where Ford, General Motors, and Chrysler will invest their new capital, what decisions will be made now that will affect that environment down the road. That is why it all has to come together.

But, exactly how it is implemented, is the issue that has to be worked out by the parties.

Senator DANFORTH. Could you and Mr. Koplan give us some estimates as to unemployment, both among UAW members and AFL-CIO members, as a result of automobile imports?

Mr. YOUNG. As a result of imports? That gets fairly hard to untangle. The reason is that there is not yet agreement over what the impact of the imports has been.

One of the witnesses testified this morning about the substitution effect due to imports, I think the figure he used was 400,000 vehicles.

But, as we pointed out to the International Trade Commission, that is merely the result of looking at the raw figures of what was the increase in imports. When you have a shrinking total market, you would expect the number of imports to drop just like everything else.

So, we contended to the International Trade Commission that in fact the substitution effect was substantially larger. That if one had looked at how many sales there would have been for imports if they retained the same share of the smaller market, you would have seen a much bigger effect.

So we don't have a hard figure there. We never claimed that the 200,000 plus members who we have laid off in the big three, and the spillover into other areas, is entirely due to imports, but a substantial piece of it, probably 30 to 40 percent is.

Senator DANFORTH. How many UAW workers now are out of jobs?

Mr. YOUNG. In the three main auto companies, almost 200,000 workers are on long-term layoff, and another 30,000 to 40,000 are on temporary layoffs, they know when they will be recalled.

Then, we have members in parts supplier companies, and there are others which end up at least matching those figures. In total, the best impression we have is that about 1 million people are laid off due to what is happening in the auto industry.

Senator DANFORTH. About half of them would be your members; is that right? Roughly?

Mr. YOUNG. Yes.

Senator DANFORTH. Mr. Koplan.

Mr. KOPLAN. I have some of them, Mr. Chairman. Between October of 1978 and October 1980, employment in the industrial sector, classified as motor vehicles and equipment, fell by 289,000.

During that same 2-year period, 141,000 jobs disappeared in the primary metal industry; 100,000 to car dealerships; 36,000 in the automatic stamping industry, and 26,000 in the tires and inner tube industry.

Many additional workers lost their jobs in various industrial groups that supply the auto industry, but whose job loss is not separately identifiable from the general employment data.

We have been using the figure that nearly 1 million Americans have become jobless, primarily because of the failure to act on imports.

I was interested this morning, to hear Ambassador Brock testify that his figures are between 750,000 to 1 million.

Senator DANFORTH. By imports, you mean automobile imports?

Mr. KOPLAN. Yes, and the importation of parts as well.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Young, could we explore a little bit further the $1.50 an hour cut taken by the Chrysler workers? As I understand it you are saying that last week they were earning *x* dollars, and this week they are earning *x*, minus $1.50 per hour; is that correct?

Mr. YOUNG. $1.15.

Senator CHAFEE. Excuse me, $1.15.

Am I correct in that?

Mr. YOUNG. Yes, sir.

Senator CHAFEE. In other words, they are actually receiving less. It is not the foregoing of a potential increase in the future?

Mr. YOUNG. That's correct; yes, sir.

Senator CHAFEE. Is that $1.15 off the $19.50 or $19 plus, which we've been told was their average pay per hour with fringes?

Mr. YOUNG. The $1.15 is out of their actual wage rate. If you figure the impact of that on their total pay, the figure that corresponds to that $19.50, it is about 25 percent higher because of its impact of overtime pay and holiday pay and on certain other benefits.

Senator CHAFEE. What reduction have the Ford and GM workers taken, or any of the others?

Mr. YOUNG. They have not taken any reductions.

Senator CHAFEE. Why not?

Mr. YOUNG. First, because the companies haven't asked for it. Second, because the situation is nowhere near as critical as it was with the Chrysler group. As I indicated to the chairman, the most important reason is because in any event, whatever we would discuss with the companies, the key to solving the problem is assurance that there will be adequate public policy.

You just can't expect the workers to make that kind of a sacrifice if they don't know that it is really going to solve the problem. It may be that a different kind of an adjustment is the right answer in Ford and GM.

In Chrysler, we are faced with a totally different situation than we are faced with in Ford and General Motors. We were faced with a company that was about to go bankrupt.

Senator CHAFEE. You heard pretty alarming testimony this morning about the condition of the other companies, particularly Ford. I don't know what your definition of critical is, but it would seem to me the critical circumstances seemed to have arrived at Ford.

Mr. YOUNG. As far as I can tell, they are not in the same kind of desperate situation that Chrysler was in. We would obviously like to avoid that. But, I really come back to the more fundamental question, that in Chrysler, you were in a situation where there was a public policy solution in place; namely, the loan guarantee. The wage concessions and other concessions that the workers made, and gains that they received in return, in other forms of participation, in decisionmaking, in a profit-sharing plan for the future, and things of that nature, those were all worked out against the framework of having an effective public policy solution for that particular situation.

Here we are in a position where the public policy solution is neither implemented nor even agreed upon. Until that is in place, it is impossible to even figure out what the appropriate details of the private action should be.

Senator CHAFEE. I have a little trouble understanding why actions wait upon so-called public policy. Suppose our public policy is to remain the same?

Mr. YOUNG. Our belief is, that in that case, the problem won't get solved.

The labor component of GM and Ford's activities, at least the labor component that we bargain about, is only about 30 percent of their total costs. While that is not insignificant, we don't believe that either in the near term and certainly not in the long term, not in terms of shaping their investment decisions, and the decisions of the other manufacturers, that will be adequately affected by something we work out at the bargaining table.

We believe there has to be the kind of activities that have been talked about here in order to solve that problem.

Senator DANFORTH. Go ahead.

Senator CHAFEE. Mr. Young, I have a little problem with the position you and your union and the others have taken here.

Namely, what you are saying is that your workers, the most highly paid industrial workers in the Nation, have a problem. And the way to solve that problem is to impose higher costs on other workers who are working for far less than yours.

Now, if that is fairness, it will take some explaining.

Mr. YOUNG. Well, if I may, what we are saying is the Nation has a problem. That we are dealing here with an industry that is strategic to the Nation, with an industry that every other nation approaches as a strategic industry, and that is why every other nation has in fact built up special arrangements for their auto industries, has encouraged their development, has encouraged them to flourish.

We think that the Nation will have a problem, and has a problem, due to the illness in the auto industry, in terms of its financial impact on the Federal budget. I mentioned the question of taxes the company pays. Others have pointed to the question of taxes which the workers would pay if they were working, of benefits which they now receive. More important than that, auto has been one of the leaders in productivity improvement in this country. The auto industry has pulled up the whole level of productivity in manufacturing.

As I said, with respect to the last 2 years, I don't think that anyone would dispute that the reason there have been productivity problems is because of the low volumes at which the companies are operating. They always show productivity declines when that happens. When they pull out of it, productivity snaps back.

The auto industry has been the center for innovative development. It has been a high productivity center. It does stand at the center of much of the economic activity in the Nation.

So that it is perfectly true that our members have a problem in terms of their own job, but the Nation as a whole has a problem. We believe it is essential that we all solve that problem.

Senator CHAFEE. Mr. Young, you have indicated your members haven't come forward with any solution to the problem on their part or concessions because it wasn't viewed as critical. I don't know what your definition for critical is, but I do know that Senator Danforth and the others have stated that it is critical.

So your workers, in fact, are the economic royalists of the industrial labor movement; isn't that true?

Mr. YOUNG. I wouldn't characterize them as economic royalists, if that means they are getting paid something they are not entitled to. I think their productivity levels and the situation they have been in has justified their earnings.

I don't want to leave a misimpression. I think that the situation we are in is a critical one for everyone. What I said or meant to say is that neither Ford or GM are in the degree of critical situation that Chrysler was in 2 months ago, and to some extent continues to be in.

We had a company there that literally was days away from bankruptcy, as far as we could tell. As far as I know, that is not the case at either Ford or GM. They are simply different kinds of situations. I would just repeat that is not really the primary issue. The primary issue is that in Chrysler, an overall solution was in sight.

In both Ford and GM and for the parts suppliers and others, we don't see an overall solution in sight unless we get the kind of actions that are being talked about here.

Senator CHAFEE. Mr. Young, you consistently speak about the productivity capabilities of your workers, and what has been achieved. We have a situation here where for price or for quality or for some other reason Americans don't want to buy your cars in the quantities you would like. You have said that the solution is keep them from being able to buy the Japanese cars. I find that a very odd solution.

I think you either have to improve your productivity, improve your styling, or improve your sales technique. It was indicated this morning that Americans just don't understand how good our cars are.

But, I find that a little difficult to understand. The premier advertisers in the world can't get the point across. I think it comes down to quality and price and not being able to match what the Japanese are providing.

Until you are able to do that, I find I am a little reluctant in providing some form of a governmental solution.

Regarding Chrysler, Mr. Young, I voted against the Chrysler loan. But, to show my confidence, I immediately went out and bought a Horizon.

Mr. YOUNG. I share your confidence. I just ordered a K car.

Senator CHAFEE. Good. Well, I am loyally sticking by Chrysler. Would you respond to the problem of price and quality?

Mr. YOUNG. Yes, sir.

I think that you have several problems wrapped up, but in a sense it is almost the chicken and an egg problem. You don't have a product here where—even if tomorrow we all agreed that some single action would make the cars less expensive or make them be perceived of having higher quality, or whatever else is involved—it could be implemented overnight.

We believe there was slippage in the attention that was being paid to the quality of American cars.

We think that the public rightfully perceived that those cars were not as good as they should have been. We think that is now on the right track. We have initiated actions with the companies to work jointly on the production line to improve quality. But it can't all be done there. A lot of it comes through in the design stage. When cars are recalled by the thousands, that is not because somebody assembled them wrong. It is because they were designed wrong in the first place.

But, whatever the answer may be, it takes a significant amount of time to put that into place. I think the problem has been that many of us think back to when the auto companies had changed models very rapidly from year to year in making fairly cosmetic changes that didn't change things substantially. They forget that if we really want to deal with the fundamentals of car changes, it takes a lot of lead time.

What we are saying is that not only must the quality be turned around, not only must the industry get back to higher volume levels which in itself will reduce the costs per car, but that it takes time to get there, and that in the meantime, we can't allow foreign competitors to get such a strong foothold that we won't be able to turn the situation around.

That is why we believe that you have to act, in a sense, before the problem is solved all by itself, because the problem can't be solved all by itself.

Senator CHAFEE. What does General Motors provide for retiring assembly line workers?

Mr. YOUNG. We have full benefits for retirement at age 62 or for 30 years of service.

Senator CHAFEE. If you came to work at age 25, you would retire with full benefits at age 55?

Mr. YOUNG. You could retire at that age, but you wouldn't necessarily.

Senator CHAFEE. But would you still receive full benefits?

Mr. YOUNG. Yes, sir.

Senator CHAFEE. Mr. Young, I previously indicated that I had some difficulty with this legislation. There is a doctrine in equity called clean hands, which describes those who, only after having done everything possible, ask for relief.

You are seeking this relief, but you have made no proposals. When I say you, I refer to the workers and union you represent. You have made the kind of proposals requiring a contribution on the part of the people you represent to solve this problem.

You have fringe benefits, which are beyond the reach of the people I represent in my State.

You have wage rates that are way beyond anything we have ever thought of.

Yet, you are asking that we be forced to pay a higher price in order to solve a problem. It may be a national problem, but certainly you have a far greater stake in it than I or than those from my State.

A voluntary solution to the problem has not come forward. You are saying, "Restrict the imports." But the problem is far deeper than that. I would find some satisfaction if all of you had some kind of a proposal.

Take the Chrysler situation. I would not call a $1.15 an hour reduction a magnificent sacrifice.

Mr. YOUNG. Well, I am sure you know, Senator, that is not the extent of what the changes were at Chrysler. That was what was done the third time around. There were two prior rounds of agreements to make changes.

Also, the $1.15 does not measure what, as you referred to earlier was forgone. What the $1.15 measures is the absolute cut in terms of where they were and they were already behind the Ford and GM workers as a result of agreements that had been made the first two times around.

Mr. KOPLAN. Let me just make a few comments, Senator.

One, we don't view this proposed legislation as a final solution to the problem. We view it as a way to give the companies the breathing room that they feel is necessary.

Senator CHAFEE. Mr. Koplan, you go way beyond breathing room. You have this matter of content which the sponsors of the bill have never suggested.

This content factor is something extremely substantial. I don't know how that squares with GATT or anything else.

Mr. KOPLAN. May I respond to you this way, Senator, and to show you the seriousness of the problem as we see it, with regard to content.

Back on January 15, when Mr. Millet testified on behalf of the Automobile Importers Association, Senator Danforth asked him to comment on some earlier testimony by Ambassador Hormats, that Japanese manufacturers are increasing their capacity by 20 percent, and that the United States is likely to be the target of this increased capacity.

Now, at that time, Mr. Millet testified that he didn't think that was necessarily going to result in higher sales of automobiles as units, but then went on to say, and I am quoting:

> I would say also, that undoubtedly the increasing capacity in Japan is probably for components such as transaxles, engines, transmissions, and whatnot that are being ordered by domestic companies for production in the United States.

Toyo Kogyo is supplying transaxles. Isuzu Motors is supplying diesel engines. Mitsubishi is supplying engines for Chrysler.

That is undoubtedly a lot of the extra capacity he is referring to, that is Mr. Millet, referring to Ambassador Hormats' testimony.

Now, our concern is that if this is the case, if Japan is increasing its capacity to export these components to flood our market with components, even with this legislation, we could simply end up as the people who tighten the nuts and bolts on the cars and the workers that we represent, members of the AFL-CIO affiliates, work in the supplier industries and services. So we have a real concern. I think Mr. Millet's testimony bears this out, that simply eliminating the unit number of cars that come in might not be a solution, even a temporary solution, to the problem.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you both.

[The prepared statements of Mr. Fraser and Mr. Koplan follow:]

SUMMARY OF STATEMENT OF DOUGLAS A. FRASER ON THE DOMESTIC AUTO INDUSTRY AND HOW TO REVIVE IT

March 9, 1981

For two years the U.S. auto industry has been in terrible shape. Unprecedented corporate losses, numerous plant closings and layoffs in the 200,000-range are all grim reminders of the industry's devastated condition. Surging imports, particularly from Japan, have been a major cause of the U.S. auto industry's recent difficulties.

With the proper set of policies, the U.S. auto industry can rebound. Auto is not a sunset industry. The industry has a long track record of generating high annual increases in output per worker and still is the most productive auto industry in the world. Given some breathing room, the industry will be more than capable of meeting the competitive challenge of the Japanese auto industry.

Temporary import relief will lead to substantial increases in employment in the auto industry. We estimate that restraints from 1981 through 1983 could translate into 100,000 to 125,000 jobs depending on the exact form the import relief takes.

Other steps beside import relief are required. First, something should be done about the overly restrictive monetary policy which has made the auto industry's situation even worse. The government should seek ways to stimulate new car sales through tax credits and scrappage bounties. The trade adjustment assistance safety net should not be gutted. Instead it should be expanded to cover those workers who are now unjustly denied benefits. Finally, we are now convinced more than ever that some form of legislated local content requirement is the only sound long term solution to the auto trade situation.

**STATEMENT OF
DOUGLAS A. FRASER, PRESIDENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW
ON THE DOMESTIC AUTOMOBILE INDUSTRY
AND HOW TO REVIVE IT
before the
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE**

March 9, 1981

It is a privilege to testify before this Subcommittee on behalf of the 1.2 million members of the UAW.

I want to congratulate Senator Danforth and Senator Bentsen for their efforts in behalf of the auto industry; and I particularly want to thank Senator Danforth for calling these hearings so soon after the January 14 hearings. We in the UAW agree that time is running out for the industry and its workers. With the help of Senator Danforth, Senator Bentsen and the other cosponsors of S.396, Congress is considering an important step in tackling the immense problems plaguing the industry. What is required is breathing space for U.S. auto, and S.396 goes a long way toward providing it. The bill would not eliminate all of the damage suffered by the industry from the massive increase in import penetration of the past two years, but if strengthened, it could dramatically reduce the permanent damage that will otherwise be incurred in the years ahead while the industry is being restructured.

The Continuing Problems of the U.S. Auto Industry

For two full years now, the U.S. automobile industry has been operating at levels usually associated only with the worst 2-4 months of a major recession. Domestic vehicle sales at a level 30 percent below 1978, over 1,600 dealer bankruptcies in just 18 months, plant closings in double digits, shift eliminations and unprecedented levels of Midwestern unemployment all reflect its disastrous situation.

The list of major plant closings and production cutbacks at Ford, Chrysler and GM is contained in our January 14 testimony. What I can add today is that things are no better. We have 90,000 workers presently laid off at GM (19%); 64,000 at Ford (37%); 45,000 at Chrysler (46%); and 8,000 at AMC (30%). Given the forecast of demand and the anticipated rate of import penetration, we don't expect more than 30,000 of those 207,000 workers to be recalled to their jobs before late fall at the earliest unless the industry is given import relief quickly.

Slumping sales have translated into staggering corporate financial losses. General Motors lost $763 million in 1980, its first year in the red since 1921. Ford lost $1.5 billion — composed of a $2.0-billion domestic loss offset by $475 million in foreign profits. Chrysler posted a $1.7 billion loss for 1980. Including AMC's and VWA's losses, the U.S. auto industry lost $4.7 billion in 1980 on North American operations. Compared to just two years ago, the turnaround from a profit to a loss position approaches $10 billion.

In 1980, the U.S. auto companies experienced their worst sales year since 1961. At the same time the imports set sales records and absorbed 27 percent of the U.S. passenger car market, up from the 18 percent they took in 1978. The surge in imports from Japan more than accounted for the total 1978-80 increase. The Japanese share of the U.S. car market in 1980 was 21.3 percent, up from 12.2 percent in 1978.

And the prognosis is for even greater Japanese penetration in 1981, unless something is done. January and February data refute the pipe dream that the worst is over: the Japanese alone took 22.1 percent in January, and grabbed 23.7 percent in February, despite the domestic industry's ambitious rebate scheme. Overall, imports took an all-time record 29 percent of the U.S. car market last month.

Auto is the Center of the U.S. Industrial Base

The auto industry and its suppliers constitute one of the most important industrial/commercial complexes in the U.S. economy. In a good year, this complex directly employs 1.5 million people. On average, according to the Bureau of Labor Statistics, every job in auto creates 2.3 additional jobs in steel, rubber, glass, textiles and other industries. In 1979 the automobile industry used 21 percent of the steel consumed in the United States, more than 50 percent of the malleable iron produced, 34 percent of the zinc, 12 percent of the primary aluminum, 13 percent of the copper, and 60 percent of the synthetic rubber.

Moreover, the jobs in and connected to the auto industry are the kind on which a sound industrial economy is built: hard, often tedious, but highly productive work historically remunerated at a level that integrates the worker into the society he or she toils to build.

We are now hearing arguments that the auto industry should be classified as a "sunset" industry which should be phased out rather than assisted. These arguments are based in part on the belief that, in terms of productivity, the U.S. industry lags far behind its Japanese competition. The facts, however, are quite different.

First, over the last two decades productivity in the American auto industry has increased at a compound rate of 3.4 percent per year. This substantial rate of increase far outpaced the overall increase in productivity recorded by U.S. manufacturing as a whole, and came on top of already-high absolute levels of output per worker. Such a track record simply doesn't fit the secularly declining productivity performance characteristic of "sunset" industries.

Second, those who argue that output per worker in the Japanese auto industry surpasses output per worker in the U.S. industry are simply wrong. The evidence usually cited in support of this erroneous conclusion is the simple comparison of vehicles per person. There are obvious shortcomings with inferences based on such a comparison, because simplistic calculations of vehicles per head correct neither for mix differences nor for differences in vertical integration. The other "evidence", consists of process-by-process engineering studies which purport to demonstrate the superior productivity of the Japanese auto industry, but actually look at only small, unrepresentative, slices of the industry in both the U.S. and Japan.

UAW economists have compared the relevant productivity series for the U.S. and Japanese auto industries provided by government agencies, and they are convinced that the U.S. industry maintains a lead over its Japanese competition, although the gap in productivity between the two which was substantial as recently as 1978 has narrowed significantly in the last couple of years. But that is easy to explain. Operating flat out and regularly adding sizable and predictable increments to capacity, the Japanese industry achieved substantial gains in productivity in the 1978-80 period. In contrast, productivity in the U.S. industry stagnated.

But the recent productivity doldrums of the U.S. auto industry do not mark the beginning of a trend. Instead, they are a cyclical phenomenon explained by the 23 consecutive months of depression conditions in the industry. Virtually every U.S. auto and truck plant is operating significantly below optimal levels of output. Capacity utilization in the U.S. auto industry slumped from 89 percent in 1978 to a record low 58 percent in 1980. Low capacity utilization in this industry historically translates into stagnating, or even falling, labor productivity in the short-term. Furthermore, there has been an additional adverse impact on productivity caused by the Big Three's scramble to retool their plants over the last year and a half to produce a far greater proportion of small cars in their output mix.

There is no reason to believe that, as it gets back on its feet, the U.S. industry cannot match its Japanese competition stride for stride with respect to gains in labor productivity. Moreover the Japanese auto industry is unlikely to continue to record the increases they have chalked up over the past few years. The U.S. industry, under the right set of policies, is poised to record substantial productivity gains, assuming it can generate the required resources to continue retooling and — more importantly — that it can recapture a significant amount of its lost market share. Past history shows that productivity will jump during the upswing as plants operate under more and more efficient conditions. In 1976 and 1977, as the industry came out of the 1974-75 slump, it recorded productivity gains in the area of 7 percent a year. There is reason to believe such gains will be repeated or surpassed in some of the years ahead. With all of the investment in new tools, many of the factories will be far more efficient than before.

We have confidence in the U.S. auto industry's long-term vitality, but we are also convinced that both short term import relief and permanent legislation requiring substantial North American content in vehicles sold here in high volume are necessary.

<u>Immediate Import Relief is the Critical First Step on the Road to Recovery</u>

To get the industry back on its feet requires a systematic approach. The critical first step in that approach is import relief. Furthermore, the U.S. industry faces a grave threat of even further injury. The Japanese government recently announced a hike in their commodity tax on vehicles. Such an increase will further dampen the sluggish demand that has characterized their home market for the last year or so. Furthermore, the European Economic Community (EEC) has talked tough to the Japanese about their dramatically increased 1980 share in the Common Market, and there is every indication that the EEC plans to prevent any further increases in the Japanese share. Coupled with the significantly increased capacity of the Japanese industry, it seems likely that more Japanese production will be diverted to the U.S.

The U.S. can no longer afford to be the lone sitting duck in this situation. Quick action is essential.

What follows are our estimates of what the year 1983 will look like for the industry, with and without import relief. The projections start with the year 1978.

The 1978 U.S. new vehicle market totaled 15.42 million units, some 0.75 million above its normal (or trend) level of 14.67 million. Imports of 1.355 million Japanese cars, 645,000 European cars, and 340,000 foreign-built trucks — for a total of 2.34 million units — amounted to 15.2 percent of the market.

The U.S. market will grow, we estimate, at 1.78 percent per year on trend, resulting in a "normal" 1983 volume of 16 million new cars and trucks.

Without import relief, we believe that the 1983 market will be composed of nearly 3 million Japanese cars (25 percent), some 600,000 European cars (5 percent), and — because of the higher tariff and light truck fuel economy regulations — 250,000 foreign-built trucks. The total would be 3.8 million units, or 24 percent of the projected 1983 market. That level of imports would be associated with only 775,000 U.S. jobs in the auto industry (SIC 371), which is only about 10,000 more than the depressed employment level of 1980.

In our opinion, there is a strong case for holding Japanese imports to a level as low as 1.2 million units annually over the next three years. This would, at the projected 1983 level of demand and making allowance for the job impact of productivity gains, translate into about 890,000 jobs in SIC 371, more than 125,000 above current levels.

S.396, as presently structured, would hold Japanese passenger car imorts to 1.6 million units in 1981, 1982 and 1983. We estimate that import relief of that amount would translate into an employment level of 865,000 in SIC 371, some 100,000 above current levels.

These figures cover just the direct job gain in the primary industry. Linkages to steel, textiles, glass, and other industries will boost total employment by 2-3 times the levels discussed above.

Six Other Steps

There are several other steps to help auto that we asked Congress to consider in our January 14 testimony.

First, something must be done about monetary policy. The excessive use of tight money to fight inflation has made the auto industry's situation even worse.

Second, the government should help stimulate new car sales. We support a tax credit for consumers who trade in a used car owned a year or more for one whose fuel economy is at least 6 mpg greater.

Third, we call for a scrappage bounty to speed up the retirement of the 23 million cars 10 or more years old.

Fourth, we support an extra 10-20 percent refundable investment tax credit for those investments used to produce cars and light trucks that achieve at least 5 mpg over the current year's average fuel economy requirement and are produced in existing facilities.

Fifth, we are dismayed about the damage proposed for the worker adjustment assistance program. In 1980, U.S. free trade policies admitted $131 billion in manufactured imports. Yet the Administration wants to cut a TAA program that in fiscal 1982 will cost little more than one percent of that. That program arose from a special covenant made with labor arising out of the Trade Expansion Act of 1962: "free trade" yes, but only within a system of special adjustment assistance for workers displaced by that trade.

The President's budget plan proposes a 76 percent cut in TRA benefits. It is especially dismaying that the rationale is that TRA keeps workers from seeking jobs in other sectors, when the only study I know of (Michigan Employment Security Commission, 1980) found that 78 percent of autoworkers receiving TRA wanted to be retrained and that 38 percent would gladly relocate to get a good job.

The way the Administration proposes to change TRA benefits would destroy the very concept of "adjustment assistance," which was not meant to be an adjunct to the unemployment compensation program but a separate form of income maintenance for which workers in import-prone industries implicitly traded their job security!

If the present efforts to help the auto industry are successful, some of the sting will be taken out of these proposed cuts for autoworkers. But what of workers employed in other industries? Are they to get neither import relief nor adjustment assistance? We submit that that would be grossly unfair.

Sixth, we are more convinced than ever that legislated local content requirements are needed to solve the auto trade problem. The legislation should require that, by 1985, all production-compatible vehicles with yearly sales in excess of 200,000 units contain at least 75 percent domestic content. Local content requirements tied to sales volume should be phased in beginning with the 1982 model year.

Companies have an obligation to generate employment in countries in which they enjoy substantial sales volume. Sales in North America by VW, Toyota, Nissan, and Honda long ago reached levels at which full scale assembly and major component manufacture could be efficiently accomplished here; yet only VW has significant local content (about 65 percent) today. Our concern extends beyond inducing Japanese auto investment in North America. We are increasingly alarmed by the sharp rise in foreign sourcing by the Big Three as well. Content legislation should be seen as a tool to retain a domestic small car industry as well as a means to attract foreign automotive capital.

Import relief will have a significant, positive and long-lasting impact on employment in the U.S. auto industry. We believe that the relief suggested in S.396 will lead to the recall of substantial numbers of autoworkers now on indefinite layoff. By contrast, if no relief is forthcoming, only a few of the autoworkers on indefinite layoff have any hope of recall.

We recognize that employment in the U.S. automotive industry is not likely to regain its 1978 peak levels, because of technological change, the shift to smaller cars, and the moderation of the rate of market growth. But unbridled expansion of Japanese exports to the U.S. will substantially increase the job loss, and will make it difficult if not impossible to manage the shrinkage of the industry without further mammoth human suffering.

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SUMMARY
STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE
AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON TRADE, SENATE COMMITTEE ON FINANCE,
ON S. 396 AND THE CURRENT SITUATION OF THE
DOMESTIC AUTOMOBILE INDUSTRY

March 9, 1981

1. The AFL-CIO supports S. 396 which would limit the import of autos from Japan for three years.

2. At the same time, we urge several improvements.

First, a reduction from the proposed 1.6 million limit to a limit of 1.2 million imports of Japanese autos per year. The reduction would be based on the average of automobile imports from Japan during the period 1975 through 1979.

Second, we urge inclusion of a content requirement. This could be phased in up to a 75 percent level by 1983. Relief from quotas would be forgiven if products contained a phased-in content requirement.

Third, we urge immediate action to limit the import of parts. In order to craft an effective limit, it will be necessary to obtain the necessary data on parts on an item-by-item basis. In making this recommendation, we are not suggesting that any action be taken that would either disrupt immediate production plans or slow down passage of effective limits on the import of cars or inclusion of a content requirement.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE,
AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON TRADE, SENATE COMMITTEE ON FINANCE,
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DOMESTIC AUTOMOBILE INDUSTRY

March 9, 1981

My name is Stephen Koplan. I am a Legislative Representative for the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

While much attention is focused on the basic big three automakers, and the United Auto Workers as the union representing most of their employees, AFL-CIO unions represent the majority of workers in the broad automobile industry. Two out of every three jobs in the industry have been held by workers who make machinery, steel, aluminum, glass, electronics, rubber, plastics, and other products which are assembled into automobiles. In addition to these production jobs, AFL-CIO unions represent many thousands of workers employed in auto-related services.

The AFL-CIO believes that action is needed at once to curb imports on automobiles and parts, because the massive dislocation of production in the auto industry is continuing to destroy production, jobs and communities throughout the United States. Nearly one million Americans have become jobless primarily because of the failure to act on imports. Unless action is forthcoming from the Congress, the world will continue to act as if this market now and forever is designed only for their exports, and U.S. producers will continue to lose their competitive position or move abroad. This is not free trade, Mr. Chairman. It is a very expensive one-way street that will continue to harm American workers.

Workers who need jobs have paid too much of the price for this failure to act. They need to work, Mr. Chairman. In Toledo, Ohio, last week, 5,000 workers lined up for 90 jobs in an auto battery plant, according to the New York Times.

On February 16, the AFL-CIO Executive Council adopted the following statement on this subject:

> "Immediate import relief and a requirement for domestic content is urgently needed for the auto industry and parts suppliers. The AFL-CIO supports S. 396, introduced by Senators Danforth and Bentsen, as an important step in this direction and urges swift enactment in the Congress. Existing laws should be examined and improved to assure speedy relief to industries when the threat of injury from imports is evident. These laws also should be adjusted to assure that the producers of major and essential components can receive appropriate relief from injury caused by imports."

We believe that S. 396 is a step in the right direction. But we would urge several improvements. First, a reduction from the proposed 1.6 million limit to a limit of 1.2 million imports of Japanese autos per year. We feel that the 1.6 million limit in S. 396 would be too generous an amount, because it is based on a period (1978-1979) during which automobile imports from Japan had already surged to substantially higher levels. A more representative period -- say the average of five years (1975-1979) -- would result in a limitation at 1.2 million cars.

Second, we urge inclusion of a content requirement. If this is not done, the United States will lose the technological advantages of a modern auto industry and become merely an assembler of technology produced in other countries. The U.S. imports of auto parts shot up 122 percent between 1975 and 1979 -- from $4 billion to over $10 billion.

The deficit moved from a $1.6 billion surplus in 1975 to a $1.3 billion deficit in 1979. "U.S." cars may include "American" technology in the future, but that technology will not be produced in America unless this country acts to make sure that we have a technological future.

The idea of domestic content is not new or unusual. The United States and virtually every country of the world have adopted provisions at various times for various reasons to include requirements that certain amounts of a car or other products be made within their borders. Most countries have much higher requirements in law and/or in practice than the U.S. The attached tables submitted to the International Trade Commission by the United Auto Workers give a sense of the extent of this practice. What the tables do not show, however, is that there has also been an effective de facto content requirement in Western Europe that creates an enormous advantage for producing there. Between members of the European Community and members of the European Free Trade Association -- that is in most of Western Europe -- there has been a duty-free transfer privilege for production within their borders, but a tariff on parts and cars from the outside -- tariffs that are generally higher than those of the United States. The effect encourages production in Europe. Many European countries also have quotas in "gentlemen's" agreements or other regulations to keep out a flood of car imports.

The United States is the most open, large market. U.S. industry is the most injured, not from free trade, but from government actions world-wide. Other countries are not only enlarging their content requirements, they are also demanding that foreign investors both produce a high percentage of the car in their countries and export from those countries. The result: U.S. and foreign companies are encouraged to expand in those countries and export parts to the United States. The fact that the U.S. has neither quotas, nor high tariffs, nor high content requirements means that the pressure is to move the rest of the auto supply industries abroad. That can mean the death of a viable U.S. auto industry.

An appropriate content requirement is essential to assure that we have a healthy auto industry and not one that merely assembles parts.

When they appeared before the International Trade Commission, the United Auto Workers asked for a content provision that set up a high tariff and quotas. Relief from quotas would be forgiven if products contained a phased-in content requirement -- up to 75 percent by 1983. The AFL-CIO supported that request. Such an amendment could assure that there would be more than an assembly unit available for autos in the U.S. in the year 2000. But such a provision should contain a direction that is more than a mere percentage figure, a direction to include engines and other parts necessary for the production of a car. Precedent for such content directions can be found in the orderly marketing agreement on color TVs where certain TV picture tubes and other parts necessary for the production of a TV set were included in the quota arrangement.

Third, immediate action is needed to limit the import of parts. We recognize that the parts of a car are many and complex and that data on imports of parts are not as complete as data on imports of cars. It will be necessary to obtain the necessary data on parts on an item-by-item basis in order to craft an effective limit. In making this recommendation, we are not suggesting that any action be taken that would either disrupt immediate production plans or slow down passage of effective limits on the imports of cars or inclusion of a content requirement.

Action can no longer be postponed, Mr. Chairman. Congress must act to make sure that the United States has a viable automobile industry that produces modern, technologically efficient automobiles.

APPENDIX I—Survey of Automotive Trade Restrictions Maintained by Selected Nations

Compiled by the Office of International Sectoral Policy, U.S. Department of Commerce from information supplied by U.S. Embassies, Commerce country analysts, and industry sources. The accuracy of the information received has not been verified.

Summary of Foreign Automobile Trade Restrictions 1/

Country	Local Content Requirements	Import Restrictions 2/	Export Requirements	Operations: Japanese	Operations: United States
Algeria	No	Yes	No		
Argentina	Yes	Yes	Yes	Yes	Yes
Australia	Yes	Yes	No	Yes	Yes
Austria	No	Yes	No		Yes
Belgium	No	Yes	No		Yes
Bolivia	Yes	Yes	No		
Brazil	Yes	Yes	Yes	Yes	Yes
Chile	Yes	Yes	Yes		Yes
Colombia	Yes	Yes	Yes		Yes
Denmark	No	No	No		
Ecuador	No	Yes	No		Yes
Egypt	Yes	Yes	No		
France	No	Yes	No		
Germany	No	No	No		Yes
Ghana	No	Yes	No		Yes
Greece	Yes	Yes	No	Yes	
India	Yes	Yes	No		
Indonesia	Yes	Yes	No	Yes	Yes
Israel	No	Yes	No		Yes
Italy	No	Yes	No		
Japan	No	No	No		Yes
Kenya	No	Yes	Yes	Yes	Yes
Kuwait	No	No	No		
Malaysia	Yes	Yes	NA		
Mexico	Yes	Yes	Yes	Yes	Yes
Morocco	Yes	Yes	No		Yes
Netherlands	No	No	No		
New Zealand	No	Yes	No	Yes	Yes
Nigeria	Yes	Yes	No		
Norway	No	Yes	No		
Pakistan	Yes	Yes	Yes		Yes
Peru	Yes	Yes	No	Yes	Yes
Philippines	Yes	Yes	Yes	Yes	Yes
Protugal	Yes	Yes	No	Yes	Yes
Saudi Arabia	No	No	No		
Singapore	No	Yes	No	Yes	Yes
South Africa	Yes	Yes	No	Yes	Yes
South Korea	Yes	Yes	Yes		
Spain	Yes	Yes	No		
Sweden	No	No	No		
Switzerland	No	No	No		
Taiwan	Yes	Yes	No		
Tanzania	No	Yes	No		
Thailand	Yes	Yes	No	Yes	Yes
Turkey	Yes	Yes	Yes		Yes
United Kingdom	No	Yes	No		Yes
Uruguay	Yes	Yes	Yes		Yes
Venezuela	Yes	Yes	Yes	Yes	Yes
Yugoslavia	Yes	Yes	No		

1/ The measures cited in this chart are for new cars. Trade restrictions on used cars are not reflected.

2/ Import restrictions apply to non-tariff measures maintained by a country which deal solely with imports. Tax measures which apply to both imports and domestically produced products are not included.

Industrialized Countries Surveyed

Australia: A local content requirement of 85 percent is in effect. However, under the Export Facilitation Scheme, due to commence on March 1, 1982, Australian car manufacturers would be allowed to credit exports against local content requirements. These credits will increase from 5 percent in 1982 to 6.25 percent in 1983 and 7.5 percent in 1984 and can be used to import components duty free. The effect would be to reduce the local content requirement to 75 percent by 1984. Australia maintains a quota limiting imports of assembled vehicles to 20 percent of the existing market. There are import tariffs of 35-57.2 percent depending on stage of assembly. No export incentives exist. General Motors, Ford, Chrysler, Toyota and Nissan produce vehicles in Australia.

Austria: No local content regulations or export requirements are in effect in Austria. The automobile import duty is 20 percent. The value added tax (VAT) on automobiles is 30 percent. Steyr-Daimler-Puch (S-D-P) produces mopeds, trucks, busses and tractors. General Motors will shortly begin production of automobile engines and transmissions. S-D-P and BMW will soon produce diesel automobile engines.

Belgium: No local content regulations or export requirements are maintained by Belgium. There are reportedly quantitative restrictions on imports from Japan, Taiwan, South Korea, Indochina, and Eastern European countries. The import tariff on automobiles is the EC's 10.9 percent common external tariff. A 25 percent value added tax is levied on all automobiles sold in Belgium. Ford, GM, British Leyland, Peugeot-Citroen, and Volvo assemble cars and trucks, while Renault and Volkswagen assemble only automobiles in Belgium.

Canada: U.S.-Canadian auto trade is conducted under the terms of the Automotive Parts Trade Agreement (APTA). This trade is duty free. Canada has a 14.2 percent import duty on imports of non-U.S. cars and trucks and has safety and emission requirements similar to the United States. There are no local content requirements or quantitative restrictions. Chrysler, GM, Ford, AMC and Volvo have manufacturing facilities in Canada.

Denmark: There are no restrictions on automobile imports except the 10.9 percent EC common external tariff. A 20.25 percent VAT is levied.

France: There are no local content regulations or export requirements. Imports of Japanese automobiles have never risen to over 3 percent of the market and the French government has announced that it does not want them to exceed this level. The EC's 10.9 percent automobile tariff applies. There is a 33.3 percent VAT. General Motors and Ford produce components in France.

Germany: There are no local content, export requirements, or quantitative limitations. Germany applies the EC's 10.9 percent common external tariff on automobiles and has a 13 percent VAT. Germany maintains rigid safety and emmissions standards. In addition, there is a graduated motor vehicle tax based on horsepower. General Motors and Ford have manufacturing/assembly plants.

Italy: No local content regulations or export requirements exist. Italy applies the EC's 10.9 percent common external tariff on automobiles. Italy has formal quantitative restrictions on vehicle imports from certain Far Eastern (1980 allotment from Japan is 2,200 cars) and Eastern European countries. In addition, Italy's strict safety standards make certification of imported automobiles difficult to obtain. The automobile import duty is 10.9 percent. A VAT varying from 18-35 percent depending on engine size is applicable to all automobile sales.

Japan: Japan maintains no local content requirements or quantitative restrictions or import duties on automobiles. There is a 15 or 20 percent commodity tax levied on automobiles depending on engine size and on overall auto dimensions, and an annual automobile tax which also increases by engine size. The mechanical safety and environmental modifications required to comply with Japanese stringent vehicle regulations have discouraged imports. Additional disadvantages to American automobiles include the higher dealer margins and a complicated multi-layered distribution system.

Netherlands: The Dutch vehicle manufacturing industry is relatively small. DAF a Dutch firm, manufactures commercial and military vehicles. Volvo produces passenger cars and there are a number of smaller Dutch bus and trailer manufacturers. The tariff on automobiles is 10.9 percent for imports of automobiles from the U.S. into the EEC. There is an 18 percent value-added tax. Additionally, manufacturers or importers of passenger cars have to pay a special consumption tax of 16 or 17 percent. Imports are not subject to any special import licenses or quantitative restrictions.

New Zealand: There are no specific regulations dictating the amount of local content in automobiles assembled in this country. However, an import licensing system mandates the use of local components. Tariffs for completely built up autos (CBU) are: 55 percent for general tariff; 20 percent for Australia and the U.K.; and 33.3 percent to 55 percent for Canada depending on the level of commonwealth country content. Import tariffs for completely knocked down (CKD) units are: 45 percent general tariff rate; preferential rates of 6.25 percent for Australia and the U.K., and 13.75 percent to 45 percent for Canada depending on the level of Commonwealth country content. Certain Australian CKD autos are duty free and certain CBU autos are subject to a 10 percent duty under terms of the New Zealand Australian Free Trade Associaion. Licenses are required to import CKD cars but are, in effect, obtained automatically by assemblers. Licenses for CBU units are strictly controlled and currently maintained at a level of approximately 4 to 5 percent of the total annual sales of 65,000 to 70,000 units. Ford, General Motors, Chrysler, Toyota, British Leyland, Honda, Mazda, Skoda, Subaru, Datsun, Mitsubishi, and Talbot (Peugeot) have local assembly plants.

Norway: There are no local content regulations or vehicle import restrictions. Automobile import tariffs are 7.6 percent with an additional vehicle tax varying from 68-153 percent of the vehicle value. There is no automobile production in Norway.

Spain: Local content requirement for vehicles assembled in Spain is 55 percent. There are no import quotas. The import tariff for non-EC/EFTA source vehicles is 68 percent with a compensatory import tax of 13 percent. Luxury tax varies between 17.6-35 percent depending on horsepower of vehicle. Fiat, Renault, Citroen, Peugeot, Ford, General Motors have assembly operations in Spain.

Sweden: There are no local content regulations. There is a 9 percent CIF import tariff on passenger cars and a 20.67 percent VAT on the duty paid value. There are apparently nonrestrictive import licenses, as well as stringent safety and emission standards. Swedish producers receive a rebate of all duties paid on imported components incorporated in a car which is exported. Only Saab and Volvo manufacture in Sweden.

Switzerland: Tariffs on passenger vehicles imported into Switzerland from the U.S. range from Swiss Francs 79.62 to 134.50 per 100 kilograms gross. Swiss impose duties on weight rather than on value. Substantially lower tariffs have been accorded to EC and EFTA suppliers. In addition, a turnover tax of 8.4 percent ad valorem is levied. No quantitative import restrictions are maintained; however, at time of registration of an imported vehicle in Switzerland, the U.S. made product must conform with the Swiss Regulations on Construction and Equipment of Motor Vehicles, amendments to which became effective on January 1, 1980. The objectives of the amendments are to reduce gradually noise level limits by October 1, 1982 and 1986, respectively. Swiss-made trucks and jeeps are manufactured and assembled at Arbon in the Canton of Thurgau.

United Kingdom: There are no local content regulations or export requirements. The import tariff on automobiles is the EC's common external tariff of 10.9 percent. It has been publicly reported that imports from Japan are voluntarily limited by the Japanese manufacturers to approximately 10 percent of the market. British Leyland, Ford, GM, and Peugeot-Citroen manufacture in the U.K. In addition there are numerous small, specialty firms. Current plans are for British Leyland to manufacture Honda designed automobiles in the near future.

Developing Countries Surveyed

The Andean Pact's Automotive Program

In 1977 the five Andean Pact members (Bolivia, Colombia, Ecuador, Peru, Venezuela) signed an agreement calling for the production of vehicles based on local componentry, with local content eventually reaching 70 percent. According to the Pact's schedule, the program will be in effect by the end of 1983. However, due to disagreements by Pact members as to who would produce certain types of vehicles and, even more importantly, key components such as engines, progress in implementing the program has been slow.

A Common External Tariff is to give protection against non-pact vehicles, 115 percent in the case of passenger cars similar to those to be produced in the Andean region and 155 percent for cars other than those produced there.

The following companies have signed agreements to participate in the program: General Motors, Volkswagen, and Fiat; other companies that are considering participating are: Ford, Renault, Mack Trucks, Nissan, Pegaso, and Volvo. In addition to these general provisions, member countries have the following specific rules:

Bolivia: There are no vehicle manufacturing or assembly operations in Bolivia.

Colombia: A 33 percent local content regulation is maintained on firms which assemble automobiles from imported components. Imported automobiles are assessed a 150 percent duty, a 35 percent sales tax, a 5 percent export promotion fee, a 1.5 percent export diversification fund tax, and a 1 percent consular invoice fee. There are no quantitative restrictions, but import licenses are used to restrict imports. Renault produces passenger cars. GM produces automobiles, trucks and van chassis. Fiat produces cars, trucks and buses.

Ecuador: There are presently no local content restrictions or export requirements in Ecuador. Import duties on automobiles range from 100 percent to 190 percent depending on price; on trucks and vans duties are 80 percent or 100 percent depending on type and capacity; and on four wheel drive vehicles they are 60 percent or 70 percent depending on price. In addition, an import surcharge of 10 percent on the c.i.f. value is applied to all motor vehicle imports except trucks. On all items, importation requirements call for a 1 percent service charge and a 50 percent prior deposit, both on the c.i.f. value. Importers are required to prepay 80 percent of the import duties before the import license is received. This license is issued by the Ministry of Industries, Commerce and Integration. In addition to the overall quota, each automotive dealer or distributor is assigned an individual quota. This is computed on the basis of past imports, and therefore, it varies for each distributor/dealer. Newly established dealers are assigned a quota of $40,000 per each six months.

Ecuador has begun to implement its ANCOM (Andean Common Market) assigned rights to manufacture: (1) light passenger cars and engines of 1050-1500 cc. motor size, and (2) light trucks and transmissions of 3.0-4.6 metric tons capacity. The Ecuadorean Government and Volkswagen signed a contract in December 1978 for the production of a passenger car. General Motors is carrying out feasibility studies for the production of light trucks.

Peru: Local content regulations require 10-35 percent local content depending on vehicle type. Although built up vehicle imports have been prohibited to date, reports are that import licenses will be obtainable in 1980. Import tariffs are 80 percent on trucks and 155 percent on automobiles. There is a 14.4 percent manufacturers tax. Exports are encouraged by rebating the import duties paid on imported components in the exported vehicle. Chrysler, Volkswagen, and Nissan assemble cars and trucks. Toyota assembles cars and Volvo assembles trucks.

Venezuela: Local content regulations call for annual increases from 40 percent currently to 90 percent in 1985. Imports are restricted to vehicle types produced locally. The tariff on imports is 120 percent on Venezuelan Government reference price. Export requirements are based on a percent of the value of national automobile production and in some instances they are quantitative requirements written into the assembler's contract. In addition to three local firms, Renault and Volkswagen assemble cars; Fiat, GM, and Ford assemble cars and trucks; Mack and International assemble trucks; and AMC and Toyota assemble jeeps.

According to press reports, the Venezuelan Economic Cabinet approved a new automobile import policy on April 24, 1980. Now prohibited is the importation of 8-cylinder models (except by the government). All other models not produced in the country could be imported without license upon payment of ad valorem duty of 120 percent and a specific duty of 100 Bolivars per kilo. Models similar to those produced in Venezuela would pay an ad valorem duty of 120 percent only. Vans and 9-11 passenger vehicles would pay 135 percent ad valorem and 100 Bolivars per kilogram specific duties. Effective date of this new measure will presumably depend on publication of corresponding decree in the official gazette with new list of reference prices for 1980. Last year this took place on June 1st.

Other Developing Countries

Algeria: There are no automobile manufacturing assembly operations in Algeria. Unspecified quantitative restrictions on automobiles are in effect. Import duties on automobiles range from 40-50 percent.

Argentina: Local content regulations exist for all vehicles as follows: passenger - 93 percent in 1980, reduced to 88 percent in 1982; commercial - from 83-90 percent in 1980, reduced to 75-88 percent in 1982. Import tariffs on vehicles are 95 percent on cars (declining to 55 percent in 1982) and 65 percent on trucks (declining to 45 percent in 1982). Minimum import prices are $4 per cubic centimeter engine displacement plus 15 percent freight on cars. Export requirements apply only to intercompany parts shipments. Under this requirement exports must be 3 times the import level. Ford, Volkswagen, Fiat-Peugeot, Mercedes-Benz, and Saab have manufacturing facilities in Argentina.

Brazil: Local content regulations are in effect but are now individually negotiated with each firm with factors such as the individual firms balance of payments being taken into account.

Export incentives in the form of reduced import tariffs on parts are granted (under GATT these are being phased out). Imports of automobiles are currently embargoed. Normally, import tariffs on passenger cars are from 185 percent to 205 percent. In addition there is a system of minimum import values based on the car's weight. Passenger cars are produced in Brazil by Ford, GM, Volkswagen, Toyota, Puma and Fiat. Trucks are manufactured by Ford, Chrysler, GM, Mercedes, Fiat, Saab, Volvo, and Toyota.

Chile: Local content regulations requiring 30 percent of assembled cost for automobile manufacturers are in force. Exports are not required unless local content is less than 30 percent. In this case the local assemblers must export sufficient products to reach 30 percent of local production costs. Import tariffs on automobiles range from 10-80 percent depending on engine displacement. The 80 percent tariff will be reduced each year to reach a final rate of 10 percent in 1986. There is a 100 percent consumption tax if an automobile's CIF value plus duty, plus a 20 percent VAT exceeds $12,000. This consumption tax only applies to the amount over $12,000. There are no quantitative restrictions. GM assembles automobiles and trucks. Citroen, Fiat and Peugeot-Renault assemble automobiles.

Egypt: Local content regulations vary by contract with each assembler. Fiat has a joint venture for automobiles with 30 percent to 40 percent local content required and AMC jeeps are assembled with a 15-20 percent local content. There are no export requirements. Import duties vary from 85 percent to 200 percent depending on engine size and number of cylinders. Individuals are allowed to import only one car every two years and the importation of right hand drive cars is forbidden. Payment of import duties must be made in hard currency.

Ghana: There are no local content regulations or export requirements in Ghana. A purchase tax which varies from 5 percent to 100 percent based on the car's value encourages local production. Commercial vehicles assembled in Ghana do not pay this tax. Under the vehicle standardization policy in effect since October 1, 1979, only vehicles - passenger cars, pick-ups, cross country vehicles, and buses - manufactured by approved manufacturers may be imported. The list includes Peugeot, Datsun, Volkswagen, Renault, Mazda, and Mack Truck. Cars for diplomats and Ghanaian officials are exempt from this requirement. Renault and Toyo Kogyo assemble cars. Nissan, Toyota, and Vauxhall assemble cars and buses. British Leyland, Ford, and Mercedes-Benz assemble buses and trucks. Chrysler, Deutz, Hino, M.A.N., and Mack assemble trucks. Neoplan assembles buses. Import tariffs range from 15 to 35 percent.

Greece: The value added component requirement imposed on local motor vehicle assembly is a minimum of 25 percent without mandatory upward escalation. Tariffs on imports from non-EEC countries range from 10 to 20.7 percent. In November 1979, a voluntary system designed to restrain imports was adopted providing for a reduction of 20 percent in car imports. Bus imports require an import license. The issuance of licenses is, at times, delayed or withheld. A pre-import cash deposit of 56 percent for buses and 28 percent for passenger automobiles is also required. The deposits are retained by the government for two months.

India: Local content regulations exist only for the domestic Indian automobile producers. There is no investment by foreign automobile manufacturers. Exports are encouraged by cash subsidies and import replenishment licenses. Import tariffs on other vehicles vary from 100-140 percent depending on type and axle weight. Import licenses are generally not issued for passenger cars and those for commercial vehicles are issued on a limited basis.

Indonesia: Progressively stringent local content regulations are being instituted in the motor vehicle industry although lags in component manufacture are slowing implementation. While the Government hoped to achieve full local manufacture of components for the most popular types of passenger and light commercial vehicles by 1984, it has extended this deadline until an unspecified date for components not yet manufactured in Indonesia or not manufactured in sufficient quantity. Presently all passenger vehicles, and all commercial vehicles imported into Java and Sumatra, are to be imported completely knocked-down. Import tariffs on built-up passenger vehicles range from 30 percent plus a 10 percent sales tax on jeeps to 200 percent plus a 20 percent sales tax on passenger cars. There are no export requirements or quantitative restrictions. Local assembly plants produce the following makes of passenger cars: Suzuki, Datsun, Hino, Landrover, Holden, Isuzu, Volkswagen, Mercedes, Mitsubishi, Renault, Peugeot, Alfa Romeo, BMW, Dodge, Fiat, Tata, Steyr, Citroen, Berliet, Moskvitch, Subaru, Volvo, Ford, Toyota, Honda, Chevrolet, Bedford, Morina, Daihatsu, and Mercedes-Deutz.

<u>Israel</u>: There are no local content or export requirements maintained by Israel. Import duties are from 40 percent plus 2.50 shekels per kilogram for automobiles with engines 1,800 cc and less and 52 percent plus 1.25 shekels per kilogram for cars with engines 1,801 cc and larger. In addition, there is a purchase tax based on engine size which ranges from 85 percent to 150 percent plus a 5-7 percent import price uplift. These are assessed on a cascade basis. There are quantitative requirements attached to import licenses which are only granted to approved importers. Three Israeli firms assemble Ford cars: Ford, Dodge, Reo and Mack Trucks and AMC Jeeps. One local firm produces its own brand of trucks and passenger cars.

<u>Kenya</u>: No local content regulations exist but components manufactured locally may not be imported. Commercial and certain other vehicles are permitted to be imported only completely knocked-down. There are no export requirements. An import license accompanied by a 100 percent refundable prior import deposit is required. Import duties (CIF) on assembled passenger cars (other than public service-type vehicles) range from 40 percent for cars with an engine capacity not exceeding 1,200 cc, 75 percent for cars with a 1,751-2,000 cc engine capacity, to 150 percent with an engine capacity exceeding 2,250 cc. The duty on non-public service passenger cars, unassembled, for assembly into complete vehicles by an authorized assembler is 25 percent. Importers have been directed to seek 90-180 days credit overseas. The four authorized assemblers are Leyland Kenya Limited, General Motors Limited, Associated Vehicle Assemblers Limited and Fiat Kenya Limited. GM assembles Isuzu and Bedford trucks, British Leyland assembles trucks, Landrovers, Volkswagen microbuses and Mitsubishi light buses. Associated Vehicles assembles Datsun cars and buses, Peugeot trucks, Toyota trucks, Ford trucks, and Volvo trucks.

Import protection is accorded to local producers of the following automotive components: sealers, adhesives, batteries, tires, tubes, paints, flat glass, canvas, soft trim, upholstery, insulation, radiators, exhaust systems, leaf springs, spare wheel carriers, seat frames, wiring harnesses and brake linings.

<u>Kuwait</u>: There are no general restrictions on vehicle imports. A 4 percent <u>ad valorem</u> import tariff is in effect.

<u>Malaysia</u>: Under the ASEAN Automotive Federation (AAF) scheme for complementary ASEAN production, Malaysia will produce timing chains for cars; and spokes, nipples, and roller chains for motorcycles. Trade preferences by other ASEAN members would be granted these parts. Probably no further accreditation of additional capacity for the same product would be allowed until the ASEAN Committee on Industry, Minerals, and Energy determined that the market had expanded sufficiently to warrant further accreditation of similar projects.

<u>Mexico</u>: Local content regulations requiring 70 percent for passenger cars and 80 percent for trucks exist with a planned 5 percentage point increase of both in 1981. Imports of components are required to be offset by exports. Vehicle import duties range from 35 to 100 percent <u>ad valorem</u>. Vehicle imports are not allowed with the exception of a special customs zone near the U.S. border. Exceptions are usually only made if there is a shortfall in domestic supply. Chrysler, Volkswagen, Ford, GM and Nissan manufacture/assemble cars and trucks. American Motors produces cars and jeeps. Renault produces cars.

Morocco: Local content regulations requiring 40-50 percent levels are in effect. All vehicle imports are restricted. All assembly operations are in part or totally Moroccan-owned. Through this system, Fiat, Opel, Simca, and Renault automobiles are assembled in Morocco. Berliet, Volvo, Bedford, Ford, DAF, Landrover, and Jeep utility, and industrial vehicles are assembled.

Nigeria: A 30 percent local content regulation is imposed after three years of assembly. Vehicle imports are restricted by import licenses and passenger vehicles with engines over 2,500 cc are prohibited. Passenger vehicles with smaller engines face duties of 50 to 200 percent. Volkswagen manufactures/assembles cars and minibuses. Peugeot manufactures/assembles cars. British Leyland manufactures/assembles trucks and Landrovers. Steyr manufactures/assembles trucks. Mercedes and Fiat will shortly begin to manufacture trucks and Nissan will start manufacturing automobiles.

Pakistan: There are no local content regulations as such but current use of locally produced components is encouraged by regulation and is reported to range from 26-40 percent of value depending on vehicle type. Projected use of local products is reported to be about 80 percent by 1985. Exports and imports are controlled. Commercial vehicle imports are prohibited. Imports of built up passenger vehicles are dutiable (75-350 percent ad valorem) depending on engine size. A state-owned corporation has a monopoly over the automobile industry. It has assembly arrangements with AMC (jeeps), Chrysler (trucks), GM (Isuzu trucks) Vauxhall (trucks and buses), Ford (minibuses), Suzuki (vans and pickups), Nissan (trucks), Toyo Kogyo (buses), Sumitomo (trucks), and Hino (trucks). This monopoly (PACO) controls the import of both completely knocked down and completely built up vehicles. Completely built up imports are limited to those being brought in by returning expatriate Pakistanis (6 months or more continuous stay overseas).

Philippines: The current local content regulations requirement is 61.5 percent. The import tariff rate varies from 30-72 percent for completely knocked down vehicles to 100 percent for assembled vehicles. There are three local automobile companies. One assembles Mitsubishi products and one assembles Volkswagens. The other assembles its own vehicles (the Tamaraw utility vehicle, a mini cruiser military vehicle and various trucks). Ford has a body stamping plant and automobile assembly facilities. GM assembles cars and trucks, and manufactures transmissions.

Portugal: Local content regulations for vehicles assembled in Portugal are 62 percent in 1980 declining to zero in 1985. Current import quotas for completely knocked down and completely built up vehicles are scheduled to end in January 1985. Import duties for non-EC/EFTA source vehicles is approximately 4.5 U.S. cents per kilogram. Import quotas are scheduled to be phased out by 1985. GM, Ford, Renault, Citroen, Alfa Romeo, British Leyland, Peugeot, Talbot, Audi, BMW, Mercedes, Volkswagen, Toyota, Nissan, Mazda, Subaru, Honda, and Daihatsu have assembly operations in Portugal.

Saudi Arabia: There are no local content regulations or import restrictions. The import tariff is 3 percent of CIF value. Mercedes assembles trucks. A Saudi firm assembles buses using American-made chassis. The Saudi Arabian Government provides a subsidy to the National Company for Car Manufacturing, located in Jidda, in the form of an interest-free loan.

Singapore: There are no local content regulations or quantitive restrictions on vehicle imports. Import tariffs are 45 percent. There is a 150 percent additional registration fee, a $1,000 base registration fee for private and rental cars ($5,000 on company cars), and scaled road taxes. Mercedes, Ford, British Leyland and Volvo produce cars. Nissan produces vans.

South Africa: Passenger cars must contain 66 percent by weight local content. Starting in 1980, the local content regulations have been extended to light goods vehicles (approximately up to 7,800 pounds). The 1980 and 1981 requirements for these are 50 percent by weight. By 1982 these too must meet the requirement of 66 percent. Import licenses are required, but are granted to meet the full and reasonable requirements of components and subassemblies for passenger and light goods vehicles covered by a currently valid manufacturing program approved by the Minister of Economics. There are no export requirements. Fully manufactured cars may be imported without a license, but the duty is 100 percent. Excise tax for cars with less than 66 percent local content is 95 percent. For those with 66 percent local content, the excise duty per Rand value is a maximum of 13 Rand cents. There are excise duty decreases for percentages of local content achieved beyond the minimum 66 percent.

Nissan, Fiat, Ford, GM, British Leyland, Mercedes, Volkswagen, Sigma, and UCDD produce automobiles and trucks. Alfa Romeo, BMW, and Peugeot produce autos. Toyota South Africa produces its own brand of autos and trucks and assembles Renault autos and trucks.

South Korea: There are four auto manufacturing companies in Korea - Kia, Hyundai, Saehan, and Shin Jin. The first three companies also manufacture buses, and two - Hyundai and Saehan - manufacture trucks.

The tariff rate for automobiles is 80 percent.

Automobiles and auto components are on the "Restricted List", meaning prior approval of the Auto Trade Association is required before an import license can be issued. With regard to 100 percent foreign-made cars, the Association will issue import licenses depending on the "supply and demand situation" in Korea; however, such licenses are rarely approved.

Local content requirements are set by the Korean government for domestic manufacture and assembly of all cars, trucks, and buses. Those for cars, effective January 1, 1980, are as follows:

Maker	Type of vehicle	Local content requirement (Percent)
Kia	Brisa	94
"	Brisa II	92
"	Fiat 132	62
"	Peugeot 604	20
Hyundai	Pony	93
"	Cortina Mark IV	62
"	Granada	21
Saehan	Gemini	88
(Cars)	Rekord	65
Shin Jin	Jeep (J-5)	73
"	Diesel Jeep	91

There are no specific export requirements *per se* for Korean auto manufacturers, although there are export targets and some moral pressure to meet those targets. According to the Korean auto industry association, however, there is one stipulation imposed on Hyundai and Kia: in order to obtain permission to import one knocked down Ford Granada or Peugeot 604 for local assembly and sale, the companies must export five domestically manufactured passenger cars.

Taiwan: Current local content requirement for vehicles is as follows: automobiles (including sedans, wagons and jeeps of 1.5 tons and below): 70 percent with proviso that manufacturer must produce one of the following components: (1) engine, (2) piston, connecting rod, and piston pin, (3) crankshaft, (4) axle transmission, (5) spring, (6) cylinder valve. Light motor vehicles (including truck, pick-up, and station wagon of 1.5 tons and below): 70 percent with proviso similar to sedans. Import duties on automobiles are from 45 percent to 75 percent depending on type.

Tanzania: No local content regulations exist. Imports are limited almost entirely to the government. Import tariffs vary from 40-100 percent depending on engine size. Except for trucks, the only automobile assembly operation is by British Leyland.

Thailand: Local content regulations requiring 35 percent local sourcing by August 1980 increasing annually to 50 percent in 1983 are in effect. Imports of built up passenger cars are prohibited. Duties of 180 percent are levied together with a 40 percent business tax on imported automobiles. Toyota, Nissan, Isuzu, and Ford produce cars, trucks and buses. Hino produces trucks and buses. Fiat, British Leyland and Volvo produce cars and buses. Mitsubishi, Mazda, Daihatsu, Subaru, GM, Volkswagen, Peugeot, Renault, BMW, Alfa Romeo, Citroen, Lancia, and Audi produce cars.

Turkey: Local content regulations are contained in the "Assembly Industry Regulation" enforced by the Turkish Ministry of Industry and Technology. Locally produced items are not permitted to be imported. Therefore, importation of automobiles is not permitted except under special circumstances. Import tariffs are 175 percent. Automobiles are produced under license from Ford (the Reliant Motor Company of U.K.), Fiat and Renault.

Uruguay: Local content regulations are in effect requiring local content of 25-32 percent of vehicle weight. Imports of automobiles are prohibited. Export regulations require the export of 40-105 percent (depending on vehicle type) of the import value of the completely knocked down kits the assembler imports. Peugeot-Citroen, Renault, Volkswagen, BMW, Ford, GM, and Fiat assembly automobiles in Uruguay.

Yugoslavia: Local content regulations require 50 percent local content to avoid imposition of higher sales taxes. Imports from other countries are only permitted by authorized dealers. Import tax on vehicles is 17 percent *ad valorem* and the duty is 25 percent. Authorized dealers are required to export goods totaling 30 percent of the value of each imported automobile. Quotas are maintained on imports from the USSR, East Germany, and Czechoslovakia and may be paid for in local currency. Other imports must be paid for in hard currency. Fiats, Ladas, Volkswagens, Audis, and Citroens are manufactured locally.

Senator DANFORTH. The next witness is Mr. David McCammon, vice president of corporate strategy and analysis, Ford Motor Co.

Senator CHAFEE. Mr. Chairman, I wonder if Mr. Young would be good enough to send me the absenteeism statistics.

Mr. YOUNG. I will send you whatever we can get, yes, sir.

Senator CHAFEE. Fine. Thank you very much.

[Material was subsequently submitted:]

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW,
Detroit, Mich., March 18, 1981.

Senator JOHN H. CHAFFEE,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR CHAFEE: When I testified on S. 396 on March 9, 1981 you asked I supply data on absenteeism.

We have received no such data from General Motors during the past 18 months, although we have made a request for such data. If you do receive such information independently, please be aware that in the past General Motors included as an absentee any employe who was absent at all during a pay period regardless of the reason for the absence. Needless to say, that inflates the absenteeism tremendously.

I assume you will be receiving absentee data directly from the Ford Motor Company since you requested that from Mr. McCammon.

Sincerely,

HOWARD YOUNG,
Special Consultant to the President.

STATEMENT OF DAVID McCAMMON, VICE PRESIDENT, CORPORATE STRATEGY AND ANALYSIS, FORD MOTOR CO.

Mr. MCCAMMON. I am David McCammon, vice president of corporate strategy and analysis for Ford Motor Co. With me is Jack Barnes, director of corporate projects for Ford.

[The prepared statement of Mr. McCammon follows:]

STATEMENT OF D. N. McCAMMON
VICE PRESIDENT, FORD MOTOR COMPANY
BEFORE THE SENATE FINANCE SUBCOMMITTEE ON
INTERNATIONAL TRADE
March 9, 1981

Ford Motor Company welcomes the leadership and concern that Chairman Danforth has demonstrated once again as this subcommittee continues its examination of the problems confronting the U.S. auto industry. Automotive issues are receiving increasing national attention, as well they should. The problems are real; the vitality of a fundamental national asset is at stake; and the time has become even more urgent for meaningful and effective solutions.

At the time of the January hearings of this subcommittee, the industry had just concluded the worst production year since 1961. Since then, 1980 financial results have been announced -- a staggering loss of $4.2 billion in world-wide earnings for the industry. In the past 20 years, the worst year had been an industry profit of $2 billion (in 1980 dollars). In sharp contrast, Japan moved into first place in world-wide auto production and captured a record 21.1% share of the U.S. car market.

Moreover, the brief period since the hearing has seen a further deterioration in the immediate outlook for the domestic industry:

- The corner simply has not been turned as we had hoped. First Quarter production schedules have been cut by 17% from those planned in December to a level 13% below last year.
- Security analysts predict the industry will incur further losses of $500 million to $1 billion in the First Quarter, worse than last year's First Quarter loss of $458 million.

- Domestic manufacturers have begun very large rebate programs to stimulate car sales -- in spite of the enormous expense and the fact that most sales under these programs are simply pulled ahead from later in the year.
- Even with February results inflated by rebates, sales for the past 60 days have run at an annual rate of only 7.1 million domestic cars.
- The Japanese share of our car market has increased further to 23% so far this year.
- And, Japanese auto shipments to the U.S. were up 16% from year ago levels, as were stocks of Japanese cars.

So as the First Quarter draws to a close, it's now clear that 1981 will <u>not</u> be a good year for domestic auto producers. And that's very bad news for the 200,000 auto workers still on indefinite layoff -- most for ten to eighteen months -- and for the owners and employes of thousands of domestic dealerships and supplier plants throughout the country. Nearly 1 million people have lost their jobs as the impact of depressed auto production has spread through the economy. A serious situation has now become even more serious; solutions that once may have seemed reasonable are now wholly inadequate.

There is little point in going back into history to distribute blame for the present situation. Instead, a national consensus is needed about where we go from here with an industry that has been required to undergo the most massive and expensive retooling in history and one that has suffered heavily from conflicting national policies and priorities.

Opinions differ about what solutions are needed, but the fundamental question is whether or not the United States wishes to have a strong automobile industry. If this question is not answered affirmatively with effective actions, the inevitable result will be to encourage the transfer of more auto manufacturing and U.S. jobs overseas.

We, as manufacturers, are already going all-out to address the issues we can do something about; but government must do its part through changes in tax, regulatory, and trade policies. There is unity among U.S. manufacturers on actions required in each of these areas -- as demonstrated by the February 3 letter to the President from the Chief Executives of nine U.S. car and truck producers.

We are encouraged by discussions under way in the Administration and the Congress in these areas. It must be recognized, however, that regulatory relief will be prospective -- that is, it will help us to avoid important cost and price increases in the future, but it will not reduce costs significantly today. And the business tax proposals, which we support, will actually be of no near-term benefit to Ford without refundability.

The most immediate requirement, however, is to increase U.S. car volume and employment. The single most effective means to achieve this increase is to limit imports of Japanese cars -- promptly and decisively.

We were invited today to speak to the legislation introduced by Senators Danforth and Bentsen, S. 396, and we applaud its intent. We believe, however, that levels such as 1.6 million Japanese cars are simply too high to do today's job.

Statements by Japanese leaders suggest Japan agrees that car exports to the United States should be reduced -- the key issues are level and duration. In this regard, it might be helpful to look at other countries. In the European Community, for example, governments seem determined to limit Japanese cars to an overall share of 10%. We see no reason why Japan's share of our car market should be more than Europe's 10%. Translating this share to the U.S. market would represent imports of about a million Japanese cars.

If such a limit were established for five years, it would create some 67,000 jobs for auto workers in 1981. In total, 178,000 jobs would be created throughout the economy. Cash flow for the domestic auto producers would be increased by $1 billion this year. Over the five year period, the total cash flow benefit would be some $5.6 billion -- roughly equal to losses the industry has incurred since mid-1979.

Both the level and the duration of import limits are critically important to helping the industry get back on its feet. Compared with a 1.6 million limit for 3 years, a limit of 1 million for 5 years would add three to four times the jobs and cash flow during the critical 1981-85 period needed to complete the $80 billion conversion of domestic plants and products.

This temporary restraint will not be inflationary. Even assuming as much as 15% higher prices for Japanese cars, the effect would be more than offset by savings in unemployment costs and by the added tax revenues which will follow automatically as gains in U.S. car sales put our plants and people back to work. American taxpayers already are bearing the

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$3 billion cost of auto-related unemployment and tax revenues lost to federal, state, and local governments. This really amounts to a subsidy to support extraordinary levels of car imports from Japan -- hardly in keeping with the spirit of scrutinizing every dollar of taxpayer expense with great care.

As for U.S. car prices, our fundamental motivation is to increase our volume of car sales. One of our basic cost problems is underutilized facilities at today's volume of sales; only more volume can alleviate these penalties and raise productivity immediately. Furthermore, the full history of U.S. car price behavior when Japanese car prices rose in response to a stronger yen demonstrates a clear pattern of price restraint by individual U.S. car manufacturers aimed at recapturing volume from imports. We at Ford would do so again if, under import limits, Japanese prices were increased by supply/demand distortions.

Finally, temporary restraint is fully consistent with the Administration's economic program which we heartily support as the prescription for a healthier America. The goals of auto import restraint are to get a key sector of the economy moving; to reduce the drain on the Treasury of unemployment and other transfer payments; and to return thousands of Americans to taxpaying status.

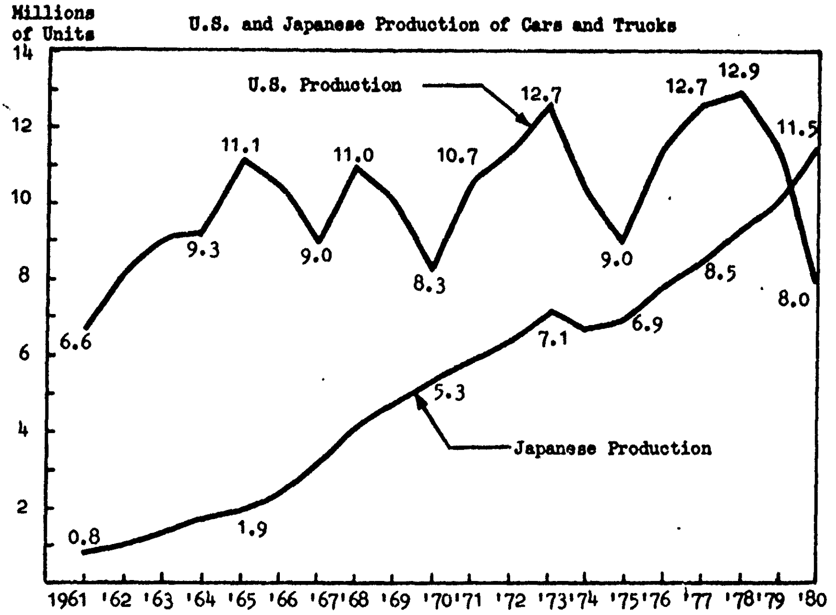
Mr. Chairman, we ask support of the subcommittee in achieving these critical goals and in helping the auto industry to maintain its traditional commitment to investment and jobs in the United States.

INDEX TO EXHIBITS

Ford Motor Company March 9, 1981

Exhibit 1

1980 U.S. AUTO PRODUCTION HIT A 19-YEAR LOW;
JAPAN WAS NUMBER 1

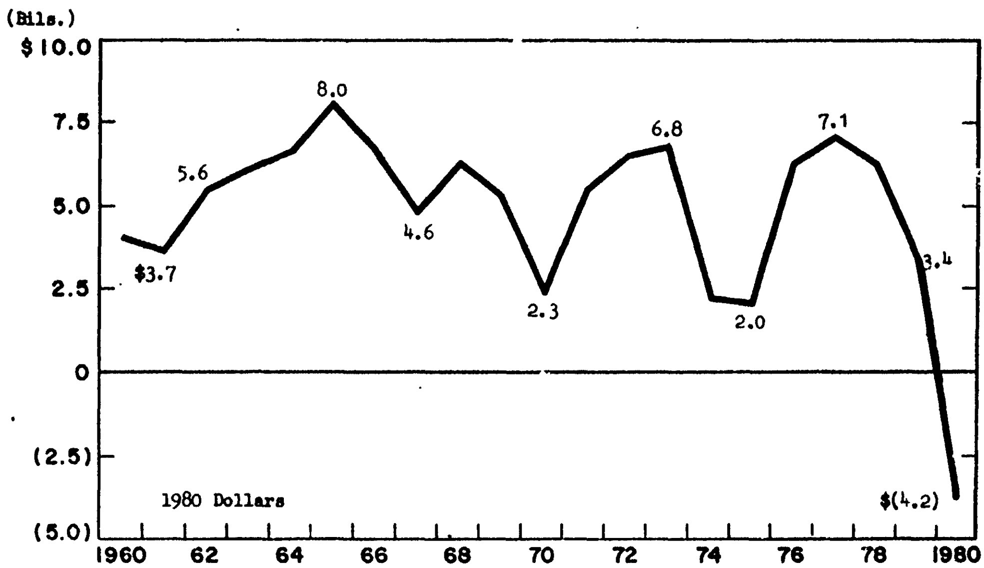


Source: Ward's Automotive Reports; Japan Automotive Manufacturers' Association

	1978	1980	1980 O/(U) 1978
U.S. Car and Truck Productions (Mils.)	12.9	8.0	(4.9)
Estimated Economy-Wide Job Impact (000)			$\boxed{(900)}$

Exhibit 2

THE 1980 INDUSTRY LOSS OF $4.2 BILLION WAS EXTRAORDINARY; ANALYSTS PROJECT FURTHER LOSSES



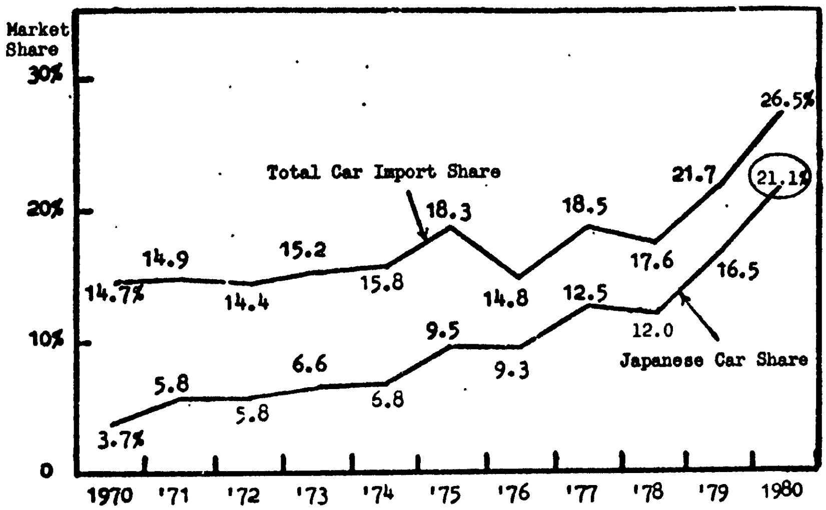
AFTER-TAX EARNINGS
(Incurred Dollars)

	Memo: 1979 Second Half (Bils.)	1980 First Quarter (Bils.)	1980 Full Year (Bils.)	1981 Security Analysts' Estimates First Quarter (Bils.)	1981 Security Analysts' Estimates Full Year (Bils.)
General Motors	$ 0.4	$ 0.2	$(0.8)	$(0.2)-$ 0.1	$ 0.4-$ 1.4
Ford	0.1	(0.2)	(1.5)	(0.5)	(0.7)- 0
Chrysler	(0.8)	(0.5)	(1.7)	(0.1)- (0.3)	(0.3)- (0.8)
American Motors	-0-	-0-	(0.2)	NA	(0.1)- 0
Total	$(0.3)	$(0.5)	$(4.2)	$(0.5)-$(1.0)	$(1.2)-$ 1.1

Source: Company annual reports and press releases; projections by security analysts at Sanford Bernstein, Drexel Burnham, Merrill Lynch, Capital Research, Dean Witter Reynolds, Goldman Sachs, and Paine Webber

Exhibit 3

THE JAPANESE SHARE OF U.S. CAR SALES IN 1979-80 WAS EXTRAORDINARILY HIGH



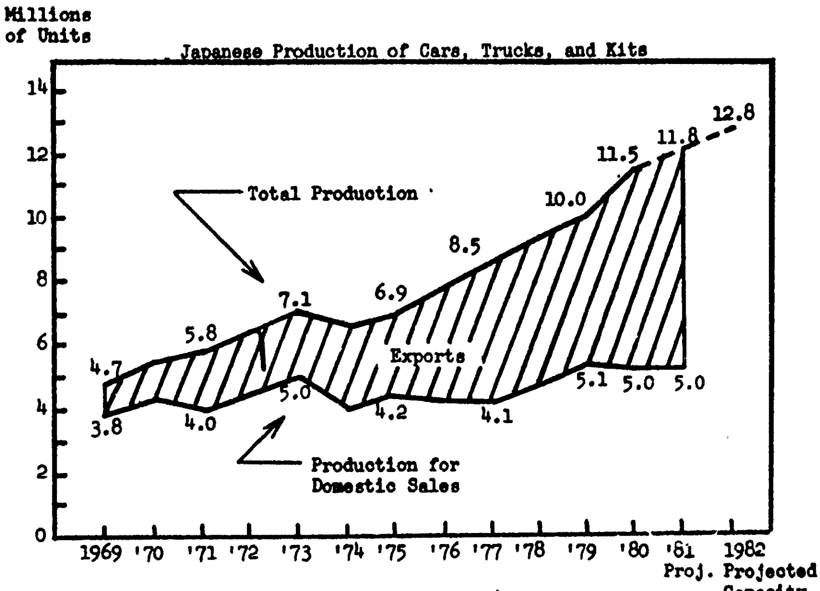
U.S. Car Sales (Mils)

	1970	'71	'72	'73	'74	'75	'76	'77	'78	'79	1980
Japanese Imports	0.3	0.6	0.6	0.7	0.6	0.8	0.9	1.4	1.3	1.7	1.9
Other Imports	0.9	0.9	1.0	1.0	0.8	0.8	0.6	0.6	0.7	0.6	0.5
Total Imports	1.2	1.5	1.6	1.7	1.4	1.6	1.5	2.0	2.0	2.3	2.4
Domestic	7.1	8.6	9.2	9.6	7.3	6.9	8.5	9.0	9.1	8.2	6.5
Total Industry	8.3	10.1	10.8	11.3	8.7	8.5	10.0	11.0	11.1	10.5	8.9

Source: MVMA Retail Sales Reporting

Exhibit 4

JAPAN HAS BUILT CAPACITY FOR EXPORT SINCE 1973



Japanese Production (Millions of Units)	1969	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79	'80	'81 Proj.	1982 Projected Capacity
Export	0.9	1.1	1.8	2.0	2.1	2.6	2.7	3.7	4.4	4.6	4.9	6.5	6.8	
Domestic	3.8	4.2	4.0	4.3	5.0	4.0	4.2	4.1	4.1	4.7	5.1	5.0	5.0	
Total	4.7	5.3	5.8	6.3	7.1	6.6	6.9	7.8	8.5	9.3	10.0	11.5	11.8*	12.8
Memo: Japanese Exports to the U.S.	0.3	0.4	0.8	0.9	0.8	1.0	0.9	1.4	1.8	1.9	2.0	2.4(e)		
Sales of Imports to Japan (000)	18	17	19	25	32	40	43	41	42	50	60	45(e)		

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*Japan Economic Journal and Journal of Commerce.

Source: JAMA; Journal of Commerce for 1981; and DOT study/press reports.

Exhibit 5

JAPAN PROTECTED ITS AUTO INDUSTRY FOR A GENERATION

Selected Quotes From the Report of the Controller General*

- In the early 1950's Japan decided to develop its own passenger car industry. This goal was achieved by excluding imports; by preventing foreign investment, with the exception of licensing of foreign technology which falls under Japan's Foreign Investment Law; and by granting preferred status to the domestic automobile industry.
- Japan excluded imports by prohibitive tariffs and by highly discriminatory commodity taxes. Even as late as 1972, the commodity tax on the typical size foreign car was double the rate on the typical size Japanese car.

Tariff Rates

	Passenger Car Rates Based on Wheelbase Length of	
	Less than 270 mm	More than 270 mm
1955	40.0%	35.0%
1962	40.0	35.0
Apr 1969	36.0	17.5
Apr 1971	10.0	10.0
Apr 1972	8.8	8.8
Nov 1972	6.4	6.4

Commodity Tax Rates (Prior to 1971)

	Rates Based on Wheelbases/Engine Sizes of		
	304.8 mm/ greater than 3000cc	270-304.8mm/ 2000-3000cc	less than 270mm less than 2000cc
1954	50%	40%	20%
1962	40	30	20
1966-70	40	30	15

- A variety of government measures gave the industry (1) greater access to capital, (2) a preferred claim on scarce foreign exchange, and (3) a share in the tax stimulus program designed for high growth.
- The funds the industry received from the Japan Development Bank were estimated by the Boston Consulting Group to be about 9 percent of total cost of passenger car facilities, 1951-55. Even more significant than the amount, however, was the "signal" such loans gave to the commercial banks, the primary source of outside funding, that automobile companies were to be given priority on loan applications. Thirdly, the industry participated in the tax schemes designed for high growth both through rapid depreciation and overseas market development.

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*United States-Japan Trade: Issues and Problems (ID-79-53), pages 41-43, September 1979

Exhibit 6

IMPORTED VEHICLES ARE RESTRICTED IN MOST OTHER MAJOR AUTO-PRODUCING NATIONS

	1980 Car Industry Sales (000)	1980 Japanese Car Import Share	1981 Restrictions (In Whole Percentages) Effective Duty Rate		Local Content Requirement	Quota on Japanese Imports
Brazil	794	*	185-205%	OR	95%	
Venezuela	98	*	60-100%	OR	51%	
Mexico	287	*			50%	Permit only
Argentina	240	4.9%	75%	OR	90%	
Spain	545	*	61% a/	OR	90%	
Italy	1,522	*	14% b/			2,200 light vehicles per year
France	1,873	2.8%	14% b/			3% share
West Germany	2,364	10.5%	14% b/			
United Kingdom	1,514	11.9%	14% b/			10-11% share
United States	8,947	21.1%	3%			

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*Less than 0.1%.

a/ Nominal rate of duty in Spain is 37%, but the effective rate is about 61% because of additional taxes.

b/ Nominal rate of duty in the European Community is 11%, but the effective rate is about 14% because of cif base (fob cost plus insurance and freight) and value-added taxes.

The U.S. is virtually alone among auto producing countries in not restricting Japanese imports with high duties, quotas, and local content requirements — thus, the U.S. has been a prime target for Japanese cars.

Exhibit 7

U.S. AUTO PRODUCTION CUTS, LAYOFFS, AND SUPPLIER AND DEALER CLOSINGS HAVE BEEN SUBSTANTIAL

Production Cuts Since 1978 Have Cost 900,000 Jobs

	1978	1979	1980	1980 (Below) 1978
Cars	9.2	8.4	6.4	(2.8)
Trucks	3.7	3.1	1.6	(2.1)
Total	12.9	11.5	8.0	(4.9)
Estimated Economy-Wide Job Impact (000)				(900)

Auto Company Layoffs Have Been Severe

	1978 Avg. Hourly Employment (000)	Indefinite Layoffs (000) 1980 4/7	8/4	12/1	1981 1/5	2/2	3/2	% of 1978
GM	466	80	137	93	89	89	87	19%
Ford	173	41	69	50	51	55	54	31
Chrysler	97	40	41	36	46	49	47	48
AMC	19	2	3	5	5	5	5	26
Total	755	163	250	184	191	198	193	26%
Memo: Temporary Layoffs (000)		63	29	25	77	37	16	

Closed Businesses

137 Supplier Plant Closings				
	Michigan	60	Illinois	9
	Ohio	21	New England	8
	Indiana	10	16 Other States	29

Trend of Domestic and Import Dealers

	1/1/77	1/1/79	1/1/80	1/1/81 Amount	1/1/81 O/(U) 1/1/79
Domestic Dealers					
Total Domestic Dealers	24,343	24,135	23,469	21,864	(2,271)
Less: Import/Domestic Duals	1,828	2,028	2,549	3,200(e)	1,172
Exclusive Domestic Dealers	22,515	22,107	20,920	18,664	(3,443)
Import Dealers					
Exclusives	4,476	4,467	4,537	4,600(e)	139
Import/Domestic Duals	1,828	2,028	2,549	3,200(e)	1,172
Total Import Dealers	6,304	6,489	7,086	7,800	1,311
Memo: Import Dealers As Pct of Total Dealers	22%	23%	24%	29%	6 Pts

Exhibit 8

JANUARY-FEBRUARY CAR SALES IN 1981 ARE BELOW 1980

Seasonally-Adjusted Annual Rates (Mils)	1980			1981		
	Imports	Domestic	Total Industry	Imports	Domestic	Total Industry
January	2.9	8.6	11.5	2.3	6.8	9.1
February	2.7	7.7	10.4	2.8	7.4	10.2
Year-to-Date	2.8	8.1	10.9	2.6	7.1	9.7
1981 +/- 1980 Year-to-Date				-0.2	-1.0	-1.2
- As A Percent				- 7%	-12%	-11%

Import Shares	1980			1981		
	Japanese	Other	Total	Japanese	Other	Total
Car - January 1981	21.2%	4.7%	25.9%	21.8%	5.2%	27.0%
- February 1981	21.8	5.1	26.9	23.9	5.0	28.9
- Year-to-Date	21.7%	5.0%	26.7%	23.0%	5.0%	28.0%

Source: MVMA Retail Sales Reporting

Exhibit 9

**FIRST QUARTER U.S. AUTO PRODUCTION IS DOWN 13%
FROM LAST YEAR**

U.S. First Quarter Car and Truck Production

	First Quarter Production 1981 (000)	1980 (000)	1981 Above/(Below) 1980 Units (000)	Percent
Cars				
Ford	324	348	(24)	(7)%
GM	981	1,170	(189)	(16)
Chrysler	168	169	(1)	(1)
AMC	21	51	(30)	(59)
VW	47	48	(1)	(2)
Total	1,541	1,786	(245)	(14)%
Cars and Trucks				
Ford	475	531	(56)	(11)
GM	1,211	1,397	(186)	(13)
Chrysler	185	206	(21)	(10)
AMC	40	78	(38)	(49)
VW	59	55	4	7
Other*	32	40	(8)	(2)
Total	2,002	2,307	(305)	(13)%

*Primarily heavy trucks; International Harvester volume strike-adjusted for First Quarter 1980.

U.S. First Quarter 1981 Production Compared with Year-End 1980 Projections*

	1981 First Quarter Proj. Actual	Dec. '80 Proj.	Actual (Worse) than Projection Units (000)	Percent
Cars	1,541	1,853	(312)	(17)%
Cars & Trucks	2,002	2,404	(402)	(17)%

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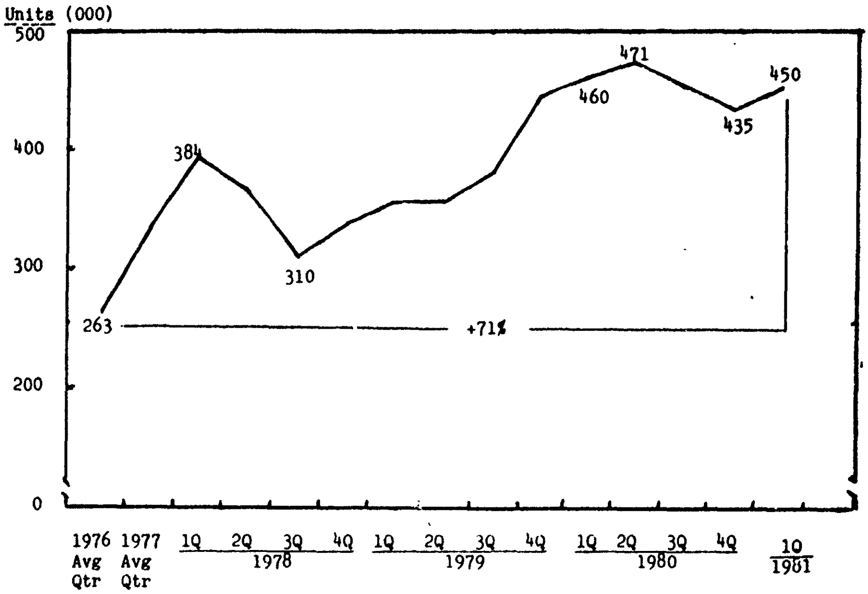
**December 23, 1980 projection for cars; December 8, 1980 for trucks.

Exhibit 10

JAPAN'S AUTO EXPORTS TO THE UNITED STATES ARE UP IN 1981



Source: JAMA and public statements by the Minister of International Trade and Industry.

World Briefs

Japan's Vehicle Exports Rose 33% in January From a Year Earlier to a Record 531,539 Units

TOKYO—Japan's motor-vehicle exports in January rose 33% from a year earlier and increased 0.9% from December 1980 to a record 531,539 units, the Japan Automobile Manufacturers Association said.

Officials said the main reason for the increase was brisk exports to the U.S. and Europe. They added that shipments to developing countries remained steady.

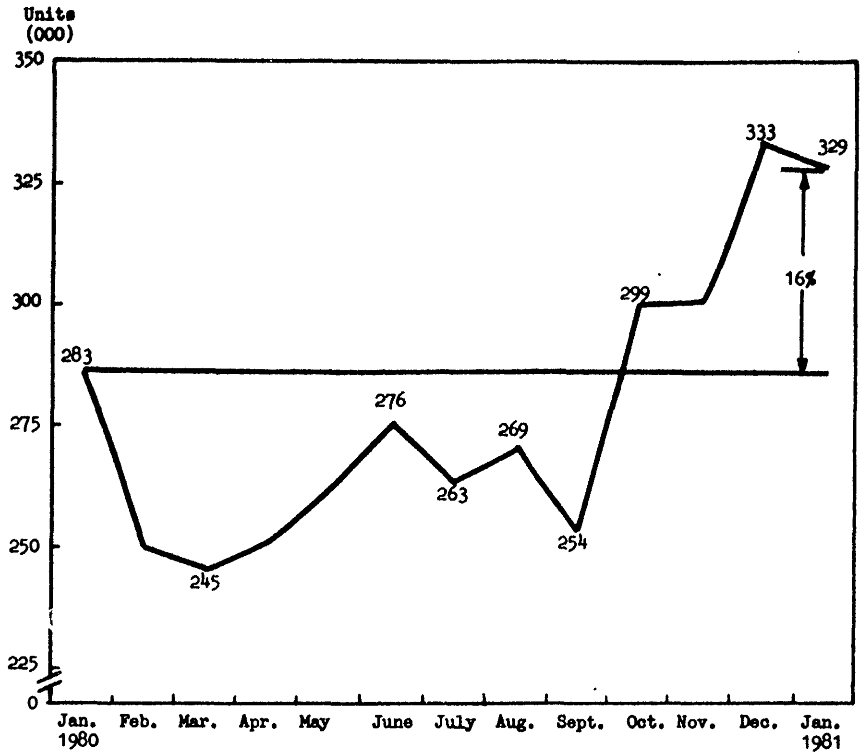
Exports to the U.S. market rose 16% from a year earlier to 209,205 units. Exports to Europe jumped 42% to 124,211 units with exports to the Common Market alone amounting to 96,516 units, a 33% rise from a year earlier.

Separately the Japanese economic newspaper Nihon Keizai reported that seven Japanese auto makers were considering holding down exports to the U.S. to the year-earlier's level of 1.8 million units in an effort to ease the growing trade friction between Japan and the U.S.

--The Wall Street Journal, March 2, 1981

Exhibit 11

STOCKS OF JAPANESE CARS IN THE UNITED STATES ROSE 16% IN 1980



Source: Ward's Automotive Reports

Exhibit 12

IMPORT LIMITATION IS THE MOST IMPORTANT ACTION TO ASSIST AUTO CAPITAL FORMATION

Effect on Ford

	Mid-point Estimate Of Cash Flow Improvements	
	1981 (Bils)	1981-1985 Period (Bils)
. Ford's Proposed Regulatory Changes	$0.1	$0.4*
. Tax Changes:		
- The Administration's 10-5-3 Plan	$ 0	$ 0
. Limits on Japanese Imports, Nominal Terms of:		
- 930,000 Cars and 5 Years	$0.4	$2.0
- 1,200,000 Cars and 5 Years	0.3	1.5
- 1,400,000 Cars and 3 Years	0.2	0.7
- 1,600,000 Cars and 3 Years	0.1	0.6

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*On an industry basis, savings to customers would reach about $5 billion annually by 1985.

Exhibit 13

A 10% SHARE LIMIT OR 1 MILLION JAPANESE CARS IS MORE THAN JAPAN'S SHARE IN THE EC AND TOTAL INDUSTRY SALES IN SEVERAL COUNTRIES

Japanese Share of Car Sales in Western Europe

	1976	1977	1978	1979	Est. 1980	Memo: 1980 Industry Sales (Mils)
Restricted Markets						
United Kingdom	9.4%	10.6%	11.0%	10.8%	11.9%	1.5
France	2.7	2.6	1.8	2.2	2.8	1.9
Italy	neg	neg	neg	neg	neg	1.4
Spain	neg	neg	neg	neg	neg	0.5
West Germany	1.9	2.5	3.7	5.7	10.5	2.4
All Other Markets						
Norway	28.3%	25.4%	20.4%	24.2%	39.8%	0.1
Finland	21.9	21.8	20.4	23.8	36.2	0.1
Ireland*	11.5	15.5	21.8	25.4	31.1	0.1
Denmark	16.5	17.1	13.7	18.1	30.7	0.1
Netherlands	16.8	19.8	19.0	19.6	26.2	0.5
Belgium/Luxemburg	18.0	19.1	17.5	17.6	24.0	0.4
Switzerland	8.9	12.1	12.6	16.1	22.5	0.3
Austria	6.0	5.7	7.0	12.4	19.6	0.2
Sweden	8.2	10.4	9.7	10.1	13.6	0.2
Portugal*	14.8	13.9	16.0	10.6	7.2	**
Subtotal Other Markets	14.6%	16.1%	16.2%	17.4%	24.4%	2.0
All Western Europe	5.7%	6.3%	6.4%	7.3%	10.3%	9.7
Memo: Japanese Share of:						
EC Car Sales	4.5%	5.9%	6.2%	7.0%	9.6%	8.3
U.S. Car Sales	9.3	12.5	12.0	16.5	21.1	8.9

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*Local assembly required. **49,000

Annual Car Industry Sales in Selected Markets

	1978 (000)	1979 (000)	1980 (000)
Canada	1,014	993	914
Brazil	800	830	794
Mexico	227	268	287
Spain	622	588	573
Benelux	1,011	1,011	882
Italy	1,179	1,328	1,413

Source: Industry Sources

Exhibit 14

ACTUAL SALES OF JAPANESE CARS WOULD BE SUBSTANTIALLY HIGHER THAN NOMINAL VOLUME LIMITS

	Japanese Cars Available for U.S. Sale				
	1981	1982	1983	1984	1985
Unit Sales	(000)	(000)	(000)	(000)	(000)
930,000 Nominal Limit					
Base Availability	930	930	930	977	1,025
Supplemental Sources:					
Ohio Honda Plant (2 Shifts)	-	-	120	167	294
2 More Japanese Plants (1 Shift)	-	-	-	120	270
Stock Drawdown	150	150	50	-	-
Third Country Production	-	-	50	100	150
Total Supplemental Sources	150	150	220	387	714
Total Availability 10%	1,080	1,080	1,150	1,364	1,739
1,600,000 Nominal Limit					
Base Availability	1,600	1,600	1,600	1,680	1,764
Supplemental Sources	150	150	220	387	714
Total Availability	1,750	1,750	1,820	2,067	2,478
Market Share					
Total Availability:					
930,000 Nominal Limit	11.6%	9.9%	9.3%	11.8%	16.6%
1,600,000 Nominal Limit	18.7	16.1	14.5	17.8	23.6
Memo: Total Car Industry (Mils)	9.35	10.9	12.4	11.6	10.5

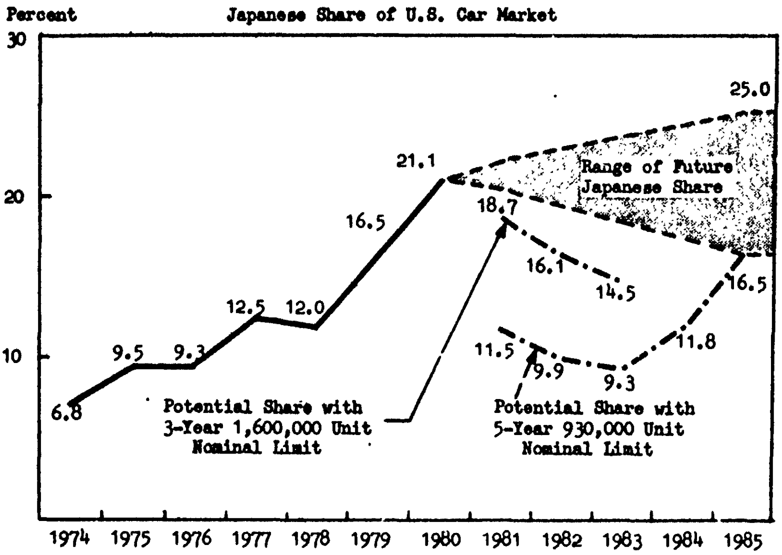
Historical U.S. Sales & Shares for Japanese Cars

	1973	1974	1975	1976	1977	1978	1979	1980
Sales (000)	747	592	807	928	1,377	1,328	1,740	1,893
Share (Pct)	6.6%	6.8%	9.5%	9.3%	12.5%	12.0%	16.5%	21.1%
Memo: Total Industry (Mils)	11.3	8.7	8.5	10.0	11.0	11.1	10.5	8.9

Source: MVMA Retail Sales Reporting

Exhibit 15

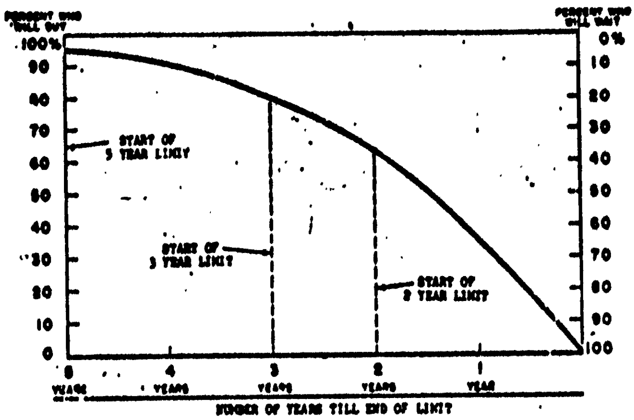
A 3-YEAR 1.6 MILLION LIMIT WOULD NOT REDUCE JAPANESE SHARE SUBSTANTIALLY



- A nominal limit of 1.6 million Japanese imports is near the range of free demand estimates.
- A three-year limit would miss the repurchase period of buyers from the 1979/80 import surge.

Exhibit 16

THE SHORTER THE DURATION OF LIMITS,
THE LESS THE GAIN IN U.S. CAR SALES



- The proportion of intended import buyers who will "switch" and buy a U.S. car depends on the length of the limitation-related wait.
- Very few people will wait five years.
- A short limitation period would result in substantial "waiters" and fewer "switchers".

Exhibit 17

IMPORT LIMITS WOULD CAUSE MANY IMPORT BUYERS TO SWITCH TO U.S. CARS

	Small Car Prospects Whose First Choice Was A:		
Statements Describing Attitudes	New Japanese Car	New European Car	New U.S. Car
. I'd Buy a U.S.-built Car and it Wouldn't Bother me at All	34%	32%	81%
. I'd Buy a U.S.-built Car but it Would Bother me a Little	32	34	13
Subtotal Definitely Buy U.S.	66%	66%	94%
. I'd Buy a U.S.-built Car but it Would Bother me a Lot	22	17	4
. I Wouldn't Buy a U.S.-built Car Under any Circumstances	11	15	1
Total (Incl. Don't Know)	100%	100%	100%

- Late last summer, a telephone survey was conducted through 11,000 interviews which identified statistically significant samples of prospective car buyers who intended to purchase Japanese, European, or U.S. "small cars" within the next three years.
- Of the prospects for Japanese cars, 66% said that they would buy American cars if imports were limited; only about half of them were bothered even a little about limits.

Question Posed

"Well, suppose that by the time you go out to buy your next new (NAME CAR) the following will have happened: the U.S. and other governments have agreed on a way to reduce the number of imported cars coming into this country. You then will face the following situation: All imported cars are available in fewer numbers, resulting in extended waiting periods of 8 to 12 months or $800 to $1,000 higher prices. New U.S.-built small cars are readily available, they are priced below the imports, and offer about the same gas mileage as the imports. Which one of the (above) four statements best describes your overall attitude if all these things happened?"

Exhibit 18

SUBSTANTIAL CUTS IN JAPANESE CAR IMPORTS WOULD MEAN MAJOR GAINS IN U.S. CAR SALES, JOBS, AND CASH FLOW

	1981 Effect With Nominal Volume Of:	
	930,000	1,600,000
Unit Volume (000)		
Total U.S. Car Industry Demand	9,350	9,350
Japanese Car Sales:		
Assume "No Limit" Share of 21.1% (1980)	1,975	1,975
Under Import Limits		
- Nominal Volume	930*	1,600
- Drawdown of Inventory**	150	150
Total Japanese Sales	1,080	1,750
Reduction in Japanese Car Sales	895	225
Memo: Japanese Share Under Limits	11.6%	18.7%
Increase in U.S. Car Sales		
Gross Potential (Decline in Japanese Sales)	895	225
Less: European Substitution (5%)	45	10
Japanese Buyers Who Wait (2-5%)	45	5
Actual Increase in Sales of U.S. Cars	805	210
U.S. Jobs Created (000)		
Auto Manufacturers (12 cars/job)	67	18
Auto Parts and Materials Suppliers	67	18
Rest-of-Economy	44	11
Total Jobs Created (4.5 cars/job)	178	47
Gain in Auto Company Cash Flow		
Pre-Tax Variable Profit Increase:		
- Per Unit	$1,850	$1,850
- Billions (x 805,000/210,000 cars)	1.49	0.39
Estimated Effective Tax Rate (Pct)	30%	30%
After-Tax Cash Flow (Billions)	$1.04	$0.28
Memo: Ford After-Tax Cash Flow (Bils)	$0.40	$0.11

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*10% share as in Western Europe (also equals 1976 Japanese sales in the U.S.).
**Extra imports before limits begin and reduced inventory later as sales decline.

Exhibit 19

A 5-YEAR LIMIT CREATES MORE JOBS AND CASH FLOW BOTH SHORT AND LONGER TERM

	Mid-point Estimates Of Domestic Gains			
	3-Year Limit 1981-1983	5-Year Limit 1981-83	5-Year Limit Total	Memo: 1981
930,000 Nominal Volume				
Total U.S. Car Sales (Mils)	2.1	3.1	3.9	0.8
Average Annual U.S. Jobs (000)	155	230	175	178
Total Cash Flow (Bils) - Industry	$2.9	$4.4	$5.6	$1.0
- Ford	1.1	1.7	2.0	0.4
1,200,000 Nominal Volume				
Total U.S. Car Sales (Mils)	1.7	2.4	3.0	0.6
Average Annual U.S. Jobs (000)	125	180	135	120
Total Cash Flow (Bils) - Industry	$2.3	$3.4	$4.4	$0.7
- Ford	0.9	1.3	1.5	0.3
1,400,000 Nominal Volume				
Total U.S. Car Sales (Mils)	1.4	2.0	2.4	0.4
Average Annual U.S. Jobs (000)	100	145	110	85
Total Cash Flow (Bils) - Industry	$1.9	$2.8	$3.5	$0.5
- Ford	0.7	1.1	1.2	0.2
1,600,000 Nominal Volume				
Total U.S. Car Sales (Mils)	1.1	1.5	1.8	0.2
Average Annual U.S. Jobs (000)	80	110	80	47
Total Cash Flow (Bils) - Industry	$1.5	$2.1	$2.6	$0.3
- Ford	0.6	0.8	0.9	0.1

Exhibit 20

TRADE RESTRICTIONS DON'T NECESSARILY CAUSE LARGE JAPANESE PRICE INCREASES

Japanese Price Cars Below Competition in Britain (11% Share Limit)

	January 1981	
	Base Retail	Japanese +/- Ford
Ford Fiesta 1.1L	$8,655	
Toyota Starlet 1.2L	8,504	$ -151
Datsun Cherry 1.1L GL	7,279	-1,276
Ford Escort 1.3L	$9,799	
Toyota Corolla 1.3L	8,135	$-1,664
Ford Capri 1.6L	$11,349	
Toyota Celica 1600 ST	11,012	$ -337
Honda Accord	9,794	-1,555

Individual Japanese Firms Priced Differently in 1980

Price Increase by	Britain*	France*	Netherlands	Germany
Datsun	2.0%	8.2%	7.7%	2.0%
Toyota	6.0	16.0	7.1	5.7
Mazda	NA	2.4	7.0	7.5
Honda	NA	5.7	10.9	11.5
Memo: Yen Revaluation	2.7%	14.7%	14.8%	15.7%

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*Market share limited to 11% in Britain; 3% in France.

Recovery of U.S. Truck Tariff

Standard, Regular-Bed Models	Toyota Pickup	Datsun Pickup
April 1980 Wholesale Price	$4,208	$4,212
January 1981 Wholesale Price	5,199	5,215
Percent Price Increase	24%	24%
Average Car Percent Price Increase by January 1981 (Implied Pricing for Economics)	15%	13%
Implied Percent Price Increase for Tariff Recovery	9 Pt	11 Pt
Equivalent Tariff Increase on Wholesale Price*	18%	18%
Implied Tariff Pricing as Percent of Tariff Costs	[illegible]0%	60%

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* Tariff increase of 21% ad valorem is applied at FAS value -- about [illegible]5% of wholesale price

Exhibit 21

JAPANESE PRICES MIGHT INCREASE BY 8.5% TO 15% UNDER IMPORT LIMITS

Theoretical Increase in Japanese Car Prices

	9,350,000 Car Industry			Memo: 9.8 Million Industry & Higher Share
	1980 Sales	1980 Share	Higher Share	
Elasticity of "-5"				
"No Limit" Japanese Share (Pct)	20.2%	21.1%	22.0%	22.0%
Limited Japanese Share (Pct)	11.6	11.6	11.6	11.0
Percentage Decline in Share (Pct)	43%	45%	47%	50%
Percent Price Increase	12.2%	12.9%	13.7%	14.9%*

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*Japanese practice in Europe and on trucks in the U.S. suggest car prices could actually rise by substantially less than 15% -- say, perhaps by 8.5%.

Different Sales Mixes Suggest Japanese Firms Could Follow Different Pricing Strategies Under Import Limits

	1980 U.S. Sales Volume (000)				
	Subcompact	Small Specialty	Compact	Luxury	Total
Toyota	367	164	36	12	579
Datsun	279	93	63	82	517
Honda	325	51	-	-	375
Mazda	62	44	55	-	161
Subaru	131	-	-	-	131
Mitsubishi	106	23	-	-	129
Total	1,270	375	154	94	1,893

Source: MVMA U.S. Sales Reports

Exhibit 22

IMPORT LIMITS WOULD NOT BE INFLATIONARY

	1981 Effect With Nominal Volume Of 930,000	1,600,000
Savings for Consumers-Taxpayers		
Price Increase on Japanese Cars*		
Percent Range	8.5% to 15%	2% to 5%
Per Average Car ($6,500 retail)	$550 to $975	$130 to $325
Billions (x 1,080,000/1,750,000 cars)	$(0.6)to(1.05)	$(0.1)to(0.6)
Payments and Tax Revenues (Billions)		
TRA, etc. to Auto Company Workers ($10,400 each**)	$0.7	$0.2
Unemployment, Food Stamps, etc. to Supplier and Other Workers ($8,100)	0.9	0.2
Added Tax Revenues and Transfers (30% Per each $6,000 U.S. car x 805,000)	1.4	0.4
Total Improvement in Payments & Taxes	$3.0	$0.8
Net Anti-Inflationary Effect (Bils)	$1.95 to $2.4	$0.2 to $0.7
U.S. Trade Balance (Billions)		
1980 U.S. Deficit with Japan	$(10)	$(10)
Effect of Limit on Japanese Cars:		
- 895,000/225,000 Fewer Car Imports ($4,500/car)	$4.0	$1.0
- Price Increase (70% of retail)	(0.4)to (0.7)	(0.1)to (0.4)
Net Savings in Imports	$ 3.4 to $3.7	$ 0.6 to $0.9
Potential 1981 U.S. Deficit With Japan	$(6.3)to$(6.6)	$(9.1)to$(9.4)
Anti-Inflationary Increase in Value of the Dollar	1% to 3%	Neg. %

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*Import limits should not cause increases in prices of U.S. cars because of: (a) 1½ to 2 million excess capacity for U.S. small cars; and (b) U.S. productivity and cash flow improvement from higher U.S. production volume.

**Reflects partial year of TRA benefits; on-going transfers would be about $8,000.

Exhibit 23

THERE IS EXCESS CAPACITY IN 1981 FOR DOMESTIC SMALL CARS

	Capacity for U.S. Sales Maximum (Including Overtime) (000)	Straight-Time Only (000)	1981 Average EPA Metro-Highway Fuel Economy
Ford			
- Escort/Lynx	560	435	33 mpg
- EXP/LN-7	190	160	31
- Mustang/Capri	465	360	26
- Fairmont/Zephyr	440	350	26
GM			
- Chevette	500	415	31
- Monza/Sunbird	85	73	27
- J-Cars	330	270	30
- X-Cars	895	735	26
- Camaro/Firebird	440	365	22
Chrysler			
- Omni/Horizon	330	270	31
- K-Cars	650	540	29
AMC			
- Spirit	110	90	24
- Concord	190	160	24
VW			
- Rabbit	230	190	31
Total/Average	5,415	4,413	28 mpg
Memo: Estimated Average Japanese Import Fuel Economy			30 mpg
1981 CAFE Standard			22 mpg

1981 U.S. Sales Forecast

Industry Volume (000)	9,350
1980 Import Share	
- Total	26.5%
Small (Incl. Lower Middle)	24.0%
Total "Small" Car Mix	62.2%
"Small" Car Volume	
- Total (000)	5,816
- Imports (000)	-2,244
- Domestic (000)	3,572

Exhibit 24

THERE WILL BE EXCESS CAPACITY FOR DOMESTIC SMALL CARS IN 1981-85 (930,000 Nominal Japanese Import Limit)

	1981 (Mils)	1982 (Mils)	1983 (Mils)	1984 (Mils)	1985 (Mils)
Industry Sales Volume	9.35	10.9	12.4	11.6	10.5
"Small" Car Mix	62%	62%	62%	62%	62%
"Small" Car Sales Volume	5.8	6.8	7.7	7.2	6.5
"Small" Car Availability					
Japanese					
- 930,000 Nominal Import Limit	0.9	0.9	0.9	1.0	1.0
- Stock Drawdown	0.2	0.2	-	-	-
- Third Country Imports	-	-	0.1	0.1	0.2
- Ohio Honda Plant	-	-	0.1	0.2	0.3
- Two More Japanese Plants	-	-	-	0.1	0.3
Subtotal - Japanese Availability	1.1	1.1	1.1	1.4	1.8
Other Imports	0.3	0.3	0.4	0.3	0.3
Total Imports	1.4	1.4	1.5	1.7	2.1
"Small" Car Volume to be Supplied by Domestic Producers	4.4	5.4	6.2	5.5	4.4
Domestic "Small" Car Capacity (incl. overtime) for U.S. Sales	5.4	6.2	6.8	7.0	7.3
Excess Domestic Capacity	1.0	0.8	0.6	1.5	2.9

Exhibit 25

HISTORY OF U.S. CAR PRICES WHEN JAPANESE PRICES ROSE IN RESPONSE TO YEN REVALUATION

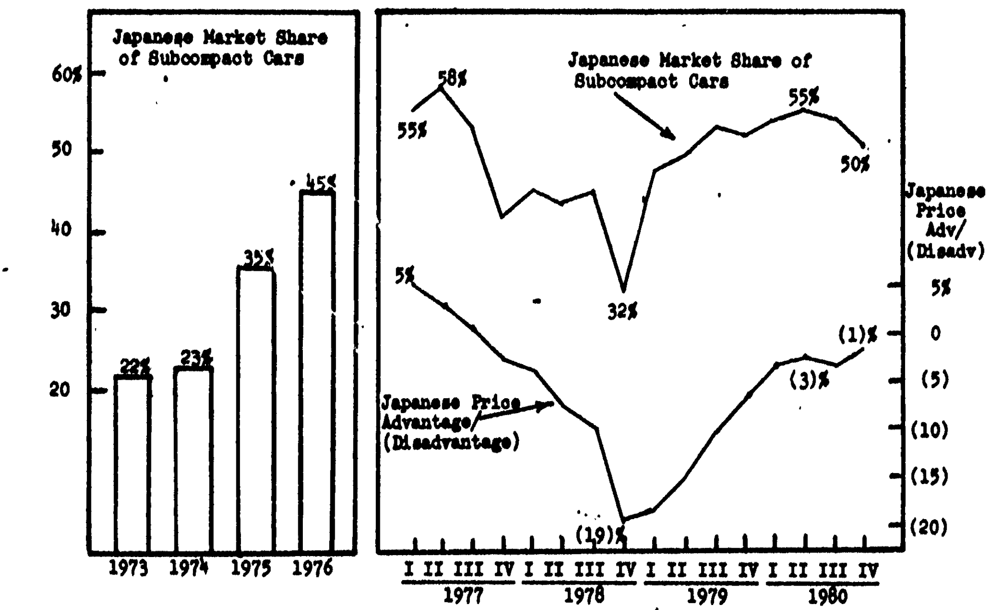
	Wholesale to Dealer Prices					
	Ford Pinto	GM Chevette	Toyota Corolla	Nissan B-210	Honda Civic	Yen/ Dollar
1977 Introduction Price	$3,352	$3,327	$2,972	$2,965	$2,922	¥294
Price Increases/(Decreases) Mid-Year	$ (10)	$ 9	$ 186	$ 169	$ 105	¥267
1978 Introduction	(136)	(91)	106	116	5	250
Mid-Year**	274	350	456	419	609	205
1979 Introduction	(103)	29	243	471	284	177
Mid-Year	282	149	0	0	0	217
Final 1979 Price	$3,659	$3,773	$3,963	$4,140	$3,925	¥223
Memo: Final 1979 Pct. +/- 1977 Intro.	+9.2%	+13.4%	+33.3%	+39.6%	+34.3%	

*Uniformly-equipped 2-door deluxe models; includes destination charges, power front disc brakes, WSW steel belted radial tires, tinted glass, rear window defroster, AM radio, reclining seats, body side moldings, and deluxe seat belts

**The widely quoted Harbridge House study, The Imported Automobile Industry, based its conclusion that domestic price increases would inevitably follow import price increases upon seven months out of this three year period of yen fluctuation.

Exhibit 26

WHEN JAPANESE CARS LOST THEIR PRICE ADVANTAGE, THEY LOST MARKET SHARE



Memo:
Yen/$ 272 292 297 297

283 277 266 245 235 215 189 186 205 220 220 239 246 226 219 209

Exhibit 27

U.S. CAR PRICE INCREASES HAVE BEEN LESS THAN THE CPI

(1967 = 100)	New Car Price Index*	Consumer Price Index	Year-to-Year Increase New Cars (Pct.)	Cons. Prices (Pct.)	New Cars +/- Consumer Prices (Pts.)	Memo: Import Car Share (Pct.)
1960	104.5	88.7	(1.3)	1.6	-2.9 pts	7.6%
1961	104.5	89.6	0	1.0	-1.0	6.4
1962	104.1	90.6	(0.4)	1.1	-1.5	4.8
1963	103.5	91.7	(0.6)	1.2	-1.8	5.0
1964	103.2	92.9	(0.3)	1.3	-1.6	6.0
1965	100.9	94.5	(2.2)	1.7	-3.9	5.9
1966	99.1	92.2	(1.8)	2.9	-4.7	7.1
1967	100.0	100.0	0.9	2.9	-2.0	9.1
1968	102.8	104.2	2.8	4.2	-1.4	10.1
1969	104.4	109.8	1.6	5.4	-3.8	11.2
1970	107.6	116.3	3.1	5.9	-2.8	14.7
1971	112.0	121.3	4.1	4.3	-0.2	14.9
1972	111.0	125.3	(0.9)	3.3	-4.2	14.4
1973	111.1	133.1	0	6.6	-6.6	15.2
1974	117.5	147.7	5.8	11.0	-5.2	15.8
1975	127.6	161.2	8.6	9.1	-0.5	18.3
1976	135.7	170.5	6.3	5.8	+0.5	14.8
1977	142.9	181.5	5.3	6.5	-1.2	18.5
1978	153.8	195.4	7.9	7.7	+0.2	17.6
1979**	166.0	214.9	7.9	10.0	-2.1	21.7
1980(e)**	178.5	239.0	7.5	11.2	-3.7	26.5

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*Excludes pricing for quality improvements such as emission controls.
**Excludes housing; including housing the CPI increased by 11.3% in 1979 and 13.9% in 1980.

Source: Price Indices prepared by the U.S. Department of Labor.

Exhibit 28

JAPAN WOULD HAVE NO GROUNDS TO RETALIATE

Japan Would Still Have a Large Trade Surplus with the United States

	1976 (Bils)	1978 (Bils)	1979 (Bils)	1980 Proj. (Bils)	Projected 1981 No Limit (Bils)	Projected 1981 930K Effect (Bils)	Projected 1981 With Limit (Bils)
Exports to U.S.:							
- Automotive	$ 5	$ 8	$ 9	$11	$12	$ 4	$ 8
- Other	9	17	17	19	21	0	21
Total	$16	$25	$26	$30	$33	$ 4	$29
Surplus/(Deficit)							
- Automotive	$ 5	$ 8	$ 9	$11	$12	$(4)	$ 8
- Other	0	4	0	(1)	(2)	0	(2)
Net Surplus with the United States	$ 5	$12	$ 9	$10	$10	$(4)	$ 6

Source: U.S. Department of Commerce (through 1980)

Japanese Firms Could Accommodate Limits by Cutting Overtime

	1980 Straight-Time Capacity (000)	1980 Actual Prod. Units (000)	1980 Actual Prod. Pct. +/- Capacity (Pct)
Cars and Trucks			
Toyota	2,902	3,257	+12%
Nissan	2,665	2,619	- 2
Toyo Kogyo	910	1,116	+22
Honda	800	957	+20
Mitsubishi	1,000	1,098	+10
Fuji	300	426	+42
Isuzu	340	463	+36
Daihatsu	350	431	+23
Hino	66	69	+ 5
Nissan Diesel	35	46	+31
Total	9,368	10,482	+12%
Memo: Manufacturers With Overtime	6,703	7,863	+17%
Minimum Overtime Units	1,160		

Source: JAMA and The U.S. Auto Industry, 1980 (U.S. Dep't of Transportation)

Exhibit 29

THE U.S. AUTOMOTIVE INDUSTRY IS AT THE CENTER OF THE U.S. ECONOMY

Automotive Employment (1978 Data)

Persons Employed in:

• Manufacturing of Motor Vehicles	900,000	
• Manufacturing of Automotive Materials	900,000	
Total Employes in Automotive Manufacturing	1,800,000	1 in 12
• Automotive Sales and Service	1,800,000	
Total Automotive Employment	3,600,000	
Memo: Total Employed in Manufacturing	20,475,000	

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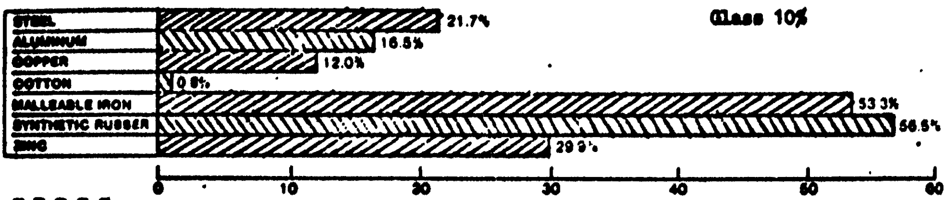
Source: Bureau of Labor Statistics (Sector Employment) and MVMA Motor Vehicle Facts and Figures '79

AUTOMOTIVE PERCENTAGE OF U.S. MATERIAL CONSUMPTION, 1978



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Source: Compiled by Motor Vehicle Manufacturers Association of the U.S., Inc. from various trade sources

Automotive Percentage of Retail Sales and GNP

	1978	1979	1980
Sales by Motor Vehicle Dealers (Bils)	$154	$161	$148 (e)
- As A Pct. of Total Retail Sales	19.2%	18.2%	15.8%(e)
- As A Pct. of GNP	7.1	6.7	5.6 (e)

Source: Survey of Current Business, Economic Report of the President.

Exhibit 30

FORD'S PROGRAM FOR FUEL EFFICIENT PRODUCTS

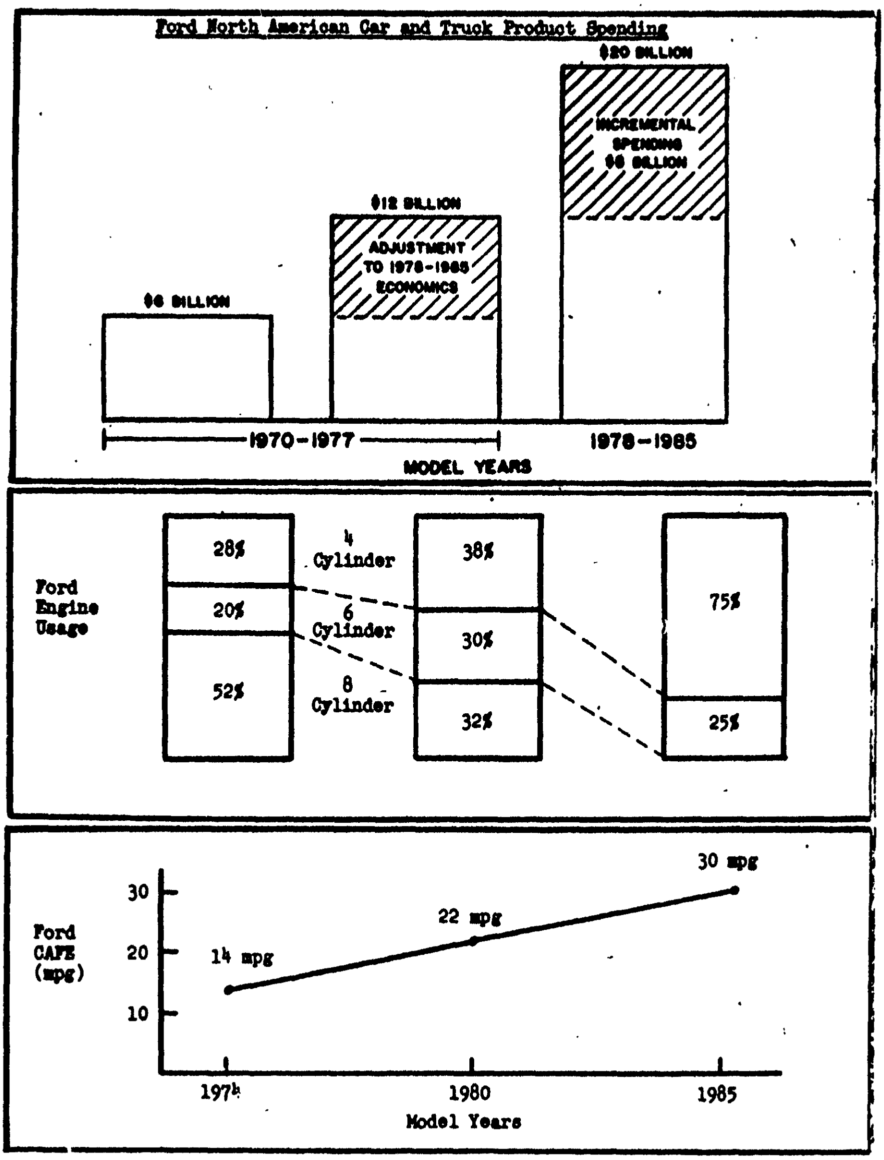

Exhibit 31

THE PUBLIC SUPPORTS IMPORT RESTRICTIONS

J. D. Power & Associates (Nationwide, representative sample of 5,248 car owners, started during the 1979 energy crisis, subsequently verified with two more surveys with independent, matched samples)

Question: Do you feel that the U.S. Government should intervene to restrict the number of cars imported from Japan?

Answer:		
	Yes	50%
	No	27
	Not Sure	23

New York Times/CBS Poll (1,517 interviews nationwide, June 18-22, 1980)

Question: Which do you think is more important -- to protect workers' jobs at the cost of higher prices for some products, or to be able to buy foreign goods at lower prices at the cost of some unemployment in this country?

Answer:		
	Job protection	71%
	Lower prices	19
	Both	1
	Don't know	9

Detroit Free Press/Market Opinion Research Poll (1,203 interviews nationwide, September 2-9, 1980)

Question: Would you favor or oppose government action slowing down the import of foreign cars to help the American auto industry?

Answer:		
	Favor	70%
	Oppose	27
	Don't know	3

"Even 46 percent of the foreign car drivers said they favored import curbs."

Roper Survey

Public Opinion Magazine in September 1980 reported: "A Roper survey this summer found that about a two-thirds majority believe the government should act more forcefully to limit foreign car imports."

Limit number of Japanese cars	28%	66%
Place higher tariffs	20	
Negotiate limit with Japanese	18	
Do nothing	30	
Don't know	5	

Ford welcomes the leadership and concern that Chairman Danforth has demonstrated once again, as this subcommittee continues its examination of the problems confronting the U.S. auto industry.

Automotive issues are receiving increasing national attention, as well they should. The problems are real; the vitality of a fundamental national asset is at stake; and the time has become even more urgent for meaningful and effective solutions.

At the time of the January hearings of this subcommittee, the industry had just concluded the worst production year since 1961.

Since then, 1980 financial results have been announced—a staggering loss of $4.2 billion in worldwide earnings for the industry.

In the past 20 years, the prior worst year had been an industry profit of $2 billion.

In sharp contrast, Japan moved into first place in worldwide auto production and captured a record 21.1 percent of the U.S. car market.

Moreover, the brief period since the hearing has seen a further deterioration in the immediate outlook for the domestic industry.

The corner simply has not been turned as we had hoped. First quarter production schedules have been cut by 17 percent from those planned in December to a level 13 percent below last year.

Security analysts predict the industry will incur further losses of $500 million to $1 billion in the first quarter, worse than last year's first quarter loss of $458 million.

Domestic manufacturers have begun very large rebate programs to stimulate car sales—in spite of the enormous expense and the fact that most sales under these programs are simply pulled ahead from later in the year.

Even with February results inflated by rebates, sales for the past 66 days have run at an annual rate of only 7.1 million domestic units.

The Japanese share of our car market has increased further to 23 percent so far this year.

Japanese auto shipments to the United States were up 16 percent in January from year ago levels, and stocks were up 16 percent also.

So, as the first quarter draws to a close, it's now clear that 1981 will not be a good year for domestic auto producers. That's very bad news for the 200,000 auto workers still on indefinite layoff—most for 10 to 18 months—and for the owners and employees of thousands of domestic dealerships and supplier plants throughout the country.

Nearly 1 million people have lost their jobs as the impact of depressed auto production has spread through the economy. A serious situation has now become even more serious; solutions that once may have seemed reasonable are now wholly inadequate.

There is little point in going back into history to distribute blame for the present situation. Instead, a national consensus is needed about where we go from here with an industry that has been required to undergo the most massive and expensive retooling in history and one that has suffered heavily from conflicting national policies and priorities.

Opinions differ about what solutions are needed, but the fundamental question is whether or not the United States wishes to have a strong automobile industry.

If this answer is not answered affirmatively, with effective actions, the inevitable result will be to encourage the transfer of more auto manufacturing and U.S. jobs overseas.

We, as manufacturers, are already going all out to address the issues we can do something about; but Government must do its part through changes in tax, regulatory, and trade policies.

There is unity among U.S. manufacturers on actions required in each of these areas—as demonstrated by the February 3 letter to the President from the chief executives of nine U.S. car and truck producers.

We are encouraged by discussions underway in the administration and the Congress in these areas. It must be recognized, however, that regulatory relief will be prospective—that is, it will help us to avoid important cost and price increases in the future, but it will not reduce costs significantly today.

The business tax proposals, which we support, will actually be of no near-term benefit to Ford without refundability.

The most immediate requirement, however, is to increase U.S. car volume and employment. The single most effective means to achieve this increase is to limit imports of Japanese cars—promptly and decisively.

We were invited today to speak to the legislation introduced by Senators Danforth and Bentsen, S. 396. We applaud its intent. We believe, however, that levels such as 1.6 million Japanese cars are simply too high to do today's job.

Statements by Japanese leaders suggest Japan agrees that car exports to the United States should be reduced—the key issues are level and duration.

In this regard, it might be helpful to look at other countries. In the European Community, for example, Governments seem determined to limit Japanese cars to an overall share of 10 percent.

We see no reason why Japan's share of our car market should be more than Europe's 10 percent. Translating this share to the U.S. market would represent imports of about 1 million Japanese cars.

If such a limit were established for 5 years, it would create some 67,000 jobs for autoworkers in 1981.

In total, 178,000 jobs would be created throughout the economy.

Cash flow for the domestic auto producers would be increased by $1 billion this year. Over the 5-year period, the total cash flow benefit would be some $5.6 billion—roughly equal to losses the industry has incurred since mid-1979.

Both the level and the duration of import limits are critically important to helping the industry to get back on its feet. Compared with the 1.6 million limit for 3 years, a limit of 1 million for 5 years would add three to four times the jobs and cash flow during the critical 1981–85 period needed to complete the $80 billion conversion of domestic plants and products.

This temporary restraint will not be inflationary. Even assuming as much as 15 percent higher price for Japanese cars, the effect would be more than offset by savings in unemployment costs and by the added tax revenues which will follow automatically as gains in U.S. car sales put our plants and people back to work.

American taxpayers are already bearing the $3 billion cost of auto-related unemployment and tax revenues lost to Federal, State, and local governments.

This really amounts to a subsidy to support extraordinary levels of car imports from Japan—hardly in keeping with the spirit of scrutinizing every dollar of taxpayer expense with great care.

As for U.S. car prices, our fundamental motivation is to increase our volume of car sales. One of the basic cost problems is underutilized facilities at today's volume of sales; only more volume can alleviate these penalties and raise productivity immediately.

Furthermore, the full history of U.S. car price behavior when Japanese car prices rose in response to a stronger yen demonstrates a clear pattern of price restraint by individual U.S. car manufacturers aimed at recapturing volume from imports.

We at Ford would do so again, if under import limits, Japanese prices were increased by supply-demand distortions.

Finally, temporary restraint is fully consistent with the administration's economic program which we heartily support as the prescription for a healthier America.

The goals of auto import restraint are to get a key sector at the economy moving; to reduce the drain on the Treasury of unemployment and other transfer payments; and to return thousands of Americans to taxpaying status.

Mr. Chairman, we ask support of the subcommittee in achieving these critical goals and in helping the auto industry to maintain its traditional commitment to investment and jobs in the United States.

Senator DANFORTH. Thank you.

Senator CHAFEE. Mr. McCammon, on page 5 of your statement, you talk of underutilized facilities at today's volume of sales. What does that mean?

Mr. MCCAMMON. The industry presently has 5.4 million capacity for small cars. This is shown on exhibit 23 of the material we handed out. The demand, we believe, is around 3.6 million units. The industry, therefore, is operating at about two-thirds of its capacity for small cars.

Senator CHAFEE. This is very important, Mr. McCammon, because we have heard various testimony here. You were here, I believe, this morning.

Mr. MCCAMMON. Yes, sir.

Senator CHAFEE. You heard Secretary Baldrige say there was one million units of unused capacity. Then, Mr. Young testified that he thought that was a reference to a million units coming on stream.

As a representative of Ford Motor Co., you are telling us now that there presently exists 5.4 million small-car capacity?

Mr. MCCAMMON. Yes, sir.

Senator CHAFEE. You are selling 3.6 million.

Mr. MCCAMMON. That is the estimate for 1981.

Senator CHAFEE. Why aren't you selling the difference?

Mr. MCCAMMON. Part of the reason is the economy, and the other part of the reason is the Japanese imports.

Senator CHAFEE. In other words, a person would rather buy a Japanese car than buy your car?

Mr. McCAMMON. Some people, 20 percent of the market, buy Japanese cars; 80 percent do not. It is sometimes a fine line on how a person makes an individual decision. Some are very wholly committed to the purchase, others are not.

Senator CHAFEE. Well, you said the problem was the Japanese imports. How is this the problem?

Mr. McCAMMON. Well, if your question is, why are they buying some of their cars instead of our cars——

Senator CHAFEE. Aren't they buying in dramatically increased amounts?

Mr. McCAMMON. Oh, absolutely. Well, they make good cars, and so do we. Their cars have tremendous momentum going for them. The consumer perception of their fuel economy and quality is very high. It will take time for us to turn this around. We have come out with some excellent products and are coming out with more. The Escort that Ford came out with this year——

Senator CHAFEE. You are talking about momentum; you have 80 percent of the momentum and they only have 20.

Mr. McCAMMON. I think momentum is where you are increasing. They are definitely increasing their share. Our momentum is in the other direction. Ours is declining.

Senator CHAFEE. Is price a factor?

Mr. McCAMMON. Price is one of the factors. Perception of fuel economy and quality is a part of it. We are making great progress, I think, on the fuel economy front. The Escort that we came out with this year has better fuel economy than most of the Japanese imports. It has more room inside than any Japanese imports.

Senator CHAFEE. Isn't one of the problems that you don't know how to advertise the cars?

Mr. McCAMMON. No. We advertise and they advertise. As a matter of fact, the Japanese probably out-advertise us 2 to 1, on a per-unit basis. There is a lot of advertising. We are both trying to convince the customer that we have the best products on the market. We are suggesting that we have a lot to do in the areas of fuel economy, quality and other things that will take a period of time and that we are asking for that period of time so we can accomplish that job.

Senator CHAFEE. You indicated price was a factor; yet, unquestionably, labor costs contribute as a factor in any automobile. Mr. Young just testified that you have never asked for a reduction in the wage rates; is that true?

Mr. McCAMMON. We have been having discussions with the UAW on this and other matters. We have not, at this point, formally asked that the contract be reopened.

As you heard, one of the key ingredients in all this is public policy from everyone's standpoint. I think it is clear from Mr. Young's comments that the UAW realizes they have a part to play. We have a part to play, as management. I think the Government has a part to play.

Senator CHAFEE. I am a little confused about this attitude toward the Government. Since when do people rush to Washington every time there is a problem?

Why should we make a decision which contradicts the longstanding policy of this Federal Government, when you are not attempting to settle your own problems?

Mr. McCAMMON. We are attempting to solve a lot of our problems.

Senator CHAFEE. The wage rate is a decided factor in an automobile. Yet you haven't discussed it seriously with the UAW. I find that incredible, and impossible to understand.

You're here seeking relief before you've attempted to work out your problems with your own unions.

Mr. McCAMMON. We have had continual discussions on this subject. I think one of the key ingredients to how it all comes out is how the whole effort comes out. There isn't just one thing that needs to be done. This is a major problem. It needs to be attacked by all ways we can bring to attack it.

This is one ingredient. We are working on this one ingredient with the UAW, along with many other things with them in terms of employee involvement, better quality. We have to work on thousands of things simultaneously. This is one facet of that effort.

Senator DANFORTH. Yes, sir.

Would you describe to the committee the plans of the Ford Motor Co. for investment in retooling for new plants and equipment over the next 5 years?

Mr. McCAMMON. Our announced capital expenditures for our company are $20 billion for the 5-year period, 1981 through 1985.

We have to completely redo our product line as part of the conversion to smaller, more fuel-efficient cars. For example, we have to convert from less than a quarter of our engines being four-cylinder engines to more than three-quarters being four-cylinder engines.

These are huge expenditures. They take time to do, and take a great deal of money to accomplish.

Senator DANFORTH. If your capacity to produce small cars is now greater than your sales, why would you have to spend so much for retooling?

Mr. McCAMMON. Well, part of the problem right now, as I indicated, was a matter of perception among the public exactly what the situation is. In fact, some people are willing now to spend $900 more for an Accord, for example, than a Fairmont in order to save a nickel a day of gas.

It isn't always a rational decision that is going on out in the world of car buying. There are some people who don't take the time to completely analyze what the situation is. We have to get our point across, as has been suggested. We are trying our best to do that.

Senator DANFORTH. It is clear, though, that Ford is going to have to be building more small cars 5 years from now than it does today?

Mr. McCAMMON. Absolutely.

Senator DANFORTH. And more than it has the capacity to build today?

Mr. McCAMMON. That is right. We are doubling.

Senator DANFORTH. There will have to be $20 billion of increased spending by Ford, over the next 5 years for retooling; is that right?

Mr. McCAMMON. That is absolutely right.

Senator DANFORTH. Now, last year Ford Motor Co. lost how much money?

Mr. McCAMMON. $1.5 billion.

Senator DANFORTH. Do you look for this year to be a profitable year or a losing year?

Mr. McCAMMON. Most analysts, security analysts believe that this will be a losing year for Ford Motor Co. I am not supposed to project on behalf of Ford.

Senator DANFORTH. It is difficult, isn't it, because of perceptions and the problems you have with bankers and so on?

Mr. McCAMMON. That is part of the problem. Also, we just aren't supposed to project forward earnings in a public situation.

Senator DANFORTH. Right. Is it fair to say that the company, when it is losing money, may have some difficulty coming up with the $20 billion needed over a 5-year period of time for the purpose or retooling?

Mr. McCAMMON. Yes. There are two things that work here. One is that the losses you mentioned, and the other is the needs are so much greater than ever before. The needs are far greater. The period of time leading to this period of the $20 billion expenditure, the expenditures are actually a third that level. Adjusting for economics, they are probably about 60 percent today's level.

So, we have a giant leap in our needs of expenditures. At the same time, our profitability is the worst in history.

Senator DANFORTH. Now when the editorial writers say, well, Ford is going to do very well, the automobile industry is going to do very well in 1981, and they are just going to continue to make large cars, if we provide import relief, this will just provide them with a disincentive to move toward smaller cars and they will go right back to the same old habit of building large cars.

Is that a fair statement or is that an incorrect statement?

Mr. McCAMMON. That is absolutely wrong. We are totally committed to converting our product line. The only risk at all is whether we will have the money to do it. It is not that we would think of backing off. We do not want to back off. We want to do everything that is humanly possible and we can afford.

The only risk at all is in the other direction, that we wouldn't be able to afford it.

Senator DANFORTH. Some people also say, well, if we provide import limitations for Japanese cars, the American automobile companies would simply raise their prices and it will be inflationary.

Would it be Ford's intention to raise their prices if import limitations were imposed?

Mr. McCAMMON. What we want is volume and jobs. That is our motivation. We have underutilized facilities. We are operating at about 60 percent of our capacity. Productivity has been spoken to. Productivity depends importantly on volume. That is a good way to get productivity.

Also, we want to keep our dealers happy. Have them stay in business. Keep our suppliers in business and keep them healthy.

Another very important thing and a reason why we would be motivated to go for volume, not for price, is to increase our owner body, people buying Ford products.

It is in our best interest that somebody buy a Ford product because they are more likely to buy it again.

Senator DANFORTH. So it is your answer that the approach you would take would be to increase volume rather than increase price?

Mr. MCCAMMON. Yes.

Senator DANFORTH. Senator Chafee?

Senator CHAFEE. Mr. McCammon, you have spoken a good deal about productivity. What is the absenteeism rate at Ford Motor Co. on the production line?

Mr. MCCAMMON. I think it is in the range of 5 percent, Senator Chafee.

Senator CHAFEE. Is that as of right now or over the past 5 years?

Mr. MCCAMMON. It has improved. It has improved from prior levels.

Senator CHAFEE. Would you be good enough to provide me with statistics showing what the absenteeism rate has been since 1976? I assume those are readily available; are they not?

Mr. MCCAMMON. I would be happy to provide those.

[The material was subsequently submitted:]

PROPOSED RESPONSE TO SENATOR CHAFEE'S INQUIRY REGARDING COMPANY ABSENTEEISM

Ford U.S. hourly absenteeism in 1980 improved somewhat compared to experience during the latter part of the 1970's. For example, Ford's average rate of "short-term" absence (less than 40 hours per week) for 1980 was 4.8 percent compared with 6.1 percent for 1977. Included in this measure of short-term absence are factors for which significant improvement probably cannot be expected—jury duty, military service, funeral attendance and other personal business. The AWOL and medical absence portion of this rate, however, is an area where continued efforts to control abuses may produce substantial improvement. In 1980, Ford's AWOL/Medical absence rate dropped to 3.0 percent from the 3.9 percent 1979 rate—an improvement of nearly 25 percent—helping to make last year's performance the best in the past 6 years. Such improvement, of course, also has been influenced in our judgment by adverse economic conditions in the auto industry and indefinite of substantial numbers of young, short-service employees, who as a group have tended to be more absence prone than older segments of the work force. Using the same example of "short-term" absence, 1980 experience was slightly better than that of 1975 during the Company's last comparable economic downturn period.

FORD U.S. "SHORT-TERM" ABSENCE RATES

[In percent]

	1975	1976	1977	1978	1979	1980
AWOL/Medical	3.3	3.2	3.9	3.8	3.9	3.0
Total "Short-Term"	5.1	5.0	6.1	5.9	5.8	4.8

March 24, 1981.

Senator CHAFEE. Do you have a contract with the UAW which provides, as Mr. Young indicated, that there is retirement after 30 years or at age 62?

Mr. MCCAMMON. I believe that is the contract.

Senator CHAFEE. With full benefits?

Mr. MCCAMMON. Yes.

Senator CHAFEE. Would you comment on the request of Mr. Fraser and the UAW for permanent legislation requiring a North American content for vehicles?

Isn't that what you are here for?

Mr. MCCAMMON. We are not seeking that today, but that may be what this country will have to do in the long run. This is what a lot of countries have had to do in order to support their domestic industries.

It is hard to say, but we think it is probably in the best interest of this country, long run, to have automotive production here. If it requires, down the road, that there be some sort of legislation, that may be the case.

Senator CHAFEE. Do you require this because you are not able to compete in price and quality?

Mr. MCCAMMON. At the present time, we have made great strides on quality. So, I think that will be under control as soon as that becomes a part of the public's perception.

The price is a difficult issue. In 1978, the cost to produce a Japanese car landed in the United States, was not much difference from the cost of our producing a car in the United States.

In 1979, the first quarter, something dramatic happened, and everybody knows the first thing that happened and that is that suddenly oil and gas became very expensive and people bought small cars.

The other thing they don't think about too often is this oil shooting up in cost weakened the yen. The yen had been strengthening. That was one reason why our cost and the Japanese cost were relatively close to one another.

Since early 1979, the yen has weakened relative to the dollar and as a result, the cost situation has widened to the point it is at today.

In the long run, we have to make major improvements in this cost differential. We have to attack it on all fronts, labor costs, productivity, quality and regulatory relief.

Every way just has to be attacked in the long run. We can't say exactly how it will come out. It depends somewhat on the yen.

Senator CHAFEE. Do I understand from your comments made in connection with the North American content, that being here may be the first step in a campaign which will involve very substantial legislation restricting automobile imports or contents into the country?

Mr. MCCAMMON. There has already been legislation, Senator Chafee, in that regard. The domestic——

Senator CHAFEE. I want to know the Ford Motor Co. position.

Mr. MCCAMMON. I was about to give that. That there has already been legislation that domestic companies have to have 75 percent North American content in order for their cars to count. So we are already operating under a domestic content rule.

The imports do not have the same rule.

Senator CHAFEE. Do I understand from your testimony and in answering to questions, that you anticipate a 15-percent price increase with this limitation in imports?

Mr. MCCAMMON. We are suggesting that the imported cars might go up as much as 15 percent. We would be surprised if they would, by the way. In Europe, where they are limited, they have not gone up. They stayed well below European cars.

When they had a truck tariff, in the United States, they did not price for the whole truck tariff. So, they may not go up.

But, on the other hand, if we grant that they would go up as much as 15 percent, then we still believe this would not be inflationary.

Senator CHAFEE. Does it mean that people would buy your cars and just pay more than they would be paying normally?

Mr. MCCAMMON. Well, if you are speaking of the prices of our cars, we addressed that and said that what we are going after is volume. That's what we need. That would improve productivity, help the dealers, help the suppliers and help us build owner body.

So, our motivation is increased volume, not to increase in and exploit any price opportunity that occurs because of supply-demand distortions caused perhaps by Japanese limitations.

Senator CHAFEE. Don't you see this as more than a temporary problem, or is it a temporary piece of legislation you are asking for?

How long would you want the limitation on the imports to last?

Mr. MCCAMMON. We believe that it is important that it lasts in the range of 5 years. The longer the period of time, the greater the effect on the domestic industry and its opportunity to do everything it has to do in the next 5 years. There is a big difference between 3 and 5 years.

In the third year, if it is a 3-year proposition, people can simply wait. If it is a third year of a 5-year proposition, they are unlikely to wait to buy new cars.

Senator CHAFEE. What should the limitation be on import volume?

Mr. MCCAMMON. We suggested that the Europeans are up in arms about imports into Europe, and 10 percent is the share that the Japanese presently have in the European community. We see no reason why their share of the U.S. market should be greater than 10 percent either. That would be about 1 million units in a 10 million year.

Senator CHAFEE. Mr. Chairman, I don't have any other questions. I do have a comment if this would be the appropriate time.

Senator DANFORTH. Yes.

Senator CHAFEE. Mr. Chairman, I am shocked by the testimony received today. The automobile manufacturers and the union are saying, "We are waiting for a national policy." They appear to be throwing up their hands not knowing what to do.

We have had testimony from the Ford Motor Co., and from the UAW, saying that they are not going to negotiate on a contract. They are not going to do anything about these wage rates which are the highest in the Nation, or their retirement benefits.

They are turning to Washington to wait for a national policy. It seems to me, coming from that great community of free enterprise in Detroit, that this is a radical change. Go to big brother, the Government, and let them come up with a solution to the problem and then we might do something. I feel very disappointed.

Senator DANFORTH. Mr. McCammon, I will give you an opportunity to respond to that. Do you believe that big brother has been a benevolent big brother in dealing with the automobile industry over the last few years or has big brother perhaps been something less than benevolent.

Has the Government been a part of your problem or has Government been viewed by the automobile industry as a kind of a cornucopia, heaping blessings upon you?

Mr. McCAMMON. Well, the Government has been a thorn in our side. Everybody knows about the regulations that have kept our industry on the dead run to meet, in some cases, standards that were really not in the public welfare, but nevertheless, required a total, all-out effort to accomplish. Even this had an effect on our ability to do some other things that may have been more productive in the long run.

I think it is generally recognized that the regulations have been quite a burden for the U.S. auto industry to bear.

In addition, as was mentioned earlier, the policy of keeping gas prices low in the United States was definitely a policy that hurt our long-run progress toward fuel efficient cars. There is no question in my mind there.

Senator DANFORTH. Can the present problem of the automobile industry be traced to Government energy policies?

Mr. McCAMMON. I think you could spend months, years, tracing the problems of the industry. In fact, some people do that. I think all of us share the blame. Certainly, management, in looking back——

Senator DANFORTH. Is there any doubt that Government has a substantial amount of dirt on its hands, to use Senator Chafee's phrase?

Mr. McCAMMON. I sure think so. I think they do, Senator Danforth.

Senator DANFORTH. It is not just regulations. Senator Chafee pointed out that the bumper standards and so on applied to all cars sold here. But the various regulatory requirements on your plants, on emission controls and so on, those are peculiar to the United States; aren't they?

Mr. McCAMMON. That's correct.

Senator DANFORTH. Now, with respect to labor, if you were in Mr. Fraser's shoes, would you be resting easy at night regarding what Ford and GM are going to do or would you expect Ford and GM to follow Chrysler in asking the UAW for various restraints and rollbacks?

Mr. McCAMMON. I think the UAW is fully aware that everybody has to make a contribution to getting this industry back on its feet. Nobody can stay out of it. We need every possible area of help. I think there is no question they have that well in mind and they are considering what they should do.

Senator DANFORTH. Now, do you believe that you and the UAW are here simply to ask Government to do something without any commitment on your part?

Mr. McCAMMON. No.

Senator DANFORTH. Or do you believe that there is a solid commitment on the part of the automobile manufacturers to spend substantial amounts of money to retool, if you have the money available?

Mr. McCAMMON. Right.

Senator DANFORTH. Do you believe that the UAW recognizes that it also has a commitment to, if necessary, adjust its compensation program to make sure that Americans can sell a competitive car at a competitive price?

Mr. McCAMMON. I think we are all fully aware of the problems. We all have to give it our all to make this industry healthy again.

Senator DANFORTH. Thank you very much.

That concludes the hearing.

[Whereupon, at 3:07 p.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

American Importers Association Inc.
11 West 42nd Street, New York, N.Y. 10036 • 212 - 944 - 2230
Cable: IMPORTAIA

March 3, 1981

The Honorable John C. Danforth
Chairman, Subcommittee on International Trade
Committee on Finance
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

This letter is being written for inclusion in your record of the hearings of March 9th on the current situation of the domestic automobile industry.

We write to you to register our opposition to S. 396, H.R. 1954 and the other bills singling out Japan for legislative quotas, at rollback levels, on its automobile exports to the U. S. These bills are not only a violation of our international obligations under GATT, but are contrary to the "free market" approach to solving economic problems advocated by this Administration.

Increased automobile exports from Japan are a symptom of the problems of the domestic industry created by poor quality control, short-sighted management decisions, high interest rates, and the cheap energy policy pursued by previous Administrations. Indeed, the U. S. International Trade Commission has already determined that imports are not a substantial cause of injury to the domestic industry.

The Honorable John C. Danforth
March 3, 1981
Page Two-

In addition, the American Importers Association would also like to register its opposition to a "voluntary" restraint agreement with Japan. Such an agreement would subject Japanese manufacturers to antitrust suits from their American dealers. Once in place, these agreements are almost impossible to end and their very existence retards the readjustment necessary by the industry receiving protection.

By lifting gasoline price controls, the Reagan Administration has already taken a decisive step toward convincing the domestic automobile industry that it must make an unequivocal change in its production facilities toward smaller more gas-efficient vehicles. Other actions presently contemplated by the Administration and the Congress to improve the overall lot of U. S. business through changes in tax policy, and deregulation would indeed help Detroit. Import restraints whether negotiated or legislated, are not the answer!

Sincerely,

Gerald O'Brien

Mr. Gerald O'Brien
Executive Vice president

GO:jpp

BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL TRADE COMMITTEE ON FINANCE
UNITED STATES SENATE

STATEMENT OF THE
AUTOMOTIVE MATERIALS INDUSTRY COUNCIL
OF THE UNITED STATES
(a.k.a. AMICUS)

OF COUNSEL

Paul D. Cullen
COLLIER, SHANNON, RILL & SCOTT
Washington, D.C. 20007

AMICUS
Suite 308
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(202) 965-6231

The Automotive Materials Industry Council of the United States ("AMICUS") appreciates the opportunity of submitting this statement for the record of the public hearings on S. 396 and the current situation of the U.S. automobile industry.

AMICUS is a coalition of manufacturers that supply materials and parts essential to the production of finished motor vehicles. In our previous testimony before this Subcommittee on January 9, 1981, we presented facts and figures demonstrating that suppliers of materials and parts make up the largest segment of the domestic automotive industry. For every worker engaged in the assembly of a finished automobile, 3.3 workers are employed in the production of materials and parts. The Department of Transportation estimates that there are over 40,000 supplier companies located in virtually every state. These companies range in size from small and medium sized businesses situated in local communities throughout our nation's industrial heartland to large national and in some cases multinational corporations. Automotive suppliers represent an important segment of our nation's industrial base. All supplier companies will be profoundly affected by the outcome of the present crisis facing the major automobile producers.

The difficulties presently facing automobile suppliers may be illustrated by examining the importance of automobile manufactures to the nation's steel industry. Something approaching a quarter of the domestic steel industry's sales volume is attributable to the American automotive industry's demand for our various products. This significant percentage includes both direct sales of iron and steel mill products to automotive producers, and sales of steel (either directly or indirectly through warehouses and steel service centers) to manufacturers of automotive components and parts.

It is not possible to quantify precisely the losses to the steel industry in sales, profits and employment that can be directly and specifically attributed to increased automotive imports as such. But clearly there is a marked effect on the economic position of this industry.

For example, on average, cars contain approximately 2000 pounds of raw steel equivalent (or about 1600 pounds of steel mill products). When these cars are manufactured by domestic producers, much of that quantity would normally be supplied by domestic steel producers. Thus, for every 100,000 cars imported, sales of as much as 100,000 tons of raw steel equivalent, which could have been bought from domestic mills or domestic warehouses and service centers, are lost.

With respect to jobs, it has been estimated that, on average, one million tons of output of steel mill products would be worth about 5000 steelworker jobs. As a matter of simple arithmetic, then, one million compact cars imported from overseas that might have been produced in the United States using domestic steel would represent the loss of 5000 American steelworker jobs. In addition, we estimate each steelworker job generates three additional jobs in the U.S. economy which would also be lost.

As domestic sales of American-made cars have continued to fall throughout 1980, so have shipments of domestic steel to this country's automobile producers. For example, in 1980 direct shipments of steel to the U.S. automotive industry dropped by approximately 35% in comparison with 1979 shipments.

Overall, the operating rate of this country's steel production facilities fell from more than 87% for 1979 to under 73% for 1980. At one point in the third quarter, the U.S. steel industry's operating rate dropped to as low as 51.7% and never rose above 66% in the third quarter of 1980. And since mid-1979 there has been a work force reduction of 48,000 production workers. Some of that loss obviously comes from a decline in the industry's sales to the domestic auto industry.

Accordingly, the automotive industry's return to healthy sales volumes and its ability to recoup markets lost to imports are of vital concern to the U.S. steel industry. The same type of impact can be measured in other industry groups such as the glass, plastics, rubber and foundry industries.

Various witnesses who have come before this Subcommittee have expressed concern that the imposition of restrictions on imports from Japan would endanger America's leadership role in promoting free trade among the nations of the world. We respectfully disagree and suggest that just the opposite will likely occur if effective relief is denied this vital segment of our nation's industrial base.

The United States market is the largest and most lucrative market in the world. It is also the most open and free market in the world. This is true both as a general proposition as well as specifically in the case of trade in automobiles (See Exhibits 5 and 6 to the testimony of the Ford Motor Company). Our nation's preeminence among nations who favor free trade came about following World War II when the other industrial nations of the world were devastated by the war and when our home market was secure. Even in our own country, however, our willingness to reduce tariff barriers and our ability to promote free trade was possible only because short term interim relief was available to eliminate hardship when industry segments were especially hard hit by import surges. Indeed, it is questionable whether any nation of the world including our own could risk an all out commitment to free trade if temporary relief from import surges such as provided for in Section 201 of the Trade Act of 1974 were not available.

This Committee must ask itself what will happen to our nation's strong commitment to free trade if major segments of our automotive industry—the cornerstone of our industrial base—are permitted to go under. It is our judgment that the implications of such an event for our entire economy will be so profound and so adverse, that our nation's long term commitment to free trade would be placed in serious jeopardy.

The prospects for the domestic automotive industry are extremely bleak at the present time. It is difficult to isolate one specific cause for the industry's present problems. There is no one single remedy which will resolve all of the problems facing our industry. It is certain, however, that the relentless surge of imports is a major obstacle to its recovery. AMICUS favors the negotiation of voluntary restraint agreement between our government and the government of Japan. If such an agreement is not forthcoming, serious consideration must be given to the imposition of legislatively improved quotas.

Washington, D.C.
February 9, 1981

C. M. KENNEDY
DIRECTOR
FEDERAL GOVERNMENT AFFAIRS

March 10, 1981

The Honorable
John C. Danforth
United States Senate
Washington, D. C. 20510

Dear Senator Danforth:

We have reviewed the testimony presented at the March 9 hearing with great interest. All of the issues you have considered at recent hearings -- regulatory reform, capital formation and tax revisions, and imports -- are critically important to us. We expect that this series of hearings will make an important contribution toward defining a comprehensive federal program to revitalize the U. S. automobile industry. We appreciate the leadership you have shown in the discussion of these issues and in developing solutions to these problems.

We believe the Chrysler position on these subjects is widely understood, partly as a result of several appearances before you at recent hearings. Regulations now add over $1,000 to the retail cost of a new car. Future regulations could add another $600 (not including air bags). We, like many others, are convinced that the public benefit of these regulations is far less than the cost. Therefore, we should review these regulations, keeping the ones of net benefit to the public and revising or eliminating those which cost more than they are worth.

Excessive regulation also works against the public interest in other, less obvious, ways. At this time, 25 percent of our research and development staff is working on future regulatory requirements. These resources would be much more productive if they could be used for car and truck cost reduction and for development of more fuel-efficient cars and trucks demanded by the public.

It is well known that the industry as a whole will have great difficulty in raising capital to finance new products and new technology for the 1980's. Recent tax proposals, providing greater depreciation deductions or liberalized tax credits, do nothing to help capital formation or reduce tax costs for the companies with the greatest need -- those companies which are expending billions of dollars annually to improve our Nation's energy and trading positions and which are incurring losses or have loss carryforwards.

The Honorable
John C. Danforth
March 10, 1981
Page 2

While refundable investment tax credits and/or energy credits would be helpful, they would not provide the additional capital needed to develop and retool for all the new products required. Inasmuch as the Administration's business tax proposals would be of substantial benefit to only those members of our industry which are profitable, what is needed is tax legislation which would also help those of us which have accumulated huge operating loss carryovers during 1979 and 1980. Such legislation could be in the form of "deduction equivalents", i.e., each qualifying business would receive a "capital recovery payment" equal to the tax benefit which would have been derived from its R&D and/or depreciation deductions had the business been profitable (corporate tax rate times the deduction). This would allow all companies, both taxpaying and non-taxpaying, a current capital recovery benefit for their qualifying deductions. Such legislation need only be enacted for a three to five-year period.

In your most recent hearing you examined the question of import restrictions or agreements. We continue to believe that a negotiated or voluntary agreement with the Japanese should be reached, and that legislation should be enacted only if the Japanese fail to cooperate. We feel sure hearings like this one are powerful evidence that if an agreement is not made quickly the Congress itself will act. The record of the January 15 hearing before your committee contains additional discussion and detail on our proposals.

More and more people are coming to understand the problems of our industry, due in no small part to these hearings. We await the final recommendations from your committees with optimism. Since we did not appear at the March 9 hearing, we take this opportunity to offer our continued cooperation to you and your staff. If we can help, please get in touch with us at any time.

Sincerely yours,

C. M. Kennedy

C. M. Kennedy
Director
Federal Government Affairs

1346 Connecticut Avenue NW Washington D.C. 20036 (202) 785 4835

consumers CWT for world trade

STATEMENT TO THE SENATE FINANCE COMMITTEE
SUB COMMITTEE ON INTERNATIONAL TRADE
MARCH 9, 1981

S.396 - QUOTA ON AUTOMOBILE IMPORTS FROM JAPAN

Consumers for World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the market place for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

S.396 - QUOTA ON AUTOMOBILE IMPORTS FROM JAPAN

Consumers for World Trade strongly opposes S.396, a bill to impose quotas on the importation of Japanese automobiles, for the following reasons:

The American consumers would be the principal victims of such protectionist action.

The recent deregulation of oil and OPEC triggered price increases on gasoline make small fuel efficient cars a necessity for most Americans. It is important that the consumer be awarded an opportunity to shop, compare and buy with care an automobile which will meet his needs at the best possible price. Quotas will deprive the consumer of this opportunity, by narrowing his choice in the market place and artificially increasing the purchase price of the product.

Import quotas are inflationary and discourage both productivity and competitiveness.

Trade restrictions are not beneficial to a stable domestic economy, either in the short or long-run, and are generally self-perpetuating. The immediate inflationary effects of quotas are self-evident: the cost of the imported product rises in response to a limitation of supplies, and, soon after, the cost of the domestic product rises in response to the easing of competition. These price increases, coupled with higher energy costs, and high interest rates, will compound the increasingly heavy financial burden the American consumer has been forced to bear.

Benefits to the American industry are uncertain, yet the risks to the consumer are documentable.

It is likely, under these circumstances, that the consumer will postpone purchasing a new car, thus counteracting the benefits intended for the domestic industry. On the other hand, the costs to the consumer of automobile quotas has been the subject of a number of studies (see attached impact data). Although actual figures may vary in some of these studies, they all indicate clearly that protectionist measures have a negative effect on the U.S. economy, and a severe economic impact on the American consumer.

In a letter to the Editor of the CWT Newsletter (August 1980), a consumer from Tucson, Arizona wrote:

"...Hopefully now, with stiff competition from foreign imports, the American auto industry will see fit to improve their product to meet America's economic and energy problems, and at the same time reduce the amount of unemployed workers in the industry.

Should this happen, in the future I will be able to find an American car that meets my needs."

Consumers for World Trade endorses these sentiments and urges this committee to reject S.396.

1346 Connecticut Avenue NW Washington D.C. 20036 (202) 785 4835

consumers CWT for world trade

CONSUMER IMPACT DATA FOR
TRADE RESTRICTIONS ON IMPORTED AUTOMOBILES*

Federal Trade Commission Report Data

Availability of cars

— Tariff would reduce imports by about 1 million cars.

— Quota would reduce imports by about 700,000 cars.

Inflationary Impact

— Tariff would raise import prices by about $1,160 per car.

— Quota would raise import prices by about $527 to $838 per car.

Cost to the Consumer

— Tariff would cost consumers between $5.6 billion and $6.6 billion.

— Quota would cost consumers between $2.9 billion and $4.9 billion.

"The cost to consumers would probably outweigh the gross benefit of profits to the producers by at least $1 billion, with the differences going to importers; tariff revenues for the government; increased costs of domestic automakers; and the cost of administering the quotas."

Results of a study by Charles Pearson, economist, Johns Hopkins School of Advanced International Studies

— Quota would cost consumers $245,000 per year per job restored (includes a calculation of jobs lost in the imported automobile industry).

— Tariff would cost consumers $395,000 per year per job restored.

*This data does not apply to S.396. It refers to the quotas and tariffs requested in the Ford-UAW petition to the International Trade Commission, and is intended only to emphasize the impact on the consumer of import restrictions on automobiles.

Council for a Competitive Economy

Testimony of Joseph E. Coberly, Jr.
Council for a Competitive Economy
on AUTOMOBILE IMPORTS
Before the House of Representatives
SUBCOMMITTEE ON TRADE
Friday, March 7, 1980

Good afternoon, Mister Chairman and members of the subcommittee. I am Joseph Coberly, vice president of Coberly Ford in Los Angeles, one of the largest Ford dealers in the country. I am also a vice chairman of the board of the Council for a Competitive Economy, a new national membership organization of businesspeople dedicated to the market economy, unhampered by regulation, subsidies, or protectionism.

I have been a Ford dealer since 1960. My father started his Ford dealership in 1916 and was involved with other American auto companies. I stress my ties to domestic automakers because I am here today to urge that Congress not restrict the importing of automobiles. I say this because I believe that any form of trade restriction--from tariffs to quotas to local-content laws to requirements that foreign companies build plants here--will ultimately harm all concerned. The victims will include the American consumers, Americans involved in the export and import of autos, the auto workers and the automakers themselves. I say this knowing that within 300 feet of my business stands one of the nation's largest Datsun dealerships.

410 First Street, S.E. Washington, D.C. 20003
(202) 544-3786

The harm to consumers is obvious. Judging by their behavior over the last several years, a great many want foreign cars, even when they are more expensive than their domestic counterparts.

They want them for many reasons--fuel-efficiency, styling, engineering. Consequently, to deprive them of the opportunity to buy the cars they want is to harm them. Their liberty--their ability to enjoy their lives--will be diminished.

In other words, the effort to impose restrictions on foreign cars is a conspiracy to thwart the American consumer.

Restrictions on imported autos certainly harm Americans involved in the imported-auto business. What can possibly justify government interference with the liberty and peaceful activities of forty-five-hundred imported-auto dealers and their one-hundred-forty-thousand employees? By what standard are they sacrificed to the one-hundred-fifty-thousand United Auto Workers now on indefinite layoff?

The harm to these groups is obvious. Less obvious, but no less real, is the harm that would be done to the domestic auto industry and its workers if imports are somehow restricted. How strange! How can limiting rigorous competition harm our manufacturers? Before I answer this, allow me to comment on the embarrassing spectacle now before us.

It is a cliche to state that free people acting in an open, competitive economy is what made American great. It is a cliche because it is so obvious and well-known. The desire to produce and achieve prosperity in the face of rigorous competition lifted civilization to heights never imagine by the richest feudal nobleman. The challenge and the will to do better was all it took.

Today that is changed. To quote a recent editorial in the

California's Orange County Register, "Today the world is witnessing the spectacle of American workers and businessmen groveling before their competition." The president of the United Auto Workers goes to Japan "begging that his workers be protected from competition." And now, we see high placed executives of some American automobile companies calling for restrictions on imported cars. Why is this? In my opinion, it is simply because these manufacturers have been caught with their pants down....too many big and medium sized cars and not enough small cars with the body styles, engine choices, drive trains, transmissions and accessory combinations which today's automobile market is demanding. No wonder their profits are down!

Now let me say that the Council and I are dedicated to the proposition that profits are good, that businessmen should strive for the highest possible profits and that they have an absolute right to them. But we have NO sympathy for businessmen who seek government intervention to maintain their profits...because that interferes with the rights of others.

The automakers and autoworkers at the very least want Japanese firms to build plants in the United States and to use locally-produced parts. But these are bad ideas. If such measures were efficient, the Japanese companies would have already done so. But note that it is only the Japanese competitors who are being so pressured. GM isn't pressuring its Japanese affiliate, Isuzu; nor Ford its affiliate, Toyo Kogo; nor Chrysler its affiliate, Mitsubishi. The restrictions are to be limited to the Big Three's competition only. That sheds light on the real motives, which tend to be couched in patriotic terms.

The question, then, is how the restrictions being proposed will harm the automakers and the workers themselves. First, history teaches that trade restrictions inevitably bring retaliation.

So we can expect that our auto exports will suffer if we block theirs. Second, any shelter from the competitive forces of the market will tend to make our manufacturers soft. American auto consumers vote with their dollars. When they decided they wanted small, fuel-efficient autos, they turned to the firms that were offering them. This, in turn, induced those who were offering less-efficient cars to change their ways.

Today, consumers are demanding efficiency that exceeds even the government's standards. And the automakers are scrambling to serve them. Competition has forced them to make a better product, and it will continue to do so if allowed.

Stiff competition is what keeps firms primed and alert to the ever-changing tastes of consumers. It cannot be in the long-run interest of the auto companies to be protected from consumer demand. It is even less in the interest of their workers. Stagnation is not good for them either. In the market economy, competition would induce the auto companies to invest capital that would make their workers more productive. This of course would raise their wages. Any protectionist scheme that retards this process makes workers less productive and, so, less affluent, than they would otherwise be.

In addition, the market always holds untold and unforeseen opportunities. Protectionism inhibits the need to search for them. For example, assume that because of market conditions, it is more economical for Japanese firms to make a substantial number of the cars driven in America. If that is so, the market will divert domestic capital and labor to products for which _we_ have an advantage. By not allowing this process to work, we deny workers and entrepreneurs--and consumers--more lucrative alternatives to the current situation.

There is a grain of truth in the claim that foreign firms have an unfair advantage over domestic firms. But the unfairness comes not from the Japanese--who have served American consumers well despite their lack of natural resources and great distance from our market. The unfairness comes from the U.S. government's intervention in the economy. Inflation, the energy crisis and regulations have taken the starch out of American industry, made it soft, timid, unwilling and largely unable to compete. The government's inflationary monetary policy--with the resulting havoc on profits, depreciation and tax brackets--has taken a fantastic toll on productivity, as this committee well knows. The energy crisis--an exclusive product of federal energy policy--has also greatly harmed the industry by causing an abrupt change in consumer tastes and the sudden need for retooling. Finally, regulation--if by nothing but the sheer weight of the paperwork--has greatly impaired the agility necessary for firms to respond quickly to consumers.

All of this raises costs, and, to the extent the Japanese have lower costs, the regulations place American firms at a disadvantage. To name one example: The limits placed on cheap imported steel raise costs to our automakers by fifty-to-seventy-five dollars a ton, according to automotive analysts. Let's remove those barriers to competition, rather than whipping up resentment against the Japanese.

Some people have argued that the Japanese can compete unfairly because they pay their workers less than American firms do, and so they can charge less for their products. There are two things to be said: Our laws governing collective bargaining may indeed enable the United Auto Workers to force an uneconomic wage on the automakers. If so, the union has only itself to blame for lost sales and layoffs.

But even if this is not the case, we would be foolish to restrict Japanese cars. If the Japanese can produce good cars more cheaply than we can, they should. It does no one any good to force consumers to pay more for cars than necessary and to keep American workers in inefficient jobs. If consumers could buy cheaper cars, the money saved would go perhaps toward whole new industries that produce things we can make more cheaply than the Japanese. That's the beauty of the international division of labor, and the law of comparative advantage.

The fear of cheap imports is unfounded. If they were really dangerous, it would follow that Japan could totally destroy our economy by giving us everything we want for free. But how could that be bad? We'd then have all the goods we want, plus all of our productive resources and labor free to produce anything else we needed. But of course, the whole idea is absurd because the Japanese sell to us only so they can buy from us.

Other people have argued that the Japanese have their own barriers to limit the entry of our cars. This is true. But erecting barriers here is like cutting off your nose to spite your face. Increasing the amount Americans have to pay for goods is hardly a way to teach the Japanese a lesson. Imagine if

Japanese ports were destroyed and physically unsuitable for our ships to enter. Would it make sense for us to destroy our ports to get even?

I urge you to remember that imports--especially cheap imports--are benefits to our people. Exports are the payments for those benefits. Whom do we hurt when we deny ourselves of them or make it impossible for other countries to buy American products?

Goods trade against goods at home and abroad. Limiting imports in any way must hurt our people and our ability to export.

The best way to persuade the Japanese to remove their barriers is to remove ours. They will soon see the great benefits of international free trade.

The term "American ingenuity" is an honorable one. It was used to explain the marvelous advances of our market system. In seeking a solution to America's decline as a productive nation, we must realize that the American people haven't changed. There are still great automotive engineers and entrepreneurs in this country. The problem is that the incentives have changed. And only one institution could have changed them: the government.

I know of no inherent reason why domestic auto firms cannot be as responsive to consumers as Japanese and European firms. The antagonism toward foreign businessmen is misplaced. They are living up to the American dream. More power to them! American producers and workers must not allow themselves to forget that great dream and ask for special favors. Instead, they should demand that the shackles of government regulation be removed so they may again strive to realize it.

As a Ford dealer, I welcome free competition because I know I'll have a better product to sell as a result. As a citizen of the world, I welcome it because I know that liberty, prosperity and peace are at stake.

Thank you. I am happy to answer any questions the committee has.

Council for a Competitive Economy

Richard W. Wilcke
President

9 March 1981

Senator John Danforth
Chairman, Finance Subcommittee on International Trade
2227 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Danforth:

Last week the American people witnessed the appalling spectacle of autoworkers destroying a Japanese car with sledgehammers. Their glee at this irrational act should disturb all advocates of peace, social cooperation, prosperity and liberty.

Unfortunately, some responsibility for the attitudes that produce such an act lies with members of the U.S. government who have encouraged the fallacious view that auto imports are harmful and undesirable. Introduction and promotion of S.396 have contributed to this unsavory atmosphere. The Council, a national business membership organization dedicated to a free, competitive economy, is concerned.

I have enclosed a statement presented last spring before the House Subcommittee on Trade by Joseph E. Coberly Jr., a vice chairman of the Council. Mr. Coberly owns one of the largest Ford dealerships in Los Angeles, so you might expect him to favor import restrictions. On the contrary, he has taken a principled stand for free trade, and he eloquently states the Council's position against import restrictions of any kind.

Auto imports have not harmed the domestic auto industry. A Japanese car can do nothing until an American decides he prefers it to any alternative. The word "harm" is misleading in matters of trade, but if anyone is "harming" the industry, it is the American buyers or foreign cars--not the foreign firms. We have cherished the freedom of consumers in this country, but that is what is assaulted in S.396. Comparisons of Japanese export policy to warfare are inappropriate: No one is forced to buy a foreign car. All the Japanese firms can do is offer their cars and hope for willing buyers. To limit auto imports to 1.6 million or any arbitrary level, whether by legislation or "agreement," is to tell several hundred-thousand Americans their freedom is expendable. And the rest will have to pay

Senator John Danforth
Subcommittee on International Trade
9 March 1981
Page Two

higher prices.

Coddling the auto industry will not help it. In fact, it is being severely damaged by the uncertainty that now exists. If the industry were sure that restrictions would not be imposed, it would be increasingly sensitive to opportunities to improve its competitive position. Holding out hope for intervention necessarily diminishes its sensitivity to unforeseeable opportunities. In fact, the industry will never know precisely what adjustments are needed unless we have free trade. The "breathing room" rationalization is wrong. Import restrictions will provide not breathing room, but a breather, a chance to stall. That is the last thing the industry needs. If it is going to compete, it needs to move immediately. This intervention will only give the industry a chance to forestall adjustment to market conditions.

The government simply has no business getting into this issue. I urge you and the subcommittee to reject protectionism in all its forms. The American auto industry has been a victim--of U.S. government fiscal, monetary, energy and regulatory policies. You can do your part by removing these burdens. But do not consign the American people's liberty to the trash heap in a futile attempt to help the American auto firms.

Thank you for your attention.

Sincerely,

Richard W. Wilcke
President, Council for a Competitive Economy

RWW/slr
Encl.

Statement
of
General Motors Corporation

Submitted

to the

United States Senate

Committee on Finance

Subcommittee on International Trade

Washington, D. C.

March 9, 1981

General Motors is pleased to have this opportunity to submit a statement to the Senate Subcommittee on International Trade regarding S.396 and the current state of the automobile industry.

The United States automotive industry experienced a period of unprecedented decline during 1980. Total industry vehicle sales (including imports) of 11.5 million units in 1980 were down more than 18 percent from 1979. For U.S.-based manufacturers, the decline was closer to 25 percent -- down to the lowest level in almost 20 years. Consequently, production in the United States was sharply curtailed, with hundreds of thousands of auto industry employes affected by the resulting layoffs.

Despite decreased employment and other cost-reduction measures put into effect at General Motors, we were not able to reduce costs in line with declining volume. Nor were we able to fully recover through higher prices the increased economic costs of labor, materials and other factors, including equipment required by government regulations.

The result was that in 1980, GM sustained a losss for the first time since 1921. Despite a return to profitability in the fourth quarter, the loss for the year amounted to $762.5 million. As a whole, the after-tax losses of the U.S. auto companies exceeded $4 billion in 1980.

During this period of extreme financial pressure on GM and other U.S. manufacturers, it is imperative to press forward with investment programs to improve the competitiveness of the domestic auto industry. These massive investment programs that are already in progress will cost the domestic auto industry $70 to $80 billion through 1985. General Motors is committed to an investment program of $40 billion worldwide on major product redesign, new products and plant construction or modernization during the five years from 1980 through 1984. In addition, we expect to spend another $40 billion from 1985-1989.

This massive investment in new products, product redesign and facilities is absolutely necessary for us to be fully competitive. However, it has imposed -- and for a number of years will continue to impose -- a major challenge to our financial resources.

Our policy has been, and continues to be, to maintain a strong financial position which relies primarily on internally-generated funds to meet the long-term capital needs of the business. Given the cyclical nature of the automobile industry and the potential for substantial volume fluctuation, as well as the substantial operating leverage created by the sizeable capital investment required in our business, we believe that prudent business practices would suggest that we avoid further compounding these risks by the addition of significant financial leverage through high debt levels. Consequently, our capital structure has been relatively debt-free.

However, in 1980, the decline in earnings coupled with increased capital expenditures made it necessary for General Motors and its consolidated subsidiaries to borrow $1.3 billion in additional long-term debt. These borrowings were made available for the worldwide operations of the Corporation for repayment of existing borrowings, for working capital and for capital investments, including debt or equity investments in subsidiaries or associated companies.

Looking ahead to 1981, we are optimistic. There has already been some recovery from the low point reached last May when credit restraints depressed retail car and truck sales in the United States. Overall vehicle sales are expected to improve in 1981, with the industry's annual rate of deliveries strengthening as the year proceeds. General Motors anticipates at least 13 million new vehicle deliveries in the United States this year, compared with 11.5 million in 1980.

Turning to the subject of automobile imports, Senator Danforth and others have introduced S.396, which, if enacted, would restrict Japanese imports to 1.6 million automobiles a year for the next three years. This would be a reduction of about 300,000 units per year from the 1980 import figures. According to available information, this reduction could be achieved by simply cutting back on overtime production in the Japanese auto industry. This reduction could be about doubled by eliminating overtime completely. In either case, such a reduction should not result in unemployment in that industry.

In its February 3 letter to President Reagan, the Motor Vehicle Manufacturers Association -- of which we are a member -- said the following regarding the import situation:

> "Government actions are also vital to success and they carry the same urgency as those under way in the private sector. MVMA member companies urge the Administration and Congress to move swiftly and aggressively in four critical areas: . . .
>
> "Second, undertake initiatives to persuade the government of Japan to demonstrate responsible international behavior by taking action which would result in a voluntary, immediate and substantial reduction in passenger car exports to the United States for a meaningful period of time." . . .

We continue to support this recommendation. This approach clearly would be in the national interest in order to help abate the growing protectionist pressures, both here and abroad, which could result in lasting harm to important world trade relationships.

In the area of regulatory changes, General Motors has developed detailed recommendations of regulations which need rapid government review and action. We have long supported regulations where there is a demonstrable health or safety need not met in the marketplace. Attached are lists of our priority and secondary concerns as to regulations which might be eliminated or modified without a significant effect on health, safety or the environment. This includes the potential savings involved in eliminating or modifying the regulations shown as priority concerns.

Also attached is a paper that outlines our views on changes in the tax structure.

These recommended actions combined with responsible monetary and fiscal policy will help stem the rising inflationary pressures on both business and the individual.

In summary, General Motors believes the U. S. auto industry is in its most financially vulnerable period in several decades. The recommended changes in regulatory, tax and trade policies are necessary to create the environment for the private sector to make its maximum contribution to the nation's progress.

* * *

PRIORITY RECOMMENDED ACTIONS TO IMPROVE COST/EFFECTIVENESS OF GOVERNMENT REGULATIONS
January 26, 1981

General Motors has long supported regulations where there is a demonstrable health or safety need not met in the marketplace. This paper includes several priority regulations which might be eliminated, or modified as indicated, without a significant effect on health, safety or the environment. The cumulative effect of these changes would save consumers and taxpayers billions of dollars.

	Subject	Recommended Action
1.	Passive Restraints	Eliminate requirement, or at a minimum, delay and reverse order
2.	1984 Heavy-Duty Engine Exhaust Emissions and Test Procedures	Establish 85% standard and continue current test procedure
3.	1984 Light-Duty Truck Exhaust Emissions Regulations	Modify 1984 regulations
4.	Light-Duty Diesel Particulate Standards and Four-Year Waiver of NOx Standard--1981-1985	Maintain 1982 standard of 0.6 gpm and grant full four year waivers on all diesels
5.	Bumper Standard	Reduce from 5 mph to 2.5 mph
6.	National Ambient Air Quality Ozone Standard	Relax the definition of "attainment"
7.	Industrial Wastewater Discharge to Municipal Sewers	Allow 3 years leadtime from date of standards for multiple source plants

Note: All estimates given represent the best information currently available to General Motors and are subject to change, given the variability of regulatory, technological, market and other factors.

PASSIVE RESTRAINTS

The Regulation

The current standard, FMVSS 208, requires, in part, that 1982 full-size car models be equipped with passive restraints -- either air bags or automatic belts. These requirements will be extended to intermediate and compact models in 1983, and to all cars by model year 1984. The standard was the subject of vigorous legislative activity in the 96th Congress.

The Issue

The mandated phase-in schedule for passive restraints provides a competitive advantage for the majority of foreign imports. Because of their smaller size, most import cars will not have to comply with the standard until the 1984 model year. Thus, for two model years, U.S. full-size models, which will have to be equipped with passive restraints, are placed in an unfair competitive position because of this rule. Intermediate-size models will be adversely affected for one model year, 1983.

Passive systems include automatic belts or air bags. Both are more expensive than current belt systems. Both have evoked customer resistance in the marketplace; the air bags because of their cost, the automatic belts because of their obtrusiveness. We believe that consumer resistance will be so great and the use of the restraints so low that the safety benefits will not justify the costs of this controversial regulation.

Recommended Action

General Motors urges that the passive restraint requirements be eliminated. Available manual belts provide excellent restraint to motorists who use them.

There is an immediate need to avoid the sharp economic impediment that these requirements, which are scheduled to take effect September, 1981, would place on the domestic car market's recovery. Accordingly, if the passive restraint requirements cannot be immediately withdrawn, then, at a minimum they should be delayed and their order of implementation reversed. Such action would remove the present competitive advantage afforded most foreign imports, and would release needed capital which is so vital to the financing of the transition to smaller cars.

If the passive restraint standard were promptly rescinded, GM would be able to avoid most of the projected $285 million investment for passive belts in all its cars. Moreover, this regulatory action would save GM customers $70-$100 per car depending on belt system design. For GM customers, this represents an annual savings of about $100 million in 1982 and about $600 million in 1984 and beyond. If inflatable restraints are considered, the additional investment savings would be $60 million, based on 100,000 units annually. The estimated consumer cost for the inflatable restraint system based on this volume is $1,000.

1984 HEAVY DUTY (HD) ENGINE EXHAUST EMISSIONS AND TEST PROCEDURES

The Regulation

EPA set HD engine exhaust hydrocarbon (HC) and carbon monoxide (CO) emission standards which require 90% reductions from 1969 models. EPA also promulgated new test procedures, audit and useful life requirements and maintenance restrictions. This regulation applies to all GM heavy-duty engines, both gasoline and diesel, used in trucks over 8,500 pounds GVW.

The Issue

The statute specifies 90% reduction, but permits a less stringent standard. EPA's other requirements are not required by the law nor were they contemplated by Congress.

EPA established such stringent standards that they require use of catalytic converters on gasoline engines -- primarily to meet the 90% CO standard. This means that compliance will be extremely costly, due to the need for dual catalytic converters bearing heavy noble metal loadings, additional AIR pump capacity and increased expense for more stringent certification tests. These would be required, even though the air quality improvements which result probably will not even be measurable. Therefore, the issue is whether such a regulation is really in the public interest or should it be moderated to a more cost/beneficial level.

The other requirements established by EPA constitute redundant, nonproductive regulation which increases costs, reduces engineering flexibility, and stifles innovation.

Recommended Action

Retention of the current 1981 test procedure and revision in the CO standard to an 85% reduction would avoid $1,000 per truck in hardware costs for gasoline engine trucks, principally for catalytic converter systems. This impact on air quality would probably not even be measurable. This revision would also save $1,700 per gasoline powered truck for added unleaded fuel costs over the lifetime of the truck and supporting equipment. Total annual increased consumer costs because of this regulatory program equal $950 million.

In addition, GM investment of $100 million, principally for new test facilities and supporting equipment, could be avoided if current test proecedures are retained. The new test procedures have not been shown to be any more realistic than the old ones. European nations have recently decided to bring their test procedures for heavy-duty trucks into agreement with the current U.S. test procedures. EPA should revise its test procedures back to those now in use, so that they can be in compliance with the General Agreement on Tariffs and Trade and with the international standards harmonization effort.

Finally, EPA should use the passenger car requirements for "useful life" and the Acceptable Quality Level (AQL) in its selective enforcement audit tests.

1984 LIGHT-DUTY TRUCK EXHAUST EMISSIONS REGULATONS

The Regulation

The 1984 and later model year light-duty truck exhaust emission standards require reduction of 90% for hydrocarbons and carbon monoxide compared to 1969 models. The regulations also extend the current "useful life" compliance requirement (five years or 50,000 miles) to the time when the engine must be rebuilt (approximtely 100,000 miles) and change the "average" emissions compliance concept of the Clean Air Act to an "each and every" vehicle compliance obligation by requiring that 90% of vehicles (10% AQL) tested during selective enforcement audits comply with the standards. This regulation applies to all GM light-duty trucks under 8,500 pounds GVW with the greatest impact on the approximately 1 million GM vehicles produced each year equipped with gasoline engines.

The Issue

The fuel economy impact of the new regulations will be much greater than EPA estimated. In addition, the new standards in combination with the extended "useful life" requirement and the 10% AQL cause excessive costs and the air quality need is marginal. Thus, the issue is whether it is really in the public interest to increase significantly the compliance obligations for light trucks from those required for passenger cars.

> The fuel economy loss in miles per gallon will run from 7% to 13%.
>
> The regulations will add significantly to piece costs (for the addition of an AIR pump and improvements to the catalytic converter to extend the useful life from 50,000 to 100,000 miles), test costs and maintenance costs, approximating $110 per vehicle. While a cost estimate for meeting this standard has been developed, the technology to produce a 100,000-mile catalyst capable of meeting the stringent emission levels has yet to be proven.
>
> The potential consumer savings per model year if the regulations are postponed would be approximately $710 million.

Consequently, GM believes the public interest is not being well served in such a regulatory program.

Recommended Action

The most recent light-duty truck exhaust emissions regulation should be withdrawn and a more reasonable regulation promulgated.

At a minimum, for light-duty trucks, EPA should modify the 90% Acceptable Quality Level requirements in selective enforcement audit tests to agree with the level used in passenger car audits, and should also adopt the 50,000 mile "useful life" definition Congress specified for passenger cars.

LIGHT-DUTY DIESEL PARTICULATE STANDARDS AND FOUR-YEAR WAIVER OF NOx STANDARD -- 1981-1985

The Regulation

EPA regulations require passenger cars powered by diesel engines to meet a 0.6 gram per mile (gpm) exhaust particulate standard on 1982 models and a 0.2 gpm level on 1985 diesel-powered cars and 0.26 gpm for LD trucks. Congress authorized a four-year waiver of the 1.0 gpm NOx standard to 1.5 gpm to encourage the development of diesel engine technology.

The Issue

The particulate standards promulgated by EPA are more stringent than required and may unnecessarily limit the use of fuel efficient diesel engines. The 0.2 gpm standard for 1985 is not technologically feasible at the present time. Even the 0.6 gpm standard for 1982 cannot be achieved on most engines without a waiver of NOx to 1.5 gpm because the technology for controlling particulates increases NOx emissions and vice versa. In addition, high altitude requirements add to the problem. California's requirement of meeting a 1.0 gpm NOx standard at 100,000 miles is a further disincentive to offering diesels in that state.

Particulate control concepts being researched need much more development before they can be considered practical. The most promising technology for meeting a 0.2 gpm particulate standard involves some form of regenerating particulate trap, but the development remains in the experimental stage. Additional equipment requirments and other modifications to the exhaust system, i.e., insulation, heat shields, etc., likely will be needed.

Cost for the control hardware is difficult to estimate since no feasible system has been developed. However, cost estimates on the prime concepts being developed are in the $600 per car range with annual consumer costs of about $700 million. It is estimated that GM investment costs will run $300 million.

The particulate standards should be based on a Clean Air Act requirement for the control of vehicular air pollution, considering cost, lead time, and other relevant factors. EPA has chosen to set technology-forcing standards which will cause unnecessary development costs and dampen enthusiasm for long-term use of this fuel-efficient engine. If the standards were postponed, the effect on ambient particulate levels would be minimal. Thus, the issue is whether the public interest in conserving the nation's petroleum resources and supplies is being well served.

Recommended Action

The 1985 0.2 gpm particulate standard for cars and the 0.26 gpm standard for LD trucks should be rescinded until reasonable control technology is available. EPA should grant NOx waivers for light-duty diesels to the maximum extent allowed by the Clean Air Act (1.5 gpm for four years).

BUMPER STANDARD

The Regulation

The current standard requires that bumpers be designed so as to prevent any damage to the vehicle and limit the amount of damage to the bumper after longitudinal, pendulum and barrier impacts at 5 mph and 3 mph corner pendulum impacts.

The Issue

There is a considerable body of evidence which indicates that the current regulation does not meet DOT's statutory obligation to "...seek to obtain the maximum feasible reduction of costs to the public and consumer...". Studies by GM, Houdaille Industries, and indeed even NHTSA (when correct data are used) indicate that a standard requiring 2.5 mph instead of 5 mph impacts would yield a net cost savings to consumers. This result occurs because of the greater initial cost and replacement cost of the stronger bumper. Moreover, because of the increased weight of a 5 mph bumper, millions of gallons of additional fuel are consumed annually by the U.S. fleet.

If the standard were changed to a 2.5 mph requirement, we estimate that GM car buyers would realize an initial cost savings of $50 per unit. When applied to approximately 6 million North American GM passenger cars, this amounts to an annual consumer cost savings of about $300 million.

A modification of the standard as recommended below would:

- Conserve fuel.
- Save the motorist money.
- Stimulate the automotive industry recovery by allowing manufacturers to hold down prices.
- Be responsive to the Congressional intent.

Recommended Action

The NHTSA should change the current bumper standard to one requiring longitudinal, pendulum and barrier impact test speeds of 2.5 mph, and should reduce corner pendulum impacts to 1.5 mph. Also, the 3/8 inch dent and 3/4 inch "set" limitations on the bumper itself should be removed in favor of 1979 model year damage limitation criteria (no damage allowed to vehicle, but bumper can be damaged).

NATIONAL AMBIENT AIR QUALITY OZONE STANDARD

The Regulation

EPA recently modified ozone standard from .08 ppm to .12 ppm. Compliance is determined on the basis of a one-hour average exceeding the .12 ppm level more than one day per year on average which constitutes noncompliance for an Air Quality Control Region (AQCR).

The Issue

The Clean Air Act requires states which cannot demonstrate compliance by 1982 with the ozone standard, to include vehicle I/M programs and very stringent hydrocarbon (HC) controls on industrial sources -- through their State Implementation Plans -- in order to get an extension of the deadline to 1987.

At a less stringent level (5 exceedances per year), many of the Air Quality Control Regions would no longer be in noncompliance and would be relieved from having to impose I/M programs.

The 1982 date does not take into account that the stringent automobile HC controls mandated for 1981 will take several years to become fully effective in the national fleet because of fleet turnover. In many regions, these controls would produce compliance without I/M or industry having to retrofit facilities to achieve unnecessary levels of hydrocarbon emission controls.

Recommended Action

The Administrator of EPA should relax the standard and indicate to the states that SIPs will be acceptable without stringent HC controls if projections indicated no more than five ozone exceedances per year. This would eliminate the harsh interpretation of the "rare event" compliance philosophy now used, without jeoparding public health.

The action would save consumers about $1 billion annually between 1982 and 1987 by avoiding unnecessary "inspection and maintenance" programs. GM investment savings could be up to $1.0 billion over the 1981-1987 period principally for paint facilities that would not have to be equipped to meet unnecessary levels of hydrocarbon emission controls. This represents an additional saving to GM consumers of $120 million annually.

INDUSTRIAL WASTEWATER DISCHARGE TO MUNICIPAL SEWERS

The Regulation

The EPA is required to establish pretreatment pollution standards for introduction into publicly-owned treatment works of those pollutants which are determined not to be susceptible to treatment or which would interfere with the operation of such treatment works. The category or categories of sources to which the standards apply will be designated by the EPA as "categorical" pretreatment standards. The standards shall specify a compliance date not to exceed three years from the promulgation date. These standards are projected to be promulgated at various times through July, 1981 by single manufacturing source category.

The Issue

Most of GM's 138 plants are integrated facilities (facilities with several wastewater categories) and will be affected by at least seven different categorical pretreatment standards yet to be promulgated. As an example, compliance with the single source electroplating standards, by October, 1982, will cost GM an estimated $100 million. The other single source standards yet to be promulgated would require a projected additional $200-$300 million for compliance. By requiring compliance with each single pretreatment standard as promulgated, cost effective design of treatment facilities to treat similar contaminants in multiple wastewater streams from integrated facilities would be precluded. Redundant and duplicative treatment facilities will be required and the potential for early obsolescence of portions of treatment facilities installed to comply with a single categorical standard will increase significantly.

Recommended Action

EPA should exempt integrated facilities from single categorical pretreatment standards until three years after the last single standard affecting an integrated facility is promulgated. This would allow time for affected industries to minimize expenditures by cost effective design of treatment facilities.

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POTENTIAL SAVINGS OF ELIMINATING OR MODIFYING CERTAIN REGULATIONS

Regulation/Recommended Action	GM Investment ($ Mil.)	Cost to Consumer Per Unit ($/Unit)	Cost to Consumer Annual ($ Mil.)
1. 1982-1984 Passive Restraints Passive Belts NHTSA should eliminate the passive restraint requirements that commence with full-size cars in 1982 model year and apply to all cars by 1984.	285	70-100	100 (1982) 600 (1984 & Beyond)
Inflatable Restraints To equip one car line with air bags at an estimated option volume of 100,000 units annually.	60	1,000	100 (1983-1/2 "B-C")
2. 1984 Heavy-Duty Engine Emissions EPA should modify the emission levels from 90% to 85% control of CO, retain the current test procedure, use the passenger car requirements for useful life, and the passenger car AQL of 40%.	100 (Test Facilities)	Hardware -1,000 Unleaded Fuel Premium -1,700 Total 2,700	950
3. 1984 Light-Duty Truck Emissions EPA should modify the 90% AQL and 100,000 mile useful life requirements to agree with passenger car 40% AQL and 50,000 mile life.	Undetermined	Hardware -110 7% MPG Penalty -600 Total 710	710
4. Light-Duty Diesel Particulate Emissions and NOx Waiver EPA should maintain the 1982 particulate standard of 0.6 gpm versus mandated 0.2 gpm for passenger cars (0.26 LD trucks) until control technology is available. EPA should grant the full four-year NOx waiver (available under Clean Air Act) from 1.0 to 1.5 gpm through 1985.	300	600	700
5. Bumper Standard NHTSA should reduce the current bumper standard from 5 mph to 2.5 mph.	Undetermined	50	300
6. NAAQ Standard for Ozone Redefine attainment to include five annual excursions instead of just one.	Plants - 1,000	20 - (Nat'l I/M)	120 1,000
7. Industrial Pretreatment Standards Exempt integrated facilities from single categorical pretreatment standards until three years after last standard affecting integrated facility is promulgated.	300-400	-	30-40

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1/27/81

SECONDARY RECOMMENDED ACTIONS TO IMPROVE COST/EFFECTIVENESS OF GOVERNMENT REGULATIONS
February 1, 1981

General Motors has long supported regulations where there is a demonstrable health or safety need not met in the marketplace. This paper supplements our priority list of seven regulations, dated January 26, 1981, and covers those areas of secondary concern, yet very important regulations, which might be eliminated or modified as indicated, without a significant effect on health, safety or the environment. The cumulative effect of these changes would save consumers and taxpayers billions of dollars.

Section I. These recommended changes can be implemented by the Executive Branch*

	Subject	Recommended Action
1.	Redundancy in Enforcement of Emission Standards	Eliminate redundancy
2.	Aftermarket Emission Control Parts	Withdraw regulation until realistic solution is found
3.	The 207(b) Emissions Performance Warranty	Defer implementation until an accurate short test is developed
4.	Medium and Heavy Truck Noise Standards	Rescind 1983 standard (80 dB)
5.	Fields of Direct View	Withdraw current regulation
6.	Theft Protection	Withdraw ignition lock requirement
7.	Restraint System Comfort and Convenience	Withdraw current regulation
8.	Fuel Use Act	Relax boiler operating requirements
9.	Industrial Boilers - New Source Performance Standard	Allow more extensive use of innovative technology
10.	High Altitude Regulations for 1982-83	Eliminate unnecessary interim standards
11.	Hazardous Waste Management	Prioritize classification of wastes
12.	Unregulated Emissions	Continue current practice indefinitely
13.	Engine Adjustment Tampering	Regulation should only apply to idle air-fuel mixture
14.	Consumer Information Regulations	Eliminate the current regulations from cars
15.	CO Waiver	Grant two-year industry-wide waiver

*This list does not include items which require Congressional action such as the Clean Air Act or Capital Formation.

Section II. Prospective Regulations Which Should Not Be Promulgated

	Subject	Recommended Action
1.	1984 Light Duty High Altitude Standards	Use 1982-83 proportional standards with maximum test altitudes of 5,200 feet
2.	Crashworthiness Ratings	Withdraw proposed regulation pending correlation of test to field data
3.	Pedestrian Protection	Do research before promulgating a new rule
4.	Side Impact Protection	Redirect research to investigate sub-systems tests
5.	Chlorofluorocarbons (Freon)	Need better definition of the problem and potential solutions
6.	Ultimate Medium and Heavy Truck Noise Standard	Retain the current 83 dB standard
7.	Heavy-Duty Engine Emissions Certification Procedures for Deterioration	Retain present procedure
8.	Heavy Duty Vehicle Fuel Evaporative Emission Reduction	Standard should specify certification "by design"
9.	Indirect Visibility Requirements	Retain existing standard
10.	Rear Lighting System	Retain existing standard
11.	Post-1985 Passenger Car Fuel Economy	Withdraw ANPRM - Retain 1985 MY standard
12.	Emission Testing at Different Temperatures	Withdraw - proposal unwarranted
13.	Child Restraint Tether Anchorages (FMVSS 210)	Retain present standard
14.	Bus Noise Standards	Propose voluntary bus noise standards in lieu of regulation
15.	Vehicle Refueling Vapor Recovery	Control, if needed, should be at service station not on automobiles
16.	Control Location and Identification	Retain existing standard
17.	Hydraulic Brake System Inspectability	Do not promulgate a new rule
18.	Multi-Piece Wheels	Do not promulgate a new rule
19.	Speed Governors for Commercial Vehicles	Withdraw in favor of 55 mph enforcement
20.	1986 Heavy-Duty Diesel Engine Particulate Standard	Withdraw NPRM
21.	1985 Light Duty and 1986 Heavy-Duty NOx Standard	Withdraw ANPRM

SECONDARY RECOMMENDED ACTIONS TO IMPROVE COST/EFFECTIVENESS OF GOVERNMENT REGULATIONS

February 1, 1981

SECTION I

THIS SECTION LISTS CHANGES TO EXISTING REGULATIONS THAT THE EXECUTIVE BRANCH COULD IMPLEMENT.*

Note: All estimates given represent the best information currently available to General Motors and are subject to change, given the variability of regulatory, technological, market and other factors.

*This list does not include items which require Congressional action such as the Clean Air Act or Capital Formation.

REDUNDANCY IN ENFORCEMENT OF EMISSION STANDARDS

The Regulation

EPA's automotive emission compliance requirements are redundant. The need to comply is not in question, only EPA's means of insuring it.

The Issue

Certification is the first compliance process requirement currently costing GM nearly $48 million a year. Some certification provisions and their related costs are not needed. EPA is developing additional requirements that could discourage innovation aimed at fuel efficiency.

Plant Inspections by EPA are a redundant compliance tool because of constantly improving production processes and quality control that assure our products are built correctly.

A third enforcement activity evolved when EPA required GM to submit internally-generated production quality control audit data on exhaust emissions (FETS).

Our current FETS program is far more effective and makes obsolete EPA's fourth layer of requirements, Selective Enforcement Audits (SEA). General Motors has experienced 63 SEA test orders to date; passing 61 with the remaining two having corrective action already underway at the time of the EPA audit.

EPA employs In-Use Surveillance to verify in-use compliance for five years or 50,000 miles. EPA's current testing program can check each major engine family at least once during its five year/50,000 miles period. Approximately 3.8 million GM vehicles have been recalled and repaired by GM at no expense to the owners. This success rate obviates the need for the other compliance steps described herein.

Clean Air Act Section 208 Requirements give EPA broad authority to gather information in determining compliance. EPA's requests have been overly broad, required unnecessary effort in responding, and cast doubt on the need for this requirement.

EPA's seventh compliance tool, Defect Reporting, requires identifying production errors, exceeding 25 of one kind, in materials or workmanship. GM's exemplary voluntary record prior to the regulation proves this requirement unnecessary.

EPA is currently requiring state implemented Inspection/Maintenance (I/M) programs. In-Use Surveillance is much more effective than I/M because the tests for compliance are more reliable and cost beneficial.

Performance Warranty - Section 207(b), a ninth requirement, is triggered by I/M and requires manufacturers to pay for the repair of cars after 1980, that fail the I/M "short test" even if the failed part is not original equipment nor even manufactured or authorized by the manufacturer.

Recommended Action

EPA should reduce redundancy by relying primarily on the In-Use Surveillance and Recall programs, and eliminate or reduce all other enforcement regulations noted above.

AFTERMARKET EMISSION CONTROL PARTS

The Regulation

The aftermarket part self-certification regulations were effective on December 26, 1980 as a result of requirements added to the CAA in the amendments of 1977. The unacceptability of the proposal was evident at the EPA public hearings on October 3 and 4, 1979, in which the proposed regulations were overwhelmingly rejected by all witnesses. Even the automotive aftermarket associations, which originally lobbied in Congress for the program and drafted emissions standards for specific parts and systems, did not support the regulations as proposed.

The Issue

This program now permits aftermarket parts manufacturers to self-certify that their parts would not cause the emissions from a car to exceed emission standards if these parts were installed. It allows each vehicle manufacturer to monitor the notices of intent to certify aftermarket parts to enable appeal and decertify decisions. Vehicle manufacturers would be liable for the quality of the part and installation, despite the fact that vehicle manufacturers have no control over the parts or the people involved. While these regulations were portrayed by EPA as not having a significant cost impact, they are in truth "significant major regulations" (as defined by the President's Executive Order 12044). General Motors estimates $20 million in non-recurring facilities cost -- and $30 million annual recurring cost -- for GM alone.

Recommended Action

The aftermarket self-certification regulation should be reconsidered and delayed until a definitive cost effectiveness analysis can be performed. This delay would not have a significant negative impact on air quality, aftermarket part manufacturers, the independent repair industry, or the vehicle manufacturers.

THE 207(b) EMISSIONS PERFORMANCE WARRANTY

The Regulation

EPA has implemented the performance warranty provisions of the Clean Air Act by regulations defining a "short test" for I/M programs. Under this warranty, 1981 and later model cars failing an emission "short test" would be brought into compliance at the expense of the vehicle manufacturer. However, the "short tests" EPA proposes differ from the test used to certify vehicles and, in fact, no short test exists, nor is one likely to be developed, which will adequately correlate with the certification test.

The Issue

The Performance Warranty Regulations fall under Section 207 of the Clean Air Act, Compliance of Vehicles in Actual Use. The defect warranty and recall provisions of this Section already are operative. The performance warranty regulations, inspection and maintenance and aftermarket part self-certification regulations are going to be very costly to implement; costly to consumers and taxpayers. Their total cost is expected to run into billions with only a nominal, if any, improvement in air quality.

Since the Performance Warranty Regulations have just been issued, there has not been an opportunity to evaluate their impact on the 1981 model fleet. However, these regulations likely will have a significant adverse impact on the automobile industry in terms of administrative costs, burdensome procedures for implementation, warranty costs for parts, diagnosis and repair, and the cost of warranting a third party manufacturer's part. Although the total cost of implementing this Performance Warranty has not been estimated yet, it is expected to be substantial.

In addition to the administration and implementation costs, the regulations are currently the subject of litigation in order to clarify the legality of the requirements.

Recommended Action

The performance warranty regulation should be rescinded until a practical way is found to measure the emissions performance of vehicles in service. Existing In-Use Surveillance and Recall programs are adequate and much more effective ways of assuring the emission control performance of cars in use.

MEDIUM AND HEAVY TRUCK NOISE STANDARDS

The Regulation

The next scheduled noise reduction for medium and heavy trucks will reduce the maximum allowable sound level from 83 dB to 80 dB on January 1, 1983.

The technical and economic analyses used to justify truck noise standards were made in 1974. Update of these would result in substantial changes to the economics of the regulation.

The Issue

Changes required to meet the 80 dB truck regulation in 1983 will increase the cost of GM trucks to consumers by approximately $365 per unit or $35 million annually. This does not include the increased maintenance costs on these trucks resulting from the added complexity of noise control hardware and noise shields which restrict accessibility for maintenance.

Recommended Action

Enforcement of the 80 dB truck regulation should be rescinded until an updated cost/benefit analysis demonstrates the need for an 80 dB standard.

FIELDS OF DIRECT VIEW

The Regulation

FMVSS 128 contains windshield transmissibility requirements which will necessitate a reduction in the amount of tint in certain passenger car windshields. The rule also restricts the number and size of obstructions, such as pillars, in the driver's field of view.

The Issue

The NHTSA has failed to show that windshields meeting the existing requirements prior to the promulgation of FMVSS 128 represent a risk to the public. Moreover, such a change could have an adverse affect on occupant comfort in affected vehicles.

NHTSA also has not demonstrated that vision obstructions on existing vehicles represent a risk that justifies the need for a standard. Many GM car lines nearing production and/or projected to run beyond the effective date of this standard will require costly structural revision to meet the newly promulgated regulation.

Recommended Action

The NHTSA should withdraw the standard.

THEFT PROTECTION

The Regulation

NHTSA has extended the Theft Protection Standard (FMVSS 114) to light trucks and MPVs and increased requirements for ignition locks with key release buttons or inhibitors. (These inhibit inadvertent locking of steering on some cars with floor-mounted transmission levers.) This change will prohibit the current GM design.

The Issue

The requirements involving light trucks and MVPs (except walk-in vans) are either already incorporated in GM vehicles or are scheduled to be included before the effective date.

NHTSA has not demonstrated the safety need or the cost effectiveness of the requirement which disallows GM's current steering lock inhibitors.

Recommended Action

NHTSA should withdraw this requirement since the existing standard adequately addresses any vehicle safety need.

RESTRAINT SYSTEM COMFORT AND CONVENIENCE

The Regulation

NHTSA has issued specific comfort and convenience requirements for manual and automatic seat belts for passenger cars and light trucks. The manual front outboard lap/shoulder belt currently used in passenger cars are exempted. NHTSA believes such a proposal would encourage belt usage.

The Issue

Available information does not support NHTSA's contention that low usage rates of restraint systems is attributable to a lack of comfort and convenience. A more logical explanation for the high rejection of restraint systems is the lack of understanding on the part of consumers regarding the safety benefits of restraint systems. Ironically, restraint systems judged in consumer surveys as offering high levels of comfort and/or convenience, have not been shown to achieve significantly higher than normal usage rates. Thus, the current regulation is inappropriate in that it is based on unsubstantiated assumptions regarding any benefits anticipated from restraint systems which would conform.

Further, the concepts of comfort and convenience which involve subjective perceptions by consumers already provide powerful competitive incentives for manufacturers to incorporate features which enhance comfort and convenience, especially for automatic belts. Thus, regulation is unnecessary, and could be counterproductive if it limits or precludes marketplace incentives. The potential also exists for increased design costs where regulation restricts a manufacturer's design freedom to consider less costly, but equally effective approaches.

Recommended Action

The current regulation should be withdrawn pending further review of all strategies which offer potential for increased seat belt usage. Special emphasis should be given to strategies which could promote increased restraint usage by increasing the awareness by the consumer of the benefits of restraint systems.

Consideration of regulatory strategies, e.g. the current regulation mandating comfort and convenience, should include a determination that: 1) such strategies will result in increased seat belt usage, and 2) adequate marketplace incentives do not exist. Furthermore, NHTSA should also reconsider its intention to publish "performance guidelines" for restraint systems in that such activity is inappropriate as a rulemaking function.

FUEL USE ACT

The Regulation

The Powerplant and Industrial Fuel Use Act and the regulations implementing it would require all new and many existing Major Fuel Burning Installations to burn coal as their primary energy source.

The Issue

GM opposes this approach because its implementation would impose overly stringent exemption requirements. In addition, it may force GM to make large expenditures to convert existing non-coal capable boilers to coal. GM is committed to the use of coal in its boilers wherever it is cost effective.

Recommended Action

The regulations should be modified to minimize the costs of compliance or consideration be given to a total repeal of the Act.

INDUSTRIAL BOILERS-NEW SOURCE PERFORMANCE STANDARD (NSPS)

The Regulation

EPA is currently developing a New Source Performance Standard (NSPS) for industrial and commercial boilers of 10 to 250 million Btu. The leading control options will likely require the use of baghouses for particulate control, as well as flue gas scrubbing for sulfur dioxide emission control. Environmental impact studies clearly indicate that these controls are unreasonably costly based upon a cost/effectiveness analysis.

The Issue

Based on extensive monitoring and modelling data, the cost of baghouses and wet scrubbers can be shown to be excessive when applied to industrial-size boilers.

The estimated cost of baghouses and scrubbers to the total industrial sector will be $2 to $3 billion between now and 1985. If technological innovations such as the newly developed GM side stream separator and low-sulfur coal can be used as an alternate to baghouses and scrubbers, this estimate could be reduced to approximately $360 million, with only minimal impact on air quality.

For GM, compliance with the proposed NSPS for the control of sulfur and particulates of the approximately 60 replacement boilers scheduled over the next ten years is estimated at $153 million; use of the alternate control strategy is estimated at $21 million, thus allowing a potential saving of approximately $130 million.

Recommended Action

EPA should postpone the NSPS until environmental data from the use of the GM side stream separator and low-sulfur coal is analyzed.

HIGH ALTITUDE REGULATIONS FOR 1982-83

The Regulation

EPA has promulgated high altitude emission standards for 1982-83. This regulation is unnecessary from the air pollution standpoint, is not required by law and will result in significant certification expenditures and some hardware additions.

The Issue

The Clean Air Act authorizes, but does not require, EPA to set high altitude emission standards for 1981-83. Such standards were recently promulgated by EPA for 1982-83 cars and light trucks.

1981 GM cars will employ emission control technology which provides substantial altitude compensation. On the average, the 1981 GM cars should provide high altitude emission control similar to the EPA proposal. Thus, the regulations will result in no perceptible benefit to air quality. However, certain truck models would require additional equipment to achieve the proposed standards -- equipment which will add $70 to the consumer cost per affected vehicle.

There is provision in the regulation for "modification" of low altitude vehicles to meet high altitude standards.

In addition, the regulation requires cars to be capable of adjustment to meet standards at both high and low altitudes. This capability is not available on all cars and thus could eliminate certain high fuel economy cars from national production. It will most certainly add substantial cost to the car manufacturers' certification testing burden.

Recommended Action

EPA should rescind the 1982-83 high altitude emission requirements.

HAZARDOUS WASTE MANAGEMENT

The Regulation

On May 19, 1980, EPA promulgated hazardous waste regulations under the Resource Conservation and Recovery Act. Subsequently, several amendments to these regulations were made by EPA. These regulations include criteria and lists for identifying hazardous wastes. EPA did not consider the "degree of hazard" concept recommended by professional and industrial organizations during the rulemaking process. Therefore, all identified hazardous wastes are required to meet the same stringent requirements. This EPA approach does not allow orderly implementation of controls, imposes unnecessary control costs on less hazardous wastes, and diminishes efforts to control the most hazardous substances first.

The Issue

EPA estimated that the hazardous waste regulation will impose $310 million capital cost and $510 million per year operating cost on industry nationwide. The total cost estimated by the business community was over $2 billion per year.

EPA's failure to consider the "degree of hazard" concept is evident in the listing of the following two wastes as hazardous in the May 19 regulations. and as amended on November 12, 1980:

- "F006 - Wastewater treatment sludges from electroplating operations except..."
- "F007 - Spent cyanide plating bath solutions from electroplating operations except..."

F006 is much lower in degree of hazard than F007 because many soluble toxic constituents have been destroyed or precipitated during wastewater treatment which generated the sludge. F007 is usually more hazardous than F006 because it may contain highly toxic cyanides or strong acids which require special management.

Recommended Action

EPA should revise the May 19, 1980, regulations to incorporate the "degree of hazard" concept.

UNREGULATED EMISSIONS

The Regulation

EPA has indicated that it plans to require manufacturers to run extensive product tests and health effects studies related to possible exhaust emissions which are presently unregulated.

The Issue

The 1977 Clean Air Act Amendments state that, effective with 1979 model-year vehicles, no emission control device or element of design shall be used if it will contribute to an unreasonable risk to public health, welfare, or safety. To date, EPA has issued certificates of conformity based on manufacturers' statements that, to the best of the manufacturer's knowledge and belief, the emission control devices being used comply with the requirements of the Act. However, EPA has indicated that it plans to require these statements to be based upon extensive product tests and health effects studies. The detailed test program outlined by EPA in a draft proposal in late 1978 would cost manufacturers hundreds of millions of dollars per year.

The amount of testing proposed by EPA is much more than needed to effectively monitor unregulated pollutants. The requirements of the legislation can be satisfied by a continuing, orderly research-oriented study of the sort that has been in existence for some time in General Motors. In this program, we review new control system concepts and new engine design types for the probable occurrence of unregulated emissions, and test for unregulated pollutants that are suspect. We also assess potential effects on air quality and public health. Areas of particular concern are studied in more detail, either within GM or by outside contractors.

Recommended Action

EPA should continue the current compliance-statement procedure.

ENGINE ADJUSTMENT TAMPERING

The Regulation

The Parameter Adjustment or anti-tampering regulation forces manufacturers to design engines so as to eliminate engine system adjustment features or to limit their range of adjustment. The regulation is ambiguous and EPA has been forced to make arbitrary judgments for each proposed design. Furthermore, carburetor idle mixture screws are the only adjustable feature for which tamper resistance can be justified, according to EPA's own field surveillance data.

The Issue

The basis for this regulation is field surveillance work which indicated that misadjustment of the air/fuel mixture at engine idle was a common occurrence. Subsequently, EPA issued a broad regulation affecting this adjustment and several others which have not been demonstrated to be field problems. The final rule, published on January 12, 1979, required four parameters to be sealed in the first two years, beginning with 1981 (idle mixture screws and choke in 1981, ignition timing and idle speed in 1982). GM voluntarily included an idle mixture screw sealing cover on all of its cars beginning in 1979, two years before the rule became effective. In the spirit of discouraging tampering, GM voluntarily provided tamper-resistant features for chokes in the 1980 model year.

EPA has been vigorously enforcing this regulation in an arbitrary manner by requiring detailed approval of every design proposed. Decisions about the accessibility of adjustments have been highly subjective and have added considerable complexity and cost to the carburetor choke mechanism for 1981.

EPA has responded to industry concerns about the excessive cost and rescinded the 1982 idle speed requirement on August 26, 1980 and the 1982 ignition timing requirement on October 28, 1980.

GM is currently negotiating with EPA to rescind the 1981 choke tamper resistance requirements. The action was initiated by a GM letter dated November 20, 1980 pointing to a continued lack of justification from recent EPA surveillance studies. If EPA drops this requirement, GM new car buyers will save $28 million in 1982 with commensurate savings in future model years.

Recommended Action

EPA should rescind all Parameter Adjustment requirements except those for idle mixture screws.

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CONSUMER INFORMATION REGULATIONS

The Regulation

The current Consumer Information Regulations require manufacturers to provide information to NHTSA, to customers and to prospective customers about stopping distances and tire reserve load.

The Issue

This consumer information is costly to disseminate and has proven to be of limited value. It generally has been ignored by the customer. Reports from dealer showrooms indicate that buyers rarely ask for this information. Compliance with the Consumer Information Regulation costs GM approximately $750,000 each year. Stopping distance of cars and tire performance are already regulated by other standards.

Recommended Action

NHTSA should eliminate the current Consumer Information Regulation requirements as they relate to passenger cars since they have little perceived customer value or safety benefit.

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CO WAIVER

The Regulation

A standard of 3.4 gpm CO becomes effective in 1981, however Congress provided for waiver to 7.0 gpm CO for both 1981 and 1982. Emission control technology has been developed to meet this statutory standard but with increased cost and in some cases lost fuel economy and reduced driveability.

The Issue

Most experts agree that granting an industry-wide two-year CO waiver would have insignificant effect on air quality and public health. A balancing of risks shows that the increased cost to meet the statutory standard far exceeds any possible benefit.

An industry-wide CO waiver could save GM consumers about $140 million for model year 1982 or a savings of $70 per vehicle for those vehicles not previously granted CO waivers for 1982. However, at this late date, it is unlikely that GM could take much advantage of the potential savings. Nevertheless, it is in the nation's best interest that EPA grant an industry-wide waiver.

Recommended Action

EPA should grant an industry-wide two-year waiver.

SECONDARY RECOMMENDED ACTIONS TO IMPROVE COST/EFFECTIVENESS OF GOVERNMENT REGULATIONS

February 1, 1981

SECTION II

THIS SECTION LISTS PROPOSED REGULATIONS WHICH SHOULD NOT BE PROMULGATED*

Note: All estimates given represent the best information currently available to General Motors and are subject to change, given the variability of regulatory, technological, market and other factors.

*This list does not include items which require Congressional action such as the Clean Air Act or Capital Formation.

1984 LIGHT-DUTY HIGH ALTITUDE STANDARDS

The Proposal

The Clean Air Act (CAA) requires that, beginning with the 1984 model year, light-duty vehicles must meet sea level standards regardless of the altitude at which they are sold. EPA is preparing a report to Congress on the economic impact and technological feasibility of meeting sea level standards at all altitudes. Available data support proportional standards (i.e., standards similar to those in effect at high altitude for the 1982-83 models) for high altitude areas. Furthermore, the data support the enforcement of standards at altitudes no higher than that of Denver. EPA has already indicated that the standards should be enforced at altitudes no higher than 6,000 feet.

The Issue

When high altitude regulations were promulgated for the 1977 model year, they were met with strong resistance from dealer organizations. Consequently, the Clean Air Act was amended in 1977 to place certain limitations on EPA in promulgating new high altitude regulations prior to the 1984 model year. These limitations provided that EPA could not establish high altitude regulations before 1981 and that the standards could not require a greater percentage reduction than is required for sea level vehicles.

The CAA Amendments of 1977 also specified that, beginning with the 1984 model year, vehicles must meet sea level standards regardless of the altitude at which they are sold. Congress obviously had some concern about the wisdom of requiring manufacturers to meet the standards at all altitudes because they required EPA to report to Congress, by October 1, 1978, on the economic impact and technological feasibility of meeting the sea level standards at all altitudes.

Unfortunately, EPA has not yet reported to Congress on the 1984 altitude issue. Nevertheless, the EPA report, which will probably be issued within a few months, will significantly impact the 1984 high altitude issue in the forthcoming Clean Air Act review.

Recommended Action

EPA is justified in recommending to Congress proportional standards (same as in effect for 1982-83) for 1984. Also, EPA is justified in recommending that testing at Denver's altitude (essentially 5,200 feet) would be adequate to judge compliance.

CRASHWORTHINESS RATINGS

The Proposal

Through enactment of Title II of the Motor Vehicle Information and Cost Savings Act, the Department of Transportation is charged with the task of developing methodology to determine the characteristics of passenger cars relative to their damage susceptibility, crashworthiness and ease of diagnosis and repair. The Secretary must then devise means to communicate this information to the public. The NHTSA has issued (1-16-81) a Notice of Proposed Rulemaking.

The Issue

NHTSA has conducted extensive and expensive laboratory crash testing of cars at 35 mph with the stated presumption that such tests may reliably indicate relative crashworthiness differences. Such data, NHTSA has stated, may be utilized to create vehicle crashworthiness ratings. The agency has publicized the test results in their recently issued "Car Book."

The proposed rulemaking essentially requires automobile manufacturers to certify their cars' crash performance at 35 mph ("Pass" or "Fail" the related crash protection standards), provide substantiation of the certification to the Agency, and provide a window sticker, indicating 1) failure to meet occupant crash protection requirements at over 30 mph crash test speed, or 2) success at meeting occupant crash protection requirements at 35 mph (or higher) crash test speeds (no certification at speeds between 30 and 35 mph are allowed).

General Motors has consistently supported consumer information that is meaningful and that will be used by consumers in their purchase decisions. Such information must be accurate, reliable, and readily understood by the public to be of value. The proposed rulemaking, the NHTSA public comments, and the representation (such as the "Car Book") of the 35 mph crash test results as indicative of real world crashworthiness are misleading to the public. Test technology does not exist to allow such laboratory crash testing to be reliably correlated with real-world highway accident performance. At the present time, test dummies are not accurate representations of humans, and the injury criteria used in conjunction with these dummies lack strong medical foundation. Also, the close relationship of a frontal barrier test impact with a real world frontal impact still must be established.

The continuation of the NHTSA 35 mph crash testing, dissemination of test results, and the proposed rulemaking before research and development provides the proper test tools, are inappropriate from a technical viewpoint, misleading to the public, and are wasteful of the taxpayers' money.

Recommended Action

NHTSA should change their program to one of research and development which responds to test technology questions. Further, publication of laboratory crash test results such as NHTSA's recent "Car Book" should be immediately discontinued. In addition, NHTSA should recall the NPRM on this subject until such questions can be properly answered.

PEDESTRIAN PROTECTION

The Proposal

NHTSA has recently issued a proposal for rulemaking on pedestrian protection.

The Issue

The basic assumptions made by NHTSA that this standard will save weight and not require additional cost are incorrect. The standard probably will require "soft face" designs which, particularly for smaller vehicles, are generally more costly and add weight. The NHTSA has not completed planned research which is needed to estimate the benefits associated with this proposal.

Recommended Action

NHTSA should withdraw the proposed rulemaking until the necessary research data have been gathered and analyzed.

SIDE IMPACT PROTECTION

The Proposal

NHTSA has indicated its intent to require full vehicle crash tests to establish compliance to a new standard on side impact performance.

The Issue

GM's primary concern over this issue is that the NHTSA will decide to require compliance to a standard based upon full vehicle crash tests using crude dummies and questionable injury criteria. Further, analyses of real-world accident data has shown that injury mitigation potential would be more properly addressed by adopting sub-system tests and incorporating design changes in response thereto. GM cannot support a standard that might exclude alternative side impact test strategies potentially yielding more consumer benefit in less costly or less complex ways. GM has publicly offered its cooperation in the development and evaluation of viable alternatives.

Recommended Action

NHTSA should redirect its research activities to include consideration of alternative, more effective test strategies for improving side impact protection. In addition, it should actively solicit the cooperation of industry to investigate and evaluate these alternatives.

CHLOROFLUOROCARBONS (FREON)

The Proposal

EPA is considering regulation of the non-aerosol uses of chlorofluorocarbons (CFCs) based on National Academy of Sciences (NAS) studies which state that the increasing ozone depletion rate is cause for concern, if worldwide uses of CFCs continue at today's rate.

The Issue

EPA has already cut the U.S. usage of CFCs by 50% by banning CFC use in aerosol sprays in 1978. Now EPA plans to reduce CFC use further by either limiting production to current levels or by limiting production up to 70% of current production in the future. The effects of this proposal have not been adequately assessed. There are no currently available substitutes for GM's major uses (i.e., automotive air conditioning refrigerant R-12 and flexible seat foam blowing agent R-11).

If a change to any known alternate refrigerant for vehicle air conditioning systems is required, the machinery, equipment and tooling for the current systems would have to be replaced. If an alternate refrigerant were selected now, we estimate that it would take General Motors 5-7 years to test, develop and place into production a system that would be compatible with the new refrigerant.

If General Motors were to change to an alternate blowing agent used in flexible seat foams, the development time to place such a foam into production is currently estimated at 2-3 years.

The Clean Air Act requires the Administrator to study the CFC problem worldwide and make recommendations. A CFC regulation is not mandatory and no effective date is specified in the Act. EPA's current proposal for production restrictions via economic incentives is not permitted by the Act.

General Motors would have to invest approximately $400 million for new machinery, equipment and tooling for both vehicle air conditioning and for flexible seat foams to use alternatives to CFCs.

Recommended Action

EPA should postpone any regulatory actions until the problem and potential solutions are better defined.

ULTIMATE MEDIUM AND HEAVY TRUCK NOISE STANDARD

The Proposal

In the truck noise regulations originally proposed in October 1974, the EPA included plans to limit truck noise to 75 dB. However, when the regulation was finally published in 1976, based upon an evaluation of the technology and economics by the Administrator, it required a reduction to only 80 dB. Subsequently, EPA has stated that it is the intent of the agency to further regulate to 75 dB, probably by 1985.

The Issue

EPA has spent, and is spending money to build prototype trucks at the 75 dB level to try to demonstrate the viability of a 75 dB regulation. These prototype trucks do not offer any new technology compared to that demonstrated and reported by the DOT quiet truck programs starting in 1974. The DOT reports on these programs were part of the EPA evaluation of the viability of a 75 dB regulation in 1976.

There is no new information today that should change the conclusion of the Administrator in 1976. The technology for attaining the 75 dB sound level for trucks still requires engine and transmission enclosures, the cost and complexity of which are out of proportion to the benefit attained. The production cost to the consumer for the noise control hardware installed on a prototype truck recently outfitted by an EPA consulting firm was estimated to be $1500.

The EPA intention to require 75 dB is being pursued without any indication of new technology being available and without an appraisal of the benefits ensuing from regulations already in effect. This expressed EPA intent forces industry to divert resources from more pressing problems.

Recommended Action

EPA should stop pursuing the goal of a 75 dB regulation on medium and heavy trucks until:

1. The improvement in the environment resulting from 83 dB trucks has been properly evaluated.

2. There is a demonstration of noise control technology, other than total enclosures for engines and transmissions, that would be more cost beneficial and more practical for field use.

HEAVY DUTY (HD) ENGINE EMISSIONS CERTIFICATION PROCEDURES FOR DETERIORATION

The Proposal

First proposed as part of the 1984 HD exhaust emission package, this provision was withdrawn and recently reproposed in an ANPRM on 1985 LD and 1986 HD NOx.

The Issue

EPA intends to implement a system of testing HD engines to establish certification deterioration factors. This system would require that engines be placed in vehicles which are in service. Periodically, the engines would be removed from the vehicles for emission testing and then reinstalled for further use.

The GM cost estimate for the program as originally proposed in 1979 is approximately $10 million just for the initial model year. GM considers the current durability test requirements to be adequate.

Recommended Action

The "in-service" procedure to determine deterioration factors would be unduly complex and add considerable expense. The durability test should continue to be accomplished on an engine dynamometer and completed prior to start of production.

HEAVY DUTY VEHICLE FUEL EVAPORATIVE EMISSION REDUCTION

The Proposal

EPA has proposed an unduly complex heavy-duty (HD) vehicle evaporative emission certification procedure.

The Issue

In May, 1980, EPA proposed evaporative emission rules for HD vehicles patterned after existing rules for light-duty (LD) vehicles. Because of the large number of different truck models necessary to satisfy the variety of truck uses, the size of the HD test fleet would be almost as large as that for LD vehicles. Considering the difference in LD and HD vehicle sales, the HD test burden would be disproportionate. Vehicle certification would be further complicated by the proposed requirement that manufacturers of incomplete vehicles somehow determine the final configurations of vehicles to be completed by secondary vehicle builders in a worst case configuration and procure these completed vehicles for certification testing. Thus, the vehicle manufacturer becomes responsible for the actions of others.

EPA's approach to HD vehicle evaporative certification is particularly absurd in view of California's successful and cost effective control of HD vehicle evaporative emissions. Since 1973 California has certified control systems "by design" i.e., by projecting light-duty vehicle system design data to establish heavy-duty vehicle compliance.

Recommended Action

EPA should take the long overdue action of adopting the California regulatory concept of "by design" certification. If some additional type of testing is deemed necessary, it should be limited to system component testing in order to preclude the need for large new building facilities and oversized test equipment which would cost GM an estimated $6.5 million (1980) dollars. It also would avoid annual data-fleet certification costs estimated $1.3 million (in '80 dollars).

INDIRECT VISIBILITY REQUIREMENTS

The Proposal

NHTSA has proposed amendments to FMVSS 111 which among other things would require the drivers to see a significantly greater area in their rearview mirrors.

The Issue

NHTSA has not demonstrated that a safety need exists for additional regulation of indirect visibility.

This proposal would require outside mirrors on every passenger car to be made considerably larger. Anticipated costs would be about $75 million. In addition, the requirements for the inside rearview mirror of sporty and hatchback models could require major structural redesign. Some truck models also may require major structural redesign. GM has estimated the engineering and tooling costs of this proposal, applied to one vehicle line, at $18.6 million.

Recommended Action

NHTSA should not promulgate the proposed changes to the standard since a safety need has not been established, and the associated costs could be substantial.

REAR LIGHTING SYSTEM

The Proposal

The NHTSA has just released a NPRM that would require all passenger cars manufactured after September 1, 1983 to have an auxiliary high-mounted stop lamp.

The Issue

Two NHTSA studies have indicated that vehicles using a single, high, center-mounted stop lamp in addition to the current stop lamps tend to be involved in fewer rear end accidents. However, a definitive cause for this apparent accident reduction has yet to be determined. The addition of an auxiliary high center-mounted stop lamp will also increase costs substantially beyond the NHTSA estimates of $4.45 to $5.21 per car.

Recommended Action

NHTSA should forego this proposal pending a further study to fully determine the causes for the observed effects. This would allow for less restrictive design constraints and assure that anticipated safety benefits will be realized.

POST-1985 PASSENGER CAR FUEL ECONOMY

The Proposal

The Energy Policy & Conservation Act (EPCA) gave DOT the authority to set standards beyond 1985. Once such standards are finalized, Congress has 60 days to review them. DOT on January 20, 1981 issued an ANPRM on this subject.

The Issue

Beyond 1985, there are numerous questions that virtually preclude a responsible commitment by anyone -- whether in industry or government -- to a specific level of fuel economy. There are so many external factors of unknown dimensions that could influence consumer purchase decisions that it is only possible to speculate as to what level of fuel economy will be closest to what consumers will demand. Standards that exceed consumer demand can result in lost sales and reduced employment. Standards that are lower than what consumers want are obviously unnecessary. One of the largest factors that will affect consumer purchases and the most difficult to predict is the price of gasoline beyond the next year.

Recommended Action

The ANPRM should be withdrawn -- DOT should retain the 1985 27.5 mpg standard since manufacturers are currently responding, and will continue to respond, to consumer demand for higher fuel economy.

EMISSION TESTING AT DIFFERENT TEMPERATURES

The Proposal

EPA is developing regulations which would require emission testing of vehicles at temperatures above and below the temperature at which the standard emission test is run. These regulations would require major new expensive facilities and add significantly to the certification test load. There is no current evidence, to our knowledge, that indicates air quality benefits resulting from this effort and expense.

The Issue

EPA believes that the the Clean Air Act empowers them to expand certification testing requirements to include operating temperatures and conditions not now included in the Federal Test Procedure. In September, 1978, EPA issued an Advisory Circular which attempted to implement such changes without even using normal rulemaking procedures. General Motors responded by questioning the need, authority, and proposed method of implementing these requirements. GM believes that these additional testing requirements are not mandated by the Clean Air Act nor required from the standpoint of air quality in view of the many other existing layers of compliance.

General Motors has voluntarily supplied data to EPA which demonstrate that present control systems at temperatures different from the standard test temperature provide about the same proportional control as they do at the standard temperature. Thus, elaborate new test requirements would not provide any significant additional air quality benefits.

For the 1980 model year, the added cost to General Motors for additional testing and new facilities to comply with EPA's proposed requirements would have been approximately $20 million. Thereafter, the cost of testing would be about $500,000 annually.

Recommended Action

EPA should cancel this activity.

CHILD RESTRAINT TETHER ANCHORAGES (FMVSS 210)

The Proposal

The NHTSA proposes requiring anchorages for child restraint system (CRS) top tether straps at each rear seat position in passenger cars, MPVs and light trucks.

The Issue

The NHTSA indicates that its proposal is based on studies which have found that top tethers on child restraints are properly secured to the vehicle about half of the time. The NHTSA believes that a significant increase in the rate of top tether attachment can be achieved through requiring vehicles to provide tether anchors at all rear seat positions.

However, NHTSA's own review of studies has also shown that the lap belts needed to secure the CRS to the vehicle are used about half of the time. The similarity of usage rates in these two instances strongly indicates that a significant change in attachment rate for top tethers would not occur if anchorages were provided. Additionally, most child restraints are not even equipped with top tethers.

Recommended Action

GM recommends that this proposal be withdrawn on the basis that negligable benefit and unnecessary cost would result from this regulation.

77-112 O—81——19

BUS NOISE STANDARDS

The Proposal

In September 1977, EPA proposed progressive exterior bus noise standards of 83 dB, 80 dB and 77 dB. EPA has not yet promulgated the regulation. These standards would apply to school buses, transit buses and intercity buses.

The Issue

General Motors has proposed voluntary standards for transit, suburban and intercity buses on the following schedule:

Effective Date	Sound Level Standard (dB) (Not to Exceed) Exterior	Interior
Jan. 1, 1981	83	83
Jan. 1, 1983	80	80

This is an improvement on the schedule we believe is being considered by the EPA.

It eliminates the 77 dB exterior noise standard proposed by the EPA.

Inasmuch as a 77 dB transit bus conforming to all other performance requirements in this country has not been demonstrated, the technical risks of initially regulating to this level are prohibitive. It is probable that this level of regulation would require a fully enclosed engine compartment. Sufficient time must be allowed to design and adequately test such unproven features for durability.

Recommended Action

We suggest that EPA accept voluntary standards for transit, suburban and intercity buses and thereby avoid costly administrative burdens for government and industry alike without redeeming benefits.

EPA should not consider the 77 dB level until it has been demonstrated that buses operating at that level will meet performance, maintenance, and durability requirements.

With regard to voluntary standards for school buses, it continues to be the General Motors position that school buses be controlled to the same level as medium trucks. This would allow for the most expeditious control of this class of buses on a voluntary basis. Responsibility for compliance to the voluntary standards would be accepted according to the proposal contained in the Federal Register, Vol. 42, No. 176, September 12, 1977, Page 45776 et seq, Noise Emission Standards for Transportation Equipment Buses.

VEHICLE REFUELING - VAPOR RECOVERY

The Proposal

The Clean Air Act (CAA) requires EPA to examine proposals relating to refueling of vehicles to determine the feasibility of requiring new vehicles to utilize on-board hydrocarbon control technology as opposed to recovery utilizing stationary equipment at service station fueling sites. A decision to go on-board not only would involve more cost per unit of emissions controlled, but would impose national control which is not needed in many areas.

The Issue

EPA is required by the CAA to impose regulations requiring on-board control if it finds that approach (compared to service station control) feasible and desirable. However, that judgment must, by law, consider cost effectiveness; GM estimates the cost is about three times greater for on-board control in dollars per ton of emissions prevented. The estimated cost per car of on-board control hardware is $16 to $24 per car which translates to $100 to $150 million per year to purchasers of GM vehicles.

If control of refueling emissions is actually required in certain areas it can be obtained quickly and more cost effectively with service station control. On-board control would involve a national program, regardless of need and require more than ten years to become effective -- as a result of the time needed to replace older cars without this type of control.

Recommended Action

If control of refueling emissions can be justified, it should be confined to service station control in those areas where it can be shown to be necessary and cost effective.

CONTROL LOCATION AND IDENTIFICATION

The Proposal

NHTSA has requested manufacturers' future plans for control locations and operating modes. It is NHTSA's belief that there is a safety hazard when drivers are distracted from the road while searching for unfamiliar controls.

The Issue

The industry has already achieved some degree of standardization through several SAE and ISO Recommended Practices. GM has achieved a fairly high degree of standardization of many controls within our own product lines. There is no conclusive evidence that further control standardization could reduce accidents.

If standardization of control locations and operating modes is eventually proposed, it could require the redesign and tooling of instrument panels, multi-function control stalks (i.e. turn signal levers with other control functions included) steering wheels, and even radios. It could restrict innovation and have a negative effect on competition.

Recommended Action

NHTSA should not impose further control location and operating mode standardization until it can be shown that each specific control requirement can contribute to vehicle safety.

HYDRAULIC BRAKE SYSTEM INSPECTABILITY

The Proposal

NHTSA is considering a standard which would require that consumers and mechanics be able to inspect brakes without removing a wheel.

The Issue

We believe that a thorough evaulation of the condition of a brake system can only be made following removal of the wheel (and brake drum where applicable).

The inspection openings required by such a standard could cause increased exposure of brake components (i.e. linings, springs, etc.) to weather and contamination, thus causing premature wear and possibly necessitating additional maintenance. NHTSA has not yet published a proposal detailing actual inspectability requirements. For this reason, the total impact of such a regulation cannot be assessed.

Recommended Action

NHTSA should not promulgate a rule requiring brake inspections without wheel removal.

MULTI-PIECE WHEELS

The Proposal

NHTSA has been petitioned by the Insurance Institute for Highway Safety to ban the production of multi-piece wheels (used on medium and heavy duty trucks).

The Issue

Although some designs of multi-piece wheels have experienced separation when damaged or mis-assembled, the frequency of such occurrences is very low. According to the National Wheel and Rim Association, it is one per 1,347,000 tire changes. Usually only a few designs have been involved, some of which are now out of production. The only alternative - one-piece wheels - uses a different series of tire sizes than do multi-piece wheels. Even if there is sufficient capacity to manufacture one-piece wheels for all truck production, there does not appear to be sufficient capacity to manufacture the needed tires.

Recommended Action

NHTSA should withdraw the proposal to categorically ban multi-piece wheels. It could result in a shortage of one-piece wheels and tubeless tires that would restrict truck production. NHTSA first should determine if those few designs with higher incidence of separations are still in production, and if so address them individually.

SPEED GOVERNORS FOR COMMERCIAL VEHICLES

The Proposal

Trailway Bus Company has petitioned NHTSA to establish a standard to limit commercial vehicle speed to 57 mph. Trailways subsequently, withdrew their support of this regulatory action.

The Issue

Speed may be limited through restrictions of engine power and drive ratios, engine speed governors, or road speed sensing governors. The best of these devices is not likely to control speed better than plus or minus seven mph. In order to keep all commercial vehicles from exceeding 57 mph, some vehicles, therefore, would be limited to speeds as low as 43 mph. This would be unacceptable, and would lead to irate customers, widespread defeat of the system, high warranty costs and traffic congestion. Many commercial drivers have indicated a concern that speed limited vehicles are not safe due to such problems as restricted passing performance. The cost of these systems could be more than $100/vehicle.

Recommended Action

NHTSA should not respond favorably to this petition. Rigorous enforcement of existing speed laws is a more cost effective solution to the problem of excessive vehicle speed.

1986 HEAVY DUTY DIESEL ENGINE PARTICULATE STANDARD

The Proposal

On December 23, 1980 the EPA Administrator proposed in an NPRM a particulate standard of .25 g/hp-hr for heavy-duty engines for 1986.

The Issue

EPA data show that by using engine modification and trap oxidation, the proposed standard can be met by using a 60% efficient trap oxidizer and engine modification to reach the particulate emissions of the best engines currently produced.

GM has not been able to assess the full impact of this proposal in terms of hardware costs or feasibility. However, compliance by GM engines is predicated on successful introduction of trap devices on light duty diesels the prior year. Fuel-fired traps will be required consequent to practice of idling HD diesels for extended periods in cold weather.

Recommended Action

Withdraw NPRM. Suggest Congress direct that an NAS committee be formed to assess existing and potential future technology.

1985 LIGHT DUTY TRUCK AND 1986 HEAVY DUTY ENGINE NOx STANDARD

The Proposal

On January 13, 1981 the EPA Administrator proposed in an ANPRM more stringent NOx standards for 1985 light duty trucks (LDT) and 1986 heavy duty engines (HDE). This notice also proposed stringent in-use durability programs.

The Issue

The Clean Air Act of 1977 set a statutory NOx reduction of 75% from an uncontrolled baseline determined from tests of used vehicles/engines, but allowed a lesser standard with concurrence of NAS if a 75% reduction is not feasible on a technology, cost, lead-time or fuel economy basis. The baseline determined is unrealistically low and its validity is increasingly questionable. The associated 75% reductions to 0.9 g/mile for LDT and 1.7 g/hp-hr for HDE are consequently unattainable and the ANPRM addresses standards of 1.2 gpm for LDT and 4.0 g/hp-hr for HDE. An NAS committee is assessing compliance technology under EPA contract. The California Air Resources Board also plans to reassess the feasibility of the 5.1 g/hp-hr NOx standard adopted for 1984 because of doubts that technology exists for concurrent compliance with the EPA particulate standard NPRM.

The ANPRM also includes an in-use durability program, similar to that proposed as part of the original 1984 HDE rulemaking, and requires a manufacturer to show reasonable likelihood that maintenance will be performed, requires minimum maintenance intervals for electronic engine controls and makes minor changes to the HDE transient test procedure.

GM has not been able to assess the full impact of this proposal in terms of hardware cots or feasibility.

Recommended Action

Withdraw ANPRM and work with the NAS committee to make them fully aware of our technology and economic assessment and convince them that the EPA baseline NOx data are invalid.

Recommendations on Tax Legislation

There is need for quick action by Congress on an investment-oriented tax reduction package and for renewed restraints on Federal spending. Both approaches are absolutely essential to reduce inflation and to stimulate the investments necessary for real economic growth.

The auto industry has embarked on an extraordinary multi-billion dollar capital investment program to respond to the competitive demands of the marketplace. In addition to pursuing consistently anti-inflationary fiscal and monetary policies and to reducing the burden of government regulation, the Federal Government can encourage growth in the automobile industry and the entire economy by tax changes geared toward increasing saving and investments and productivity. To that end, the following priorities should be stressed:

- Accelerated Depreciation for Plant and Equipment - Jones-Conable 10-5-3 proposal is the preferred approach.
  - An important provision is that deductions and investment tax credits would be allowed on recoverable costs as soon as the costs are incurred, rather than held in abeyance until the related asset is complete and ready for use. This "as-spent" provision should be retained irrespective of what depreciation approach is passed.
  - The recovery period for machinery and equipment used in the auto industry would be reduced gradually from the present minimum life of 9.5 years (i.e., 12 years class life less 20 percent allowable reduction) to five years with a 10 percent investment tax credit. However, because the shorter recovery period would be phased in over a five-year period, the full tax benefit would not be achieved for several years.
  - The recovery period for special tools (dies, jigs and fixtures used in auto manufacturing) would be immediately extended from the present three-year life with a 3-1/3 percent investment tax credit to the five-year life for machinery and equipment with a 10 percent investment tax credit. Investments in special tools represent a high proportion of the capital outlays needed to produce new models.
  - To reduce cash flow problems in the early years, the change in treatment of special tools should be phased in in a manner consistent with the phase-in schedule for machinery and equipment.
- Corporate Tax Rate Reduction
  - The existing maximum income tax rate of 46 percent (on taxable income over $100,000) should be reduced one percent per year until a tax rate of 40 percent is reached.
  - Reducing corporate income tax rates is the best long-term approach to encourage investment because it would provide an absolute benefit rather than merely accelerating recovery of capital costs.

- Alternatively, changes more specifically directed to the auto industry could include:

  - Accelerated Depreciation of Machinery and Equipment. Allowing a seven-year depreciation life for machinery and equipment instead of the current nine-and-a-half-year-life;

  - One-Year Write-Off of Special Tools. Allowing one-year write-off for all special tools instead of the current three-year life.

  - Ten Percent Energy Investment Tax Credit. A new class of energy property could be established to allow the auto industry to claim the 10 percent energy tax credit for all capital expenditures, including special tools, utilized for the manufacture of fuel efficient motor vehicles. Extension of the existing energy tax credit would provide significant tax savings and, thus, aid in meeting the capital requirements needed to meet market demand for increased fuel economy.

2/3/81

HONDA
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March 3, 1981

Senator John Danforth, Chairman
International Trade Subcommittee
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Re: S. 396

Dear Senator Danforth:

American Honda Motor Co., Inc. appreciates the opportunity to present its views to the Subcommittee. American Honda opposes the imposition of quotas on Japanese automobiles as a response to the market shift to small fuel-efficient vehicles and the recession. However, as a Japanese manufacturer committed to U.S. car production, these comments are directed to our particular concern with S. 396, which does not accommodate Honda's U.S. production.

The U.S. Congress and the past and present Administrations have encouraged Japanese automobile investment in the U.S. For economic and business reasons, Honda decided to undertake such an investment several years ago. We have begun construction of an automobile plant that will cost upwards of $200 million in Marysville, Ohio. It will produce 120,000 cars a year.

Production will begin in late 1982 with the 1983 model Accord. The plant is an integrated facility and will contain stamping, welding, painting, and injection molding operations as well as final assembly and can be expanded if market conditions warrant. All of this will be done under applicable U.S. foreign trade zone regulations.

S. 396 as now drafted does not accommodate this Ohio production. Under the bill, production from a foreign trade zone is treated like an import from Japan. "Entered" is defined as "entered or withdrawn from warehouse for consumption within the customs territory of the United States." Thus, a shipment from the Marysville plant will be treated the same as a shipment from Japan to Los Angeles for the purposes of this legislation. Instead of encouraging investment in the U.S. by a Japanese automobile manufacturer, S. 396 fails to recognize that investment.

We feel inclusion of our U.S. production in the quota from Japan is unjust. This point was raised and thoroughly discussed in both American Honda's testimony before the International Trade Commission on October 8, 1980 on the Section 201 Trade Act case, "Certain Motor Vehicles and Certain Chassis and Bodies Thereof," and in the post-hearing brief filed in that case on October 20, 1980 by American Honda. Indeed, both petitioners, the United Auto Workers and the Ford Motor Company, agreed that there is a need for special consideration for Honda's Ohio production.

Placing U.S. production under a quota creates a disincentive for Japanese auto manufacturers to locate in the U.S. Honda believes this is not the intent of S. 396. Therefore, we respectfully recommend that an amendment be adopted which excludes Japanese automobiles produced or assembled in a foreign trade zone from the quota.

Moreover, in anticipation of Honda's Ohio production beginning in late 1982, the Company urges the Subcommittee to consider special treatment for its imports in 1981 and 1982.

Sincerely,

Toni A. Harrington

Toni A. Harrington
Washington Representative

U.S. Council for an Open World Economy

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Statement submitted by David J. Steinberg, president, U.S. Council for an Open World Economy, in hearings of the Subcommittee on International Trade of the Senate Committee on Finance, concerning proposed control of automobile imports, March 9, 1981

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest. It in no way speaks for, or is obligated to, any private interest concerned with any aspect of the automobile business. Its sole standard is the total public interest.)

Our Council's views on the plight of the U.S. automobile industry, and on a prudent, constructive policy response, were most recently presented to your Subcommittee two months ago. Our presentation to the current hearings reaffirms our advocacy of a coherent auto-industry redevelopment strategy directly addressing the real problems and needs of this major U.S. industry, which is a major component, not only of the nation's industrial base, but also of the nation's mobilization base per se.

Even if import restraint were a practical, effective way to buy adjustment time (in some cases it is, in the case of automobiles it is not), it should be only one component of a comprehensive adjustment policy involving commitments by government, the industry and the industry's labor force. Legislation authorizing (but not establishing) such control should be only one facet of a total legislative package dealing with all aspects of the policy that require legislative action. A bill concentrating on import control, especially a bill establishing a particular import quota (such as S. 396 now before the Subcommittee) is the wrong route. It may acquire a life of its own. Its simplicity and political attractiveness (however shortsighted) may in fact delay or divert the attention that should be given to legislative measures that happen to be more complex and time-consuming. Import control is a subsidy. If used at all (and then only if justified by strict standards), it should be related to a carefully devised, annually reassessed, industrial-adjustment plan, and its cost should be made known to the nation.

The import controls of other major auto-importing countries deserve our closest attention and call for the most constructive remedial measures. U.S. legislation establishing automobile import restrictions is the wrong response. A U.S. initiative seeking a free-trade arrangement involving all auto-producting countries (denying free-trade treatment to auto exports from countries not yet prepared to fully open their domestic markets to foreign automobiles) is the right response. The obstacles to such a pact are monumental; nevertheless, the effort is worth making. Better to try and fail than not to try at all. We musy do all we can to raise the sights of the international dialogue on world trade in automobiles. The import controls of other auto-importing countries should not be the example we follow. We must seek a more prudent, more productive standard.

The notion that import control would buy time for rebuilding the U.S. automobile industry, and would restore the jobs of thousands of U.S. workers now out of work in the auto industry and related enterprises, rests on the risky, if not faulty, assumption of substantial substitution of new-U.S.-car purchases for the foreign cars denied entry during the prescribed period of import control. Such substitution is not automatic, particularly if import controls result in higher prices for all new cars. If the import controls are on Japanese cars alone, the substitution of new U.S. cars for the Japanese cars denied entry is made even less likely by the continued, unrestricted availability of cars from other countries.

The effect on U.S. auto-making jobs is also influenced by rising automation in the U.S. industry. This, and the overall need to restructure the U.S. auto industry, underscores our Council's view that the coherent strategy needed for redevelopment of the U.S. auto industry should be part of a coherent strategy to redevelop the U.S. transportation system. Besides other benefits, such a transportation policy (stressing fuel efficiency and fast, safe transport) would help generate alternative employment for U.S. workers whose jobs in automobile and related production can no longer be sustained.

Congress should press for earliest development of this type of strategy by the Administration, making known its readiness to cooperate with suitable legislation where needed.

O